

CHRISTIAN SERVICE UNIVERSITY COLLEGE KUMASI

BUSINESS DEPARTMENT

**RECORD OF TRANSACTIONS (BOOKKEEPING PRACTICES) AMONG SMALL
AND MEDIUM SCALE ENTERPRISES.**

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**A DISSERTATION SUBMITTED TO THE DEPARTMENT OF BUSINESS
STUDIES, CHRISTIAN SERVICE UNIVERSITY COLLEGE IN PARTIAL
FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF
BACHELOR OF BUSINESS ADMINISTRATION**

JUNE 2012

DECLARATION

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ABSTRACT

The main challenge for small and medium enterprises among others is to keep proper books of account on their financial activities. Most small and medium enterprises fail to keep accurate and complete records on their business financial activities. Some also regard records keeping as not part of their practices, but prefer to work on more pressing issues such as marketing their product and as a result no proper system of accounting records are instituted. The focus of the study was to examine the bookkeeping practices among small scale business in the Kumasi metropolis.

Both primary and secondary data were used. The instrument used for the gathering of data includes questionnaire, interview and observation. The questionnaires were administered to the various small scale business owners in the metropolis. Interview was used to obtain from the respondent on how their accounting records are kept. The findings revealed that, due to lack of knowledge in keeping books of account, improper records are kept by most small and medium enterprises in the metropolis. Again, the various business owners showed reluctance to be trained or attend further studies due to the cost involved in training and education.

Recommendation was made to the various small scale businesses. This got to do with activities of government organization and others should be intensified, financial statements of these enterprises should be requested for approval of loans by banks and laws should be enacted in other to improve the record keeping practices in the metropolis and also have access to credit facilities from any financial institutions.

DEDICATION

We dedicate this work to God almighty, who has granted us abundant grace to do this work and also to our families for all their support in our education.

ACKNOWLEDGEMENT

Sincere thanks goes to God the Father, our Lord Jesus Christ and the Holy Spirit for the strength, guidance and grace given to us in our quest for higher learning and through the period of writing this piece of work.

We would like to show a great deal of appreciation to Dr. Ben Kwame Agyei-Mensah (a.k.a. Amben) for his immense support and contribution to this research work.

We would like to express our heartfelt gratitude to our parents and guardians for their encouragement and prayer support.

Finally to everyone who helped in one way or the other to make this work possible, particularly to the Small and Medium Scale Enterprises who gave us an audience to gather the necessary data for this work. May the Lord richly bless you all.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Kumasi Metropolis happens to be one of the economically viable cities in Ghana. It is the metropolitan capital of Ashanti Region. Majority of the people operate small and medium scale businesses such as; fishing and meat cold stores, provisions stores, food vendors, transport running, airtime recharge vendors and other related form of businesses as their source of livelihood.

According to the National Board for small and Medium Scale Industries (NBSSI), Small and Medium Scale Enterprises are significant component of the industrial sector which account for approximately 27% of Gross Domestic Product (GDP). SMEs employ over 65% of the employable people in Ghana. They help to reduce the rural-urban drift as they operate in every part of the country, and they contribute to state revenue through the payment of taxes. Small Scale businesses are the most common type of business in the country. They are flexible, innovative and easily accessible form of business. Small and medium enterprises are widely spread throughout the country from a wide range of goods and services.

In view of the economic importance of small and medium enterprises, it is worthy for such business to practice proper bookkeeping system. Bookkeeping plays a vital role in every business institution; most business takes their current financial decision based on their past records. Transparent and accurate books kept increases the confident of the business owner. It is therefore necessary for the various small and medium enterprises to keep proper books of account on their daily activities. This will enable them to control and mange the business effectively.

1.2 STATEMENT OF THE PROBLEM

Recent time have witnessed the influx of Small and Medium Enterprises(SMEs) these usually take the form of provision stores, garment stores, chemical shops, stationery shops, hotel, poultry farms, mineral water, manufacturing firms timber processing firms among others.

In spite of the immense contribution of Small and Medium Enterprises and the benefits of bookkeeping, most small and medium enterprises are faced with a number of problems that militates against their operation.

A typical problem faced by these enterprises is non-existence of proper bookkeeping systems.

A survey conducted among the various small and medium enterprises in Kumasi metropolis revealed that, improper records are kept by most small and medium enterprises. Running a business without proper bookkeeping is a fine recipe for failure. A well-run business is one in which the entrepreneur knows exactly where the money is, where it is going and why it is going out. Records are kept on single entry basis and some do not keep records on then financial activities. As a result, the growth of small and medium enterprises in the metropolis is greatly hampered. It is imperative that a record keeping system is established before the doors of the business are opened. Therefore, this research seeks to investigate the current bookkeeping system among Small and Medium Scale Enterprises (SMEs).

1.3 OBJECTIVES OF THE STUDY

The specific objectives of the study are:

1. To identify the nature of small scale enterprises in the Kumasi metropolis.
2. To find out their record keeping practices.
3. To identify the factors that makes it difficult for SMEs to pay taxes.
4. To make appropriate recommendations that will ensure that proper records are kept by SMEs.

1.4. RESEARCH QUESTIONS

In order to carry out the research successfully, an attempt will be made to answer the following questions:

1. What are the kinds of business operating as small and medium enterprises in the Kumasi metropolis?
2. How are records kept by small scale enterprise?
3. What causes the improper record keeping system?
4. What problems are faced as result of their record keeping system?

1.5. OVERVIEW OF METHODOLOGY

The following are the various tools and methods that would be employed in order to achieve the objectives of the study:

- ✓ Interviews
- ✓ Questionnaires
- ✓ Direct field Observation

- ✓ Textbooks
- ✓ Population, sample size and sampling techniques

1.6. SIGNIFICANCE OF THE STUDY

The essences of this study are;

1. To serve as a reference for other researchers who will conduct research in the same field.
2. To add to the knowledge in the field of bookkeeping and accounting in general.
3. Enlighten SMEs on proper bookkeeping and accounting practices.
4. This study will also be useful in policy decisions concerning SMEs.

1.7 SCOPE OF THE STUDY

The study is significant for the improvement of performance of small and medium enterprises in the country but it is limited to small scale enterprises in Kumasi metropolis. It would not be useful to use the study for large scale businesses.

1.8 LIMITATION OF THE STUDY

The large but indispensable sample size, lack of equipment needed for effective research activities, financial constraints, time constraints and uncooperative attitude of some business owners, made it a little difficult to ascertain certain important information.

1.9 ORGANISATION OF THE STUDY

The project consists of five chapters:

Chapter one, focuses on the background of the study statement of the problem, purpose of the study, research questions and significance of the study. Other aspects of the chapter are limitations of the study, scope and organization of the study. Chapter two contains the review

of available literature, relevant and related to the study. Chapter three describes the population, sample and sampling procedures data collection instrument, data collection procedures, data analysis and presentation of data. Chapter four addresses the result of the study, findings and discussions of data. Chapter five concludes the study by summarizing the findings, conclusions, recommendation and suggestion for further research.

CHAPTER TWO

LITERATURE REVIEW

2.0. INTRODUCTION

This aspect of the study provides a brief summary of the previous studies carried out by other researchers in close relation to the topic. These had been grouped under the following headings: definition and concepts of small and medium enterprise; the role and characteristics of SMEs; factors affecting the performance of SMEs in Ghana; importance of SMEs to Ghana Development; nature of small and medium enterprises; basis of bookkeeping system; double entry bookkeeping system and practices; causes of improper bookkeeping; problems of improper bookkeeping; benefits of bookkeeping systems.

2.1 DEFINITIONS AND CONCEPTS

There is no single, uniformly acceptable definition of Small Firm (Storey 1994). Firms differ in their levels of capitalization, sales and employment. Hence, definitions which employ measures of size (number of employees, turnover, profitability, net worth, etc), when applied to one sector could lead to all firms being classified as Small, while the same size definition when applied to a different sector could lead to a different result.

The first attempt to overcome this definition problem was by Bolton Committee (1971) when they formulated an "Economic and a Statistical" definition. Under the economic definition, a firm is regarded as small if it meets the following three criteria:

- a) It has a relatively small share of their market place;

- b) It is managed by owners or part owners in a personalized way and not through the medium of formalized management structure;
- c) It is independent in the sense of not forming part of a large enterprise

The Committee also devised a "Statistical" definition to be used in three main areas:

- i) Quantifying the size of the small firm sector and its contribution to GDP employment, exports, etc;
- ii) Comparing the extent to which the small firm sector's economic contribution has changed over time
- iii) Applying the statistical definition in a Cross Country Comparison of the small firm's economic contribution

Thus the Bolton Committee employed different definition of the small firm to different sectors.

TABLE 2. 1: THE BOLTON DEFINITIONS OF A SMALL FIRM

SECTOR	DEFINITION
Manufacturing	200 employees or less
Construction	25 employees or less
Mining and Quarrying	25 employees or less
Retailing	Turnover of 50000 pounds or less
Miscellaneous	Turnover of 50000 pounds or less
Services	Turnover of 50000 pounds or less
Motor trades	Turnover of 100000 pounds or less
Wholesale Trades	Turnover of 200000 pounds or less
Food Transport	Five vehicles or less
Catering	All excluding multiples and Brewery-manged houses

SOURCE: THE BOLTON COMMITTEE (1971)

However, the criticisms of the Bolton Committee's "Economic and Statistical" definitions give rise to the following alternative definitions:

World Bank Since 1976 -	Firms with fixed assets (excluding land) less than US\$250000 in value are Small Scale enterprises.
Grindle et al (1989:9- 10) -	Small Scale Enterprises are firms with less than or equal to 25 permanent members and with fixed assets (excluding land) worth up to US\$50000.
USAID in the 1990s -	Firms with less than 50 employees and at least half the output is sold (also refer to Mead, 1994)

UNIDO's Definition for Developing Countries:

Large	-	Firms with 100 workers
Medium	-	Firms with 20-90 workers
Small	-	Firms with 5-19 workers
Micro	-	Firms with less than 5 workers

From the various definitions above, it can be said that there is no unique definition for a small and medium scale enterprises, thus, an operational definition is required.

COUNTRY DEFINITIONS

Small Scale Enterprises have been variously defined, but the most commonly used criterion is the number of employees of the enterprise. In applying this definition, confusion often arises in respect of the arbitrariness and set off points used by the various official sources.

As contained in its Industrial Statistics, The Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium and large-Sized Enterprise. Ironically, the GSS in its national accounts considered companies with up to 9 employees as Small and Medium Enterprises.

An alternate criteria used in defining small and medium enterprises is the value of fixed assets in the organization. However, the National Board for Small Scale Industries (NBSSI) in Ghana applies both the fixed asset and number of employees' criteria. It defines Small Scale Enterprises as one with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding GH¢1,000. The Ghana Enterprise Development Commission (GEDC) on the other hand uses a GH¢1,000 upper limit definition for plant and machinery.

A point of caution is that the process of valuing fixed assets in it poses a problem. Secondly, the continuous depreciation in the exchange rate often makes such definitions out-dated.

Steel and Webster (1990), Osei et al (1993) in defining Small Scale Enterprises in Ghana used an employment cut off point of 30 employees to indicate Small Scale Enterprises:

- i. Micro - employing less than 6 people
- ii. Very small - those employing 6-9 people
- iii. Small - between 10 and 29 employees

WHY SMALL AND MEDIUM SCALE ENTERPRISES

The choice of small and medium scale enterprises is based on the following propositions:

- i. Mobilize funds which otherwise would have been idle;
- ii. Have been recognized as a seed-bed for indigenous entrepreneurs;
- iii. Are labour intensive, employing more labour per unit of capital than large enterprises;
- iv. Promote indigenous technological know-how;
- v. Are able to compete (but behind protective barriers);
- vi. Use mainly local resources, thus have less foreign exchange requirements;
- vii. Cater for the needs of the poor and:
- viii. Adopt easily to customer requirements (flexible specialization)

2.2. THE ROLE AND CHARACTERISTICS OF SMEs ROLE

Small-scale rural and urban enterprises have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. It is estimated that SMEs employ 22% of the adult population in Ghana.

However, some authors have contended that the job creating impact of small scale enterprises is a statistical Haw; it does not take into account offsetting factors that makes the net impact more modest (Biggs, Grindle and Snodgrass, 1988). It is argued that increases in employment in slam and medium enterprises arc not always associated with increases in productivity. Nevertheless, the important performed by these enterprises cannot be overlooked. Small firms have advantages over their large-scale competitors, they are able to adapt more easily to

market conditions given their broadly skilled technologies. However, narrowing the analysis down to developing countries raises the following puzzle: Do small scale enterprises have a dynamic economic role?

Due to their flexible nature, SMEs are able to withstand adverse economic conditions. They are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995). SMEs perform useful roles in ensuring income stability, growth and employment.

Since SMEs are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to the more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Because of their regional dispersion and their labour intensity, the argument goes; small scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long term economic growth.

2.3 CHARACTERISTICS OF SMEs IN GHANA

A distinguishing feature of SMEs from labour units is that the latter have direct access to international and local capital markets whereas the former are excluded because of the higher intermediation cost of smaller projects. In addition, SMEs face the same fixed cost as Large Scale Enterprises (LSEs) in complying with regulations but have limited capacity to market products abroad.

SMEs in Ghana can be categorized into urban and rural enterprises. The former can be subdivided into 'organized' and 'unorganized' enterprises. The organized ones tend to have paid employees with a registered office whereas the unorganized category is mainly made up of

artisans who work in open spaces, temporary wooden structures, or at home and employ little or in some cases no salaried workers. They rely mostly on family members or apprentices. Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops.

The major activities within this sector include: soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smithing, ceramics, timber and mining bricks and cement., beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical based products and mechanics (Liedholm and Mead. 1987; Osei et al, 1993 world Bank, 1992, Gray. Cooley and Lutabingwa, 1997).

It is interesting to note that small scale enterprises make better use of scarce resources than late scale enterprises. Researches in Ghana have shown that capital productivity is often higher in SMEs than in the case with LSE, (Steel, 1977; Child, 1971). The reason for this is not difficult to see. SMEs are labour intensive with very small amount of capital invested. Thus, they tend to witness high capital productivity which is an economically sound investment. Thus, it has been argued that promoting the small scale enterprise sector in Ghana will create more employment opportunities, lead to a more equitable distribution of income and will ensure increased productivity with better technology (Steel and Webster. 1991).

2.4. FACTORS AFFECTING THE PERFORMANCE OF SMEs IN GHANA

The following factors cause the abysmal performance of SMEs in Ghana:

A. LACK OF FINANCIAL AND HUMAN RESOURCES

The lack of financial resources to some lesser extent has its root in the lack of financial know-how. Most SMEs did not know that there were various sources of finance opened to them to benefit from the government. i.e. the knowledge gap. Nonetheless, where there was some amount of contribution, what they got was not enough.

For example, in 1997, an amount of \$72,000 was disbursed to 1,400 small businesses in Ghana. This was not enough if you have big vision. As it is known, most of the equity of SMEs are from family members and friends but this is not easy to get as most people cannot just trust their owner-manager friends or family and part with huge sums of money even with an agreement to pay back.

B. IMPROPER FINANCIAL MANAGEMENT PRACTICES

Growth comes with so many responsibilities including hiring new staff, premises, increase stocks and may raise loan for expansion and so on. In the institution where these are not properly managed financially, it results in overtrading. Overstocking or under stocking leading to inability to meet customer needs. This was found to lead to loss of sales, earnings and the firm's inability to service the loans which can ultimately lead to the demise of the firm.

C. NO COLLATERAL AND SECURITY FOR LOAN

Banks in Ghana require collateral as security before a loan is processed for any business expansion in this instance. These collaterals come in the form of houses and land which some of these owner-managers cannot provide. Land ownership or tenure in Ghana is considered a

prestige usually owned by the entire family. This makes using it as collateral not only difficult but also impossible.

D. POOR FINANCIAL PLANNING

Financial planning is of great importance to any firm whether it is short medium or long-term. There was evidence of poor financial planning within the SMEs Ghana. In some cases, this led to them missing opportunities from delivery equipment for the firm, since important financial obligations cannot be thereby hindering the growth opportunity. The reason for this is lack of knowledge in financial management and the perceived differently between SMEs and large organizations amongst some owner-managers.

E. INADEQUATE MARKETING SKILLS, LACK OF CUSTOMER ORIENTATION AND LIMITED DISTRIBUTION CHANNELS

Most of the small owner businesses lack proper marketing and customer skills as every causal observer in Ghana can attest to that. The quest for customer service relationship is not popular with the Ghanaian business community in general and the small business enterprise in particular. The reason is thought to stem from the culture and the notion that "you go to bus' because you are in need; thus creating the impression that the seller is doing the buyer a favour and not vice versa, an evidence of supplier power to some extent. Things are now changing gradually, anyway, as a result of lack of funds and/ or improper financial planning to open up distribution channels.

F. LACK OF STRATEGIC DIRECTION

The companies' follow one other's vision. This is to say that companies tend to copy what one competitor is doing if it was found to be selling or appealing well to the market. Ironically one of the constraints for sustainable growth in SMEs is basically as a result of lack of strategic direction in terms of a long term financial (management) plan. The significance of

these findings is that these businesses cut across the three major industries in Ghana light manufacturing, retail and imports and processing. These three are perceived to be the bedrock of Ghanaian SME. The concern would be to do something about this.

2.5. IMPORTANCE OF SMEs TO GHANA'S DEVELOPMENT

According to Madson K. and Belot T. (1998), an encouragement of SMEs in both rural and urban areas should be a high priority in Africa, not only for the impact of development of growing indigenous private but also as recruitment and training process for future enterprises.

According to NBSSI (2000), SMEs are more labour intensive and tend to lead to more equitable distribution of income than larger enterprises. They play an important role in generating employment and thus alleviating poverty. Often providing employment opportunities at reasonable rate of remuneration to workers from poor households and women who have few rate of remuneration and alternative sources of income. SMEs contribute to more efficient allocation of resources in developing countries.

SMEs support building systematic production capacity. They help to absorb productive resource at all levels of the economy and contribute to the establishment of dynamic and resilient economic system in which small and large firms are inter-linked. They also tend to be more widely dispersed geographically than large enterprises, support the development and diffusion of entrepreneurial spirit and skills and help to reduce economic disparities between urban and rural areas.

According to SEED Working paper Number 29 (Geneva 2002), SMEs play a key role in the manufacturing sector providing 80% of the total employment, contributing over 30% to Gross Domestic Product (GDP) and getting fourth of the sectors export earning. In Ghana, it is very difficult to quantify accurately any contribution of small enterprises to the national

economy because of the unavailable data. Employment data is primarily what is relied on to guess the contribution of the small enterprises sector. Estimate on extend of employment are even made difficult because of the failure to enumerate all unregistered establishments in industrial and employment surveys.

Estimate collected from an unpublished document of the National Board for Small Scale Industry give the number of registered limited companies in Ghana at approximately 80,000, registered partnerships 220,000 and unregistered and informal companies countless. The paper places 90% of registered companies and partnerships in the micro and medium scale enterprises category, Brown (2004).

2.6. NATURE OF SMALL AND MEDIUM ENTERPRISES

In these rapid changing economy and social environment, a small and medium enterprise contributes an integral part of the business system. It is difficult to define what S.M.E. is.

The International Labour Organization (I.L.O.) describes Small and Medium enterprise as a sector whose entry by new enterprises is comparatively easy. The Ghana Statistical Service also claims that an establishment with less than ten workers, with low capital base, labour intensive and relied on indigenous material as small scale business.

Small scale business tends to be labour intensive, family owned, uses low level of technology and it is being financed by an individual or small group of individuals (Williams R. 1988). It had been realized that S.M.E's have a role to play in the development of employment opportunity and economic growth. They are in a better position than larger Organization to make use of intermediate technology.

Eric and Ntis (1981) also added their views by defining small scale enterprises as one which employs ten to fifteen people, serves a regional market and has adequate or marginal resources, they said, small scale enterprises are widely scattered, competitive with one another and different from each other

According to Fees and Warren (1987), some of the activities they engaged in includes; carpentry, blacksmithing, dressmaking, etc.

In view of the economic importance of small scale business, the government established the National Board for Small Scale Industry in 1981 to promote small scale business. Ghana Regional Appropriate technology Service (GRATIS) had since its establishment in 1987 and in conjunction with international transfer unit (ITTU), provided training and support to small scale business, through the assistance of the Ghana Government, European Union (EU) among others, (Ghana home page, 2007).

2.7. BASIS OF BOOKKEEPING SYSTEM

According to O'Neil (1995) all business entities must keep proper and accurate record of their financial transaction that takes place on daily basis. Financial transaction is any activities, which result in the transfer of money value into or outside the business.

Wood Frank (2001) describes Bookkeeping as the process of recording in the books of account or on computers, the financial effect of business transaction and managing such records. He then added, there are separate books for recording each transaction. The nature of the transaction affects which book is entered into. Wood Frank said, about one hundred years ago all accounting data were recorded in books, hence the development of the term Bookkeeping.

Anogbonu J. Chris (2001) also had this to say; the act of recording quantifiable business activities in monetary terms, grouping them in terms of their common characteristics and finally producing a set of financial record is termed Bookkeeping. He added that bookkeeping shows how a business is performing and helps to find solution to a problem before hand.

Uncle Jerry, (2002) commented, it is necessary to keep proper records since all details of financial activities cannot lie kept in the mind, transparent and accurate records would increase the confidence of the business owner, customer and other users who are directly or indirectly related in the business.

2.8. DOUBLE ENTRY BOOKKEEPING SYSTEM AND SOME COMMON PRACTICES

According to Graham Molt (2008), double entry bookkeeping refers to the dual aspect of recording financial transaction. He said, most business employing more than a handful of staff use the system of recording called the double entry bookkeeping. He added, this system records both cash and credit transaction as they occur at different times.

Johnson and Whittam (1092) argue that, the double entry system of bookkeeping is basically a simple concept. But as with many simple ideas, it is believed to have originated in the Italian city-state during the thirteenth and fourteenth century. They added that it was a primitive form of accounting. However the original idea was capable of developing into the present comprehensive system, dealing with most business situation.

Bebbington et.al (2001) also pointed it out that, the double entry bookkeeping was first published by Lucia Pacioli a Franciscan monk in 1494. They said bookkeeping at that time was far from new: even though it had played an important role in the systematic financial control of trading enterprises from the late thirteenth century in Italy, and all over the world,

they further claimed that bookkeeping activity is basically concerned with indentifying and capturing selected information, goods and services, funds as they enter or leave the business.

Siropolis (1994) also added that small and medium enterprises fail to recognize the need for double entry bookkeeping system. He said improper bookkeeping explains why small scale businesses make little profit or fails completely. Siropolis reported that, small scale businesses keep records in dairy, sheets and small note book. He termed to this practice as incomplete records keeping. The most important rule to bookkeeping according to Lewiston and Deloizer (2001) is that, each transaction must affect two accounts. For every inflow of value to an account there is a corresponding outflow from a different account.

William R. (1988) also had this to say, with most small enterprises, management and control of finance as well as the books of accounts are in the hands of the business owner. They keep records in a small note book, which contains information about the business activities.

According to Graham Moll (2008), the financial records of small clubs, societies and businesses are kept in small cash books, entering cash receipt on the left hand page and cash payment on the right hand page, Graham M also said, in both cases the date and a brief description would be giving against each item, a large cash book, with say sixteen columns each sides is require lo analyze the purpose of each receipt and payment. Wood and Sheila (2001) confirmed that it is more likely they would enter details of transaction only once, using a single entry system. Johnson and Whittam (1998), suggested that a business must record not only the amount of each transaction, but also the date and other detail cross-referencing it to evidence that, the transaction has taken place. They pointed it out that, small and medium enterprises should keep asset register as separate records to keep track of how the asset total is made up off.

According to Bebbington et al (2001) cash is a funny stuff. It is properly the most important of the books. More businesses collapse and more organizations get into trouble because they have not looked into their cash for any other reason. They added that, cash records are the backbone of traditional accounting records and should be handled properly.

Small enterprises of co-operative Organization and management identified that sound management is based on fact, not guess work. Before you know where you are going, you need to know where you have been. Effectively record keeping will give you information needed to make decision about the future of your business it will help you plan, organize and control what has to be done. It will also help trim cost and save on taxes. It is only by taking firm control of financial aspect that will turn a high quality product or services into a thriving stable business. Small and medium enterprises should adopt the dual system of bookkeeping in keeping records on their business.

2.9. CAUSES OF IMPROPER BOOKKEEPING SYSTEM

According to Baffour et.al (1994) proper bookkeeping system plays a vital role for the growth and development of most business. Small scale enterprises often over look the accounting side of their business. They regard bookkeeping as not part of their practices and rather, they mistakenly prefer to work on more pressing matters such as marketing their products or business and as result their standard of bookkeeping is poor.

Tawiah (2004), identified lack of basic knowledge in bookkeeping and accounting as the major problem of inadequate or incomplete records kept. Mordedzi (1996) also identified illiteracy as a cause of improper books kept by small scale business. He said, small scale business operators are usually not well educated, they speak a variety of different languages and dialect, often busy and running their business single handedly.

Ashiabi in 1996 expressed his views as to lack of qualified accounting personnel as major reason for poor record keeping by most small scale enterprises.

According to Owusu (2004), most business women in small business management do not understand the importance of records keeping as a result fails to establish a record keeping system which can help in supporting taxable income calculation, evaluation of cash flow, providing report on inventory, return on capital and providing comparison with industry averages and regulation reporting, he stated that most women do not see how record keeping on cash is critical to the growth and well being of their business, they do not plan and prepare for any future event and market changes.

According to Sampson et.al (1996), in spite of the clear need to get business operators aware of the importance of bookkeeping, most small scale operations often shows reluctant to train, due to the cost involved in training and the attitude of not willing to stay far away from their private business.

Debbi L. Popo (1998) also claims that small percentages of small scale operators operating from the population have formal business training. There is low level of management and entrepreneurial skills. They said every one gains when employees and employers are properly trained. Well trained personnel can increase the chances of the business in reaping higher profits.

The Ghana Vision 2020 saw the need for human development and training as a way of improving the quality of life. It mentioned that, Ghanaian human resources development should be skill training as a way of giving necessary skills for self-employment in the formal sector of the economy.

2.10. PROBLEMS OF IMPROPER BOOKKEEPING

Certain problems had been identified as common obstacle facing small and medium enterprises as result of their bookkeeping system. These include:

2.10.1 Lack of Access to Credit

Nana Nowak in her article financing the traditional economy in Africa confirmed that rural farmers and most small scale enterprises can not easily get credit facilities from the banks as compared to larger organizations. This was attributed to the fact that small scale enterprises keep inaccurate records.

F. Steele and Heila M. Webster writing on building the role of small scale enterprises lesson learned from credit programs had this to say, since the mid of 1970's the world has provided credit designated for small and medium enterprises on the assumption that, inadequate access to credit is a binding constraint on the sectors growth. They added, the banks are reluctant to make long term loans to small and medium enterprises. Banks perceive small scale enterprises as especially risky and likely to default. The lack the accounting practices that banks generally required, and this had prejudiced the banks and made them to operate under rigid condition.

According to Rob Gray (1998), small scale operators think they need more money but are in fact using the money they have in the wrong way. He suggested the need to discover how the businessman is using his capital.

2.10.2 Cost of Hiring the Services of an Accountant

According to Wood F. and Robinson S. (2001), for every small shopkeeper market stall or other small business operator, to keep its books using a full double entry system would not be practical. They added, a large number of small businesses would not know how to write up a double entry record even if they wanted to.

According to Bredney (2006), large businesses keep sophisticated record. Many small businesses do not have the time or expertise to that; they may rely on bank records, old slip of papers and what they can remember to keep control of the business, this present a problem at the end of the year when a trading, profit and loss account and balance sheet are required. Hence the service of an accountant will be needed to make adjustment to the original record to obtain the correct figures.

Vivian (1998) also suggested, an Accountant will help to plan the financial needs, and also establish a record keeping system to small scale enterprises,

According to Kloot et al (1998), public accounting firms provide a variety of services specially suited lo the needs of small businesses.

2.10.3 Tax Assessment Problem

According to Obeng (2009), it is a common practice to notice that most Ghanaian business men and women do not keep records or keep some minimum records on leaflet and in note books. This makes it difficult to assess the tax liability of such people.

According to Wood and .Sangster (1999), how can profit be calculated if the records are inadequate or incomplete?

Murphy (1988), made it clear that taxation is one of the weapon used by government to manage the economy. According to the Ghana tax law it is incumbent and a duty of each person of a given country to pay sums of money from their income earn from any economic activity and transaction to the state to finance public expenditure.

2.11. BENEFIT OF KEEPING PROPER BOOKS OF ACCOUNTS

According to Edward and Mellette (1995), bookkeeping enable larger number of transaction to be recorded in an orderly manner. It also enables all type of transactions undertaken by the business which can be expressed in monetary terms to be recorded.

Wumbee (2004), stated that proper record keeping enable businesses to access the progress of the business, plan for expansion, get financial assistance from institution and access the right tax liability to be paid.

According to McCommon and French (2001), record keeping enables the assessing of the economic health of the business, make financial projection based on past records, ensure that there is no error in invoice payment of business taxes and also help to determine what cost is to be placed on product or service.

According to Smith and Medley (1086), for information to have value recording must be kept for reference. Accounting records helps you to know how the business is faring, whether the business is gaining or losing. Good records keeping increases the likelihood of the business success. It enables the business owner to know the amount kept in the business bank account. Good accounting records safe guards the funds and is vital for the sustainability of the business.

According to Garside (1986) summary of every business transaction is revealed through adequate record keeping. Accounting records shows how the business has made in the form of profit and it helps to determine the amount of tax to be imposed on the business. He added that records keeping also help shareholders, employees to know how the business is performing.

O'Neil (1995) also added, an efficient record keeping system can result in more efficient and more productive employees. An efficient record keeping helps to know the profit or loss at a glance on daily, weekly or monthly basis. It is essential to maintain proper accounting records because it summarizes the cash sales and receipts from debtors.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

This chapter deals with the method of obtaining data for the research. It describes the procedure that has been followed in conducting the study. It deals with the research design, population, sample and sampling procedure, data collection instrument and data analysis.

3.1 RESEARCH DESIGN

The research is aimed at finding out the practices of small and medium enterprises in keeping their books of accounts. In order to get credible information from the various business owners operating a small and medium enterprise in the metropolis, unstructured interview, questionnaires and observation was used. The illiterates were interviewed and the literates were given questionnaires to answer. Observation was used to gather other information that could not be collected through interviews and questionnaires.

3.2 POPULATION

The entire small and medium enterprises in the Kumasi metropolis were targeted but not every small business was required for the study. Consequently the study was limited to some form of business such as provisional stores, bookshops, boutiques and fishing could stores.

3.3 SAMPLE AND SAMPLING PROCEDURES

In all fifty (50) small scale business operators were selected through stratified sampling technique. Out of the fifty (50) people, 21 from provisional stores, 11 from boutiques (dress),

4 from fishing cold stores, 4 from drags store, 4 from canteens and restaurants, and 6 from cosmetics shop.

Each respondent was given the research question to read through and provide the necessary responses to the question, after which unstructured interview was used to obtain the truthfulness of the responses provided to the research questions. Business owners that could not read were also interviewed. Out of the fifty (50) sample size, 26 were women and 24 were men.

3.4 DATA COLLECTION INSTRUMENTS

The instrument used for the gathering of data includes questionnaire, interview and observation. The questionnaires were administered to the various small scale business owners in the metropolis. Interview was used to obtain from the respondent on how their accounting records are kept. The interview format consist of only open ended items, issues raised includes socio-economic background of the respondent and records keeping practices.

3.5 DATA COLLECTION PROCEDURES

A total of fifty (50) questionnaires were administered to some selected respondent. The researcher ensures that the various respondents can read and write, guidance and direction was provided in providing responses to the questionnaires. Unstructured interviews was also conducted to suit those who could not read and write and also to solicit information provided on the questionnaires. Observation was adopted to gather other information relevant to the study. Other secondary data was also obtained from different sources such as relevant text books on the subject, internet and published literature.

3.6 DATA ANALYSIS AND PRESENTATION

Data collection from the field was analysed and presented by the uses of statistical models. This includes tables and percentages. The tables were built based on the research questions. Other observation made was also analysed. The data were discussed, findings were presented and other implication identified.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF DATA

4.0 INTRODUCTION

It is obvious that a small and medium enterprise fails to keep proper books of account on their business activities. In order to investigate into this issue, questionnaires were administered, interviews conducted among the various business owners of small scale enterprise in Kumasi Metropolis as to their booking practices. Specific issues such as; the nature of small scale enterprises; record keeping practices, causes of improper records and problems associated with it were addressed. The result of the study obtained from the use of questionnaires, interviews, findings are discussed based on the respondents' feedback.

1.1 PROFILE OF TRADES

Interviews conducted with various small scale business operators revealed that due to the low standard of living and economic life in the Kumasi Metropolis, various kinds of business were established to provide some source of income.

The table below illustrates the kind of business identified.

TABLE 4.1: KINDS OF SMALL SCALE BUSINESS

BUSINESS	FREQUENCY	PERCENTAGES (%)
Provisional stores	21	42
Fishing Cold store	4	8
Cosmetics Shop	6	12
Drags store	4	8
Boutique	11	22
Restaurant	<u>4</u>	<u>8</u>
<u>Total</u>	<u>50</u>	<u>100</u>

Source: Authors Field Survey, 2012

Table 4:1:1 shows that 42% of small scale business in the metropolis interviewed are into provisional stores, 22% are into boutique (dress), 12% are into cosmetics shop, 8% are into fishing cold store, 8% are into drags store, while 8% are into operation of restaurants. This support the assertion by Amoah (2003) that, small scale businesses are widely spread throughout the country forms a wide range of goods and services.

Reasons gathered as to why most people established provisional stores suggested that, it is the most easily and profitable kind of business they could operate to earn and income for themselves.

4.2: HOW GOODS ARE SOLD

RESPONSES	FREQUENCY	PERCENTAGE (%)
Cash	21	42
Credit	1	2
Cash and credit	<u>28</u>	<u>56</u>
<u>Total</u>	<u>50</u>	<u>100</u>

Source: Authors Field Survey, 2012

The table indicates that 42% of the entire respondents operating as small and medium scale enterprises in the metropolis sell their goods on purely cash basis, while 2% sell their goods on credit, 56% of the respondents use cash and credit basis as a means of selling their goods.

1.2 TRADERS UNDERSTANDING OF BOOKKEEPING

Some small scale business operator's keeps records while others do not keep records on their business financial activities. Interviews were conducted as to the importance of record keeping with various small scale businesses. Some responded yes. Others said no with various reasons. Their responses are summarized and analysed below.

TABLE 4.3: BENEFITS FROM KEEPING RECORDS OF THE BUSINESS

RESPONSES	FREQUENCY	PERCENTAGE (%)
YES	37	74
NO	<u>13</u>	<u>26</u>
TOTAL	<u>50</u>	<u>100</u>

Source: Authors Field Survey, 2012

From table 4:2:1, 74% of the responses suggested record keeping contributes to the success and growth of business, while 26% responds it does not. With those who said yes are with the views that, it is very difficult to keep detailed of all business financial activities in the mind, so there is the need for records to be kept. People who responded no were also with the view that, enough money or income to the business will help it succeed but not records. This supports O'Neil (1995) assertion that, small scale enterprises mistakenly prefer to work on more pressing issues such as marketing their product or business. They regard record keeping as not part of their practices.

4.3 HAVE YOU HEARD OF THE CONCEPT OF BOOKKEEPING?

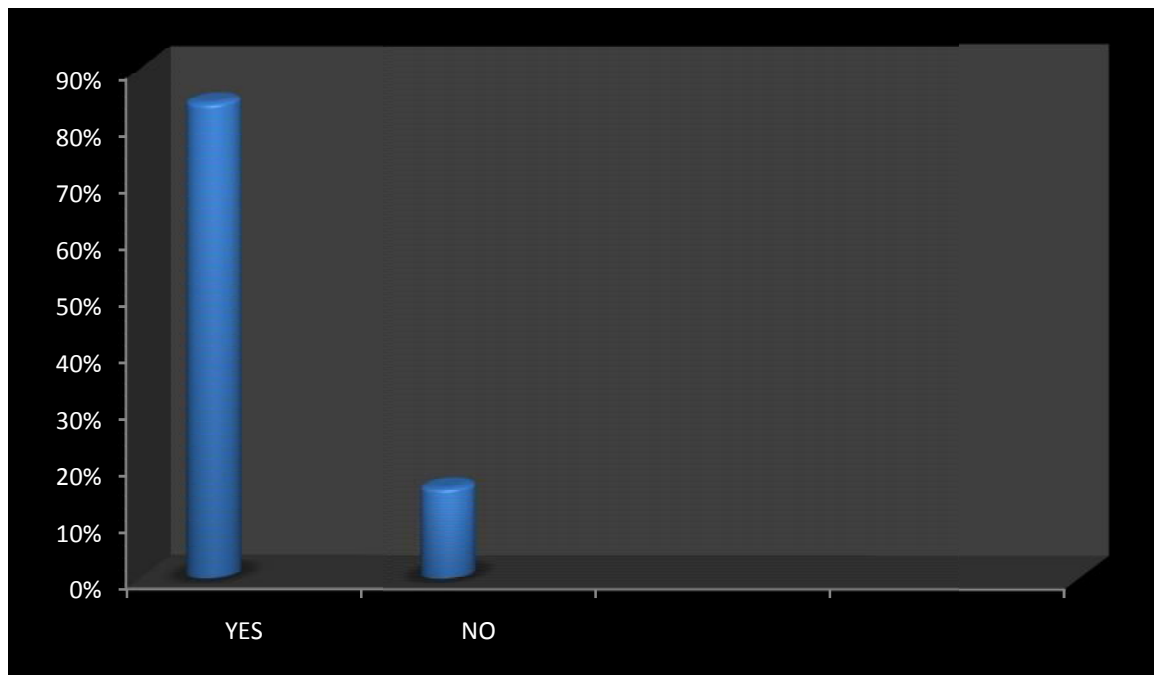
Some small scale business operator's keeps records while others do not keep records on their business financial activities. Interviews were conducted as to whether they have heard of bookkeeping. Some responded yes while others said no. Their responses are summarized and analysed below:

TABLE 4.4: HAVE YOU HEARD OF THE CONCEPT OF BOOKKEEPING?

RESPONSES	FREQUENCY	PERCENTAGE (%)
YES	42	84
NO	<u>8</u>	<u>16</u>
<u>Total</u>	<u>50</u>	<u>100</u>

Source: Authors Field Survey, 2012

FIGURE 4.1 HAVE YOU HEARD OF THE CONCEPT OF BOOKKEEPING



Source: Authors Field Survey, 2012

From the table, 84% of the responses had heard of the concept of bookkeeping while 16% of the respondents did not know the concept of bookkeeping. Those who said yes are with the views that, it is very difficult to keep detailed of all financial activities in the mind. So there is the need for record to be kept. People who responded no were also with the view that enough money or income to the business will help it succeed but not records.

4.4. BOOKKEEPING OF TRANSACTIONS

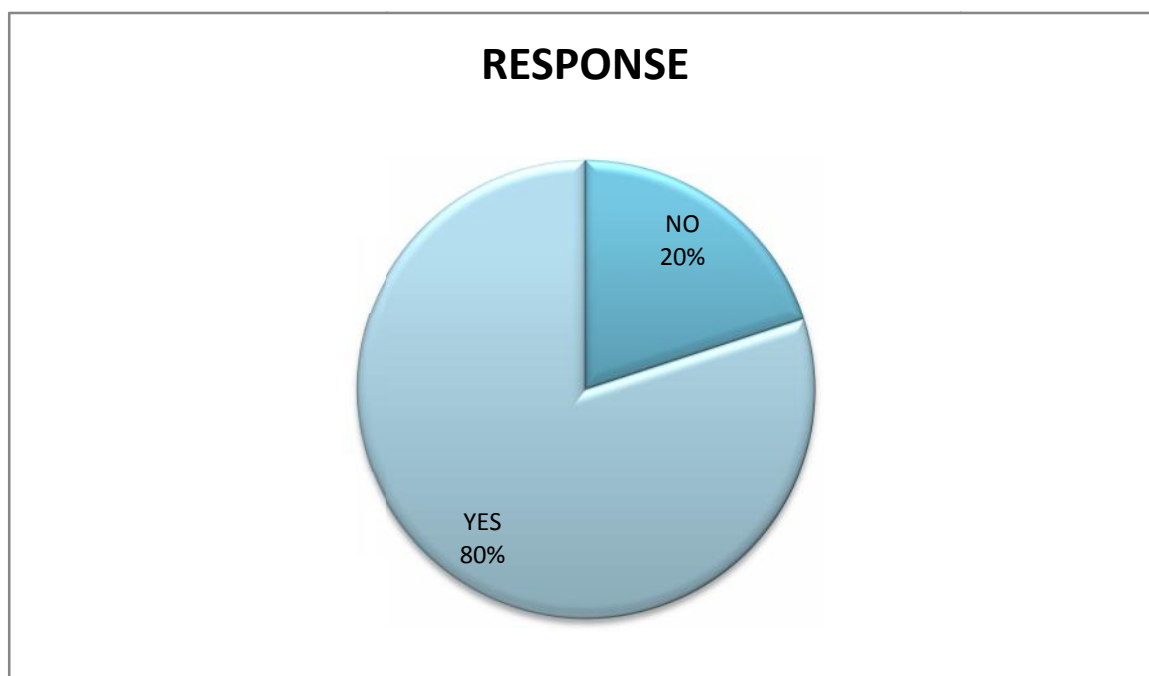
Fifty respondents were asked to indicate whether they keep any records of accounts.

Below is the raw data of SMEs that keep books of Accounts.

TABLE 4.5: BOOKKEEPING OF TRANSACTIONS

	Number	Percentage (%)
SMEs that kept books of account	40	80
SMEs that did not keep books of account	<u>10</u>	<u>20</u>
	<u>50</u>	<u>100</u>

FIGURE 4.2 PIE CHART SHOWING THE PERCENTAGE OF SMEs THAT KEEP BOOKS OF ACCOUNTS



Source: Authors Field Survey, 2012

The diagram above shows that, ten out of the fifty (that is 20%) SMEs did not keep books of account of their transactions. What they were concerned with were buying and selling of their goods. Further investigation revealed that, they had low level of education. The remaining forty (40) which represent eighty percent (80%) were those who kept records of their transactions. These records were kept on the single entry basis which made tax liability inadequately assessed.

4.5 PERSONNEL THAT KEPT RECORDS

Accounting, like many other disciplines, has its own terms and concepts. The personnel who prepare the books of accounts and reports should therefore have knowledge about these terms and concepts.

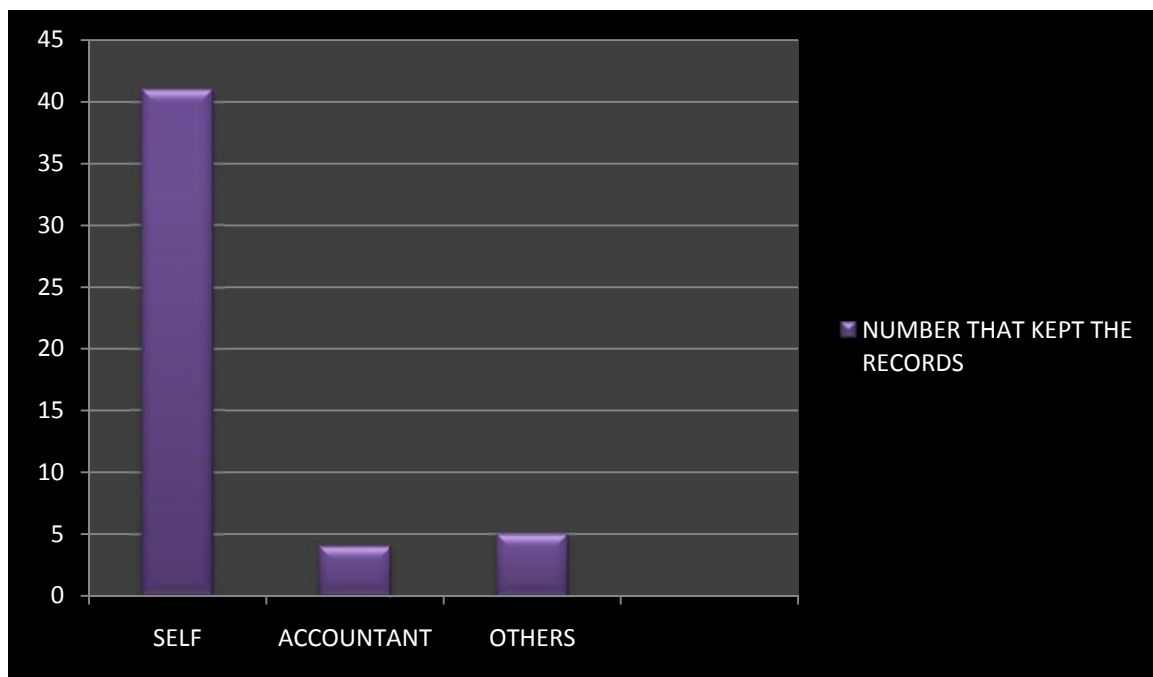
Respondents were asked about the personnel who kept their records and the table below shows the result obtained.

TABLE 4.6: PERSONNEL THAT KEPT RECORDS

PERSONNEL	NUMBER THAT KEPT THE RECORDS	PERCENTAGE (%)
Self	41	82
Accountant	4	8
Others	<u>5</u>	<u>10</u>
	<u>50</u>	<u>100</u>

Source: Authors Field Survey, 2012

FIGURE 4.3 BAR GRAPH SHOWING PERCENTAGES OF PERSONNEL THAT KEEP THE RECORDS



Source: Authors Field Survey, 2012

Eighty two percent indicated that they kept the records themselves. Eight percent represented those who have hired the services of accountants to keep records of their transactions. Ten percent to the enterprises depended on relatives or friends who are available as at that time the transaction was taken place. It was notice that those who kept records themselves did not have any training in accounting.

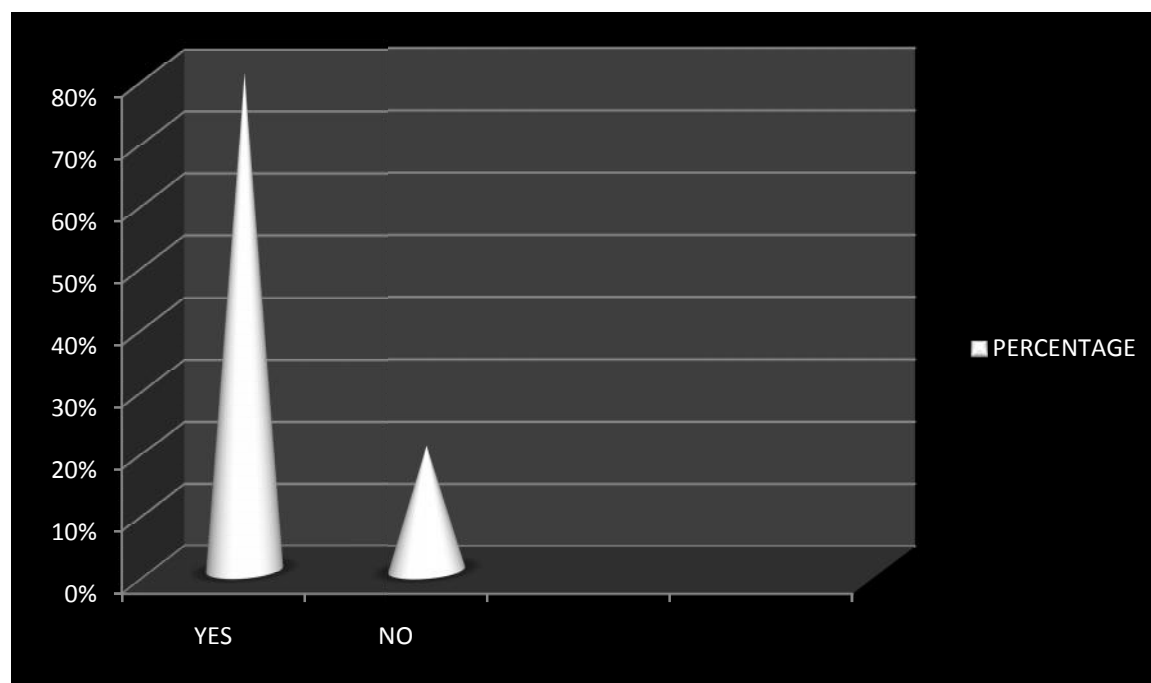
TABLE 4.7: CONDUCT OF STOCK TAKING

Information was gathered from our respondents as to whether they took stock of their goods.

	Number	percentage%
YES	40	80
NO	<u>10</u>	<u>20</u>
	<u>50</u>	<u>100</u>

Source: Authors Field Survey, 2012

FIGURE 4.4 CONDUCT OF STOCK TAKING



Source: Authors Field Survey, 2012

The result indicated that eighty percent took stock and twenty percent did not take stock.

4.6 USES OF ACCOUNTING RECORDS TO TRADERS

Small business enterprises are faced with problems as to the amount they should contribute for tax.

Interview conducted with some of the business operators disclosed that taxes are paid according to whether the business is registered or not.

TABLE 4.8: REGISTERED AND UNREGISTERED BUSINESSES

RESPONSES	FREQUENCY	PERCENTAGE (%)
YES	36	72
NO	14	28
TOTAL	50	100

Source: Authors Field Survey, 2012

FIGURE 4.5 REGISTERED AND UNREGISTERED BUSINESSES



Source: Authors Field Survey, 2012

With reference to table 4:3:1, 36 or 72% of the respondents say yes while 14 or 28% of the respondents says no. This shows that as a result of inadequate or incomplete records, profits

are not easily calculated by the various small and medium enterprises in the Kumasi Metropolis.

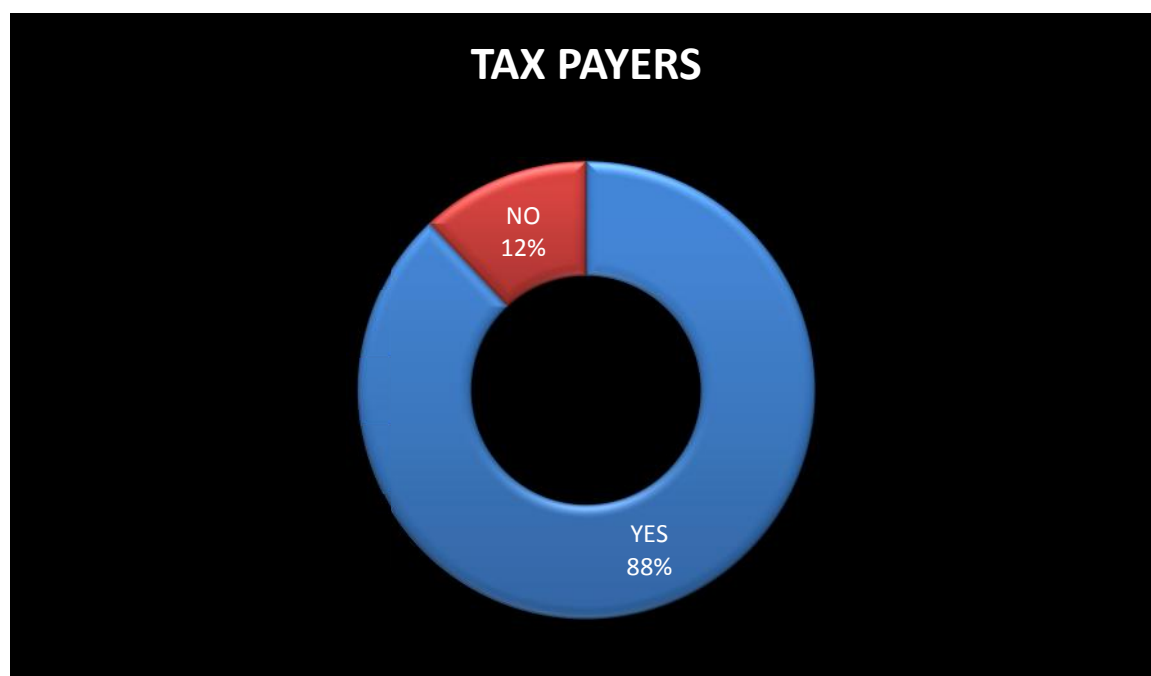
This will eventually make it very difficult in assessing their tax liability fairly. The number of people interviewed that said they pay taxes on their business is tabulated below

TABLE 4.9: BUSINESSES THAT PAY TAXES OR NOT

RESPONSES	FREQUENCY	PERCENTAGE (%)
YES	44	88
NO	6	12
TOTAL	50	100

Source: Authors Field Survey, 2012

FIGURE 4.6 BUSINESSES THAT PAY TAXES OR NOT



Source: Authors Field Survey, 2012

Table 4:3:2, indicates that, 44 or 88% of the entire respondents operating as small and medium enterprises in the metropolis responded yes to the fact that they pay their taxes, while only 6 or 12% responded no.

However, the inadequate nature of their records amply testifies that they are not being assessed fairly.

Apart from the business being registered or not, size also became another yardstick for assessing their tax liability.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATION

5.0 INTRODUCTION

This final chapter summarizes the findings of the study. It highlights the conclusion drawn from the study and makes recommendations for improvement of bookkeeping practices among small and medium enterprises in the Kumasi Metropolis.

5.1 SUMMARY OF FINDINGS

Bookkeeping contributes to the success of every established business. It is the act of writing down the activities or events that have taken place in monetary terms, grouping them in terms of their common characteristics and finally producing a set of financial records.

The study is on bookkeeping practices among small and medium enterprises in the Kumasi Metropolis.

According to the sampled data collected by means of questionnaire, interview and observation the following is the summary of the findings.

The findings show that due to the low standard of living and economic life in the metropolis, many people establish various kinds of small scale business in order to earn some income for themselves. From the information gathered, it was realized; that various kinds of small scale business had been established for a minimum number of 5 years with provisional stores as the largest established business in the metropolis.

It was realized that due to the importance of keeping business records, most of small scale business keeps records while a few do not keep records. Incomplete system of records keeping is adopted by most small scale business. A book not in the form of ledger are kept to record all the business activities. It was also realized that records kept by the various small

business operators contributes significantly to the success of their business, such records are used to determine prices of their products, to track debtors and creditors and determination of sales made within a period of time.

As a result of the socio-economic background of the people in the metropolis, it was discovered that lack of basic knowledge in bookkeeping and illiteracy is the main cause of such record keeping system. Small scale businesses are dominated by person with basic education while a few had attained secondary education. From the information gathered it was discovered that many small scale business operators shows reluctance to train or study to manage and control the business records.

The main problem realized was the right amount to be contributed for tax purposes and as a result taxes are paid according to sizes of the business. This ranges from smaller sizes to larger sizes businesses. Other problems such as profit calculation were also identified. Most small scale businesses find it difficult to determined profit made or losses, access to finance the business activity is also a problem.

5.2 CONCLUSION

Based on the findings of the study, the following conclusion is drawn. Businesses operators as small and medium enterprise in the metropolis are into commerce as compared to any other form of business. In spite of the importance of record keeping, various kind of businesses identified had made an effort to keep some form of records, but incomplete records was adopted by most small scale businesses, the double entry system used for record keeping are not being followed, most small businesses lacks knowledge in bookkeeping and as such are unable to adopt good bookkeeping practice. This explains why government and its agencies find it difficult to effectively monitor the activities of small business operators for

the necessary policy, guideline and implementation. As a result taxes to be paid are determined according to the sizes of the business.

5.3 RECOMMENDATIONS

Based on the findings of the study we came out with the following recommendations which when implemented will help in improving the bookkeeping practices in the metropolis.

- i) The owners and manager of SMEs should be educated about the importance of bookkeeping. This could be done by way of organizing training programmes through seminars, conferences, workshops, etc at a lower cost to see the importance of bookkeeping so that even if they cannot prepare the books themselves, they will have the desire to employ qualified personnel to take charge.
- ii) The activities of government organization such as NBSSI and others should be intensified. These activities include:
 - a) Provision of training that is, organizing training programmes it help entrepreneurs acquire the requisite skills needed for the management of the business.
 - b) Provision of advisory service's such as how to deal with and control income and expenditure, financial management practices
- iii) Laws should be enacted to make it obligatory for sole proprietorships to keep certain records. The existing laws only focus on companies and partnerships.
- iv) The government should make the study of accounting obligatory from primary to senior secondary level in order to make Ghanaians aware of the importance of bookkeeping. This is because whatever is the career of an individual, the person will still become a user of accounting information.

- v) Financial institutions that grant loans to SMEs should base their decisions on the audited statements of these enterprises. This will encourage proper bookkeeping and auditing among SMEs.
- vi) More bookkeeping proficiency courses should be organized by professional accountancy bodies such as the Institute of Chartered Accountants (Ghana) and the Association of Chartered Certified Accountants (ACCA) to update the bookkeeping knowledge of owners of SMEs. Such courses should be designed in such a way to address their specific accounting needs. The mode of instruction should be in the local dialects since majority of the owners of SMEs are not proficient in the English language.
- vii) Section 141 of the Internal Revenue Act. 2000 which states that "if a person deliberately fails to maintain proper records for a year of assessment, he or she is liable to pay a penalty of 5% of the amount payable by that person for the year. This should be implemented to encourage SMEs to keep proper books of account. Although the law states clearly that ignorance of the law is no excuse, the government should take it upon itself to employ resource personnel to go to the field and educate the public about the existence of such a law so that anyone who violates it can be prosecuted.
- viii) Bank statements should be requested for so as to check the authenticity of every transaction and used as reconciliation to the cash book. Finally, records on revenue and expenses should be properly kept.

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APPENDIX

CHRISTIAN SERVICE UNIVERSITY COLLEGE (CSUC)

A SURVEY ON THE BOOKKEEPING PRACTICES AMONG SMALL AND

MEDIUM ENTERPRISES IN THE KUMASI METROPOLIS

INTRODUCTION

This study is being undertaken for academic purposes and any information you give will be treated with the highest degree of confidentiality. It would therefore be appreciated if you could respond to the following questions:

A) PROFILE OF TRADERS

1. Name of Respondent

.....

2. Age of Respondent

a) 15-25 years b) 26-35 years c) 36-45 years d) 46-55 years e) 56 years plus

3. Gender of Respondent

- a) Male b) Female

4. What is your educational background?

- a) Basic Level b) 2nd Cycle c) Tertiary Level
d) Non Formal e) None

5. How long have you been doing this business?

- a) 0-5 years
b) 6-10 years
c) 11-15 years
d) 16-20 years
e) 20 years and more

B) PROFILE OF TRADERS

6) Business

Location:.....

7) Type of Business:

8) How do you normally sell your goods?

- a) Cash
b) Credit
c) Cash and Credit

- c) Expansion Planning
- d) Performance Appraisal
- e) Sale of Business
- f) Other decisions (specify)

18. Have you registered your business?

- a) Yes
- b) No

19. Do you pay taxes on the business?

- a) Yes
- b) No

20. Has any organization, group of persons or an individual ever demanded for any financial statement of your business?

- a) Yes
- b) No