

CHALLENGES OF FINANCIAL REPORTING IN SMALL SCALE BUSINESSES IN GHANA.

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ABSTRACT

The vast majority of Ghana's companies are small and privately owned; audit could be argued that IFRS are not relevant to their needs or to their users. There is however, the need as corporate Ghana to find appropriate means to take stock of what we have and to enable SME's to provide information to interested parties.

All business entities operate in environment and depend on it one-way or the other. As part of their social responsibility, there is a need for the organizations to report on their activities to enable society to judge their actions.

This position has influenced most countries and international organizations in the world to look for means to make SME's more responsive to information needs of interested parties. The developed countries are searching for ways to bring SME's to the main stream of financial reporting. Therefore, the findings will assist the SME's to voluntarily comply conscious by law to prepare financial reports annually.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Many economies and governments all over the world have realized the importance of this category of companies and have formulated comprehensive public policies to encourage, support and fund the establishment of Small and Medium Scale Enterprises (SME's). In Ghana, various governments past and present have initiated policies and programs to encourage development of SME's. Notable among them are National Board for Small Scale Industry (NBSSI). Ghana Export Promotion Council, Youth and Employment Program, the creation of Ministry Private Sector Development and declaration that Ghana is now in the 'Golden Age of Business' by New Patriotic government (NPP). If Ghana is to succeed in the fight against poverty, reduce the high rate of unemployment and attain the objective of the millennium challenge goals then much support and attention should be given to SME's.

SMEs are seen to be characterized by dynamism, witty innovations, efficiency and their small size allows for faster decision-making process. Developments of SME's are *sin quo* non-for employment generation, solid entrepreneurial base and encouragement for the use of local raw materials and technology. They constitute on average 97% of all establishment in industry and 99% of all service firms. In industry and services in the SME's, provide 37% and 60% respectively of the total employment.

The vast majority of Ghana's companies are small and privately owned; audit could be argued that IFRS are not relevant to their needs or to their users. There is however, the need as corporate Ghana to find appropriate means to take stock of what we have and to enable SMEs to provide information to interested parties.

Apart from management and investors, there are various parties interested in the operation of business enterprise. For tax purposes, the government agency like internal revenue service (IRS) would be interested in the operation of the enterprise.

In our development process, the need to mobilize resources in the tax cannot be over emphasized. The contribution of direct tax, which includes both SMEs and large companies, continue to trail behind the indirect tax. For example in Ghana, direct tax contributes between 20%-30% while indirect tax contributes 70%-80% of the total tax revenue collected in the country. The dominance of the SME's in the economy does not reflect in our tax revenue for development. Most of the SME's do not keep books of accounts making it difficult for IRS agents to do proper assessment.

Notwithstanding, all business entities operate in environment and depends on it one-way or the other. As part of their social responsibility, there is a need for the organizations to report on their activities to enable society to judge their actions. This is very much prevalent in mining sector where the issue of environmental degradation has being raised in recent times. There is a need for the society to know the effort they are putting in to reclaim the land. This can be done properly where their financial reports are made available to public. The expenditure on their social responsibility will give an indication of the effort.

This position has influenced most countries and international organizations in the world to look for means to make SME's more responsive to information needs of interested parties. The developed countries are searching for ways to bring SME's to the main stream of financial reporting.

1.2 STATEMENT OF THE PROBLEM

In spite of the dominance and important role that SME's can play in our economic development effort, hardly do we monitor their activities. This is because the Companies code of 1963 (Act 179 section 119) and the Incorporated Private Partnership Act of 1962 (Act 152, section 32) respectively enjoin companies and partnerships to have registered offices, auditors, solicitors and to keep proper books of accounts. However, the sole proprietors who form the bulk of SME's in Ghana have no provisional requirement that enjoins them to preparation of financial statement.

The existing condition has created situation where SME's adopt 'free will' attitude. In some instances, financial reports are management decision.

Businesses all over the world are nurtured into maturity stage.

Out of the total number of registered firms who avail themselves for tax purposes from 2000-2005 only 2% presented financial reports as the bases of assessment of their tax liability. The situation at NBSSI shows that the number of firms being managed only 10% keep proper books of account.

Available data indicate that only 5% of the 500 SME's presented their application for credit facility to National Investment Bank in the year 2005 submitted some form account. In all cases, the account figures are easily reconcilable. The trend is serious to the extent that most of the SME's turned to forget the year of operations.

1.3 OBJECTIVES OF THE STUDY

The aim of the study was to examine why SME's were not preparing financial reports despite its importance. This was as a result of important role assumed by the SME's in Ghana. They have the potential of generating employment, and accelerating the rate of industrialization and increasing the pace of development.

The following issues were therefore considered in the study.

1. The establishment of the contribution of SME's to the economic growth and development of Ghana.
2. The examination of the nature of accounts being kept by the SME's.
3. The main objective of preparing financial reports if any in the SME's and the type of account prepared by the SME's and the possibility of expanding the coverage of the reports.
4. The look into the problems confronting SME's in preparing financial reports in terms of policy framework.

5. To see how the SME's FRS can influence the voluntary compliance of the members in preparing financial reports.

1.4 HYPOTHESIS

The study also conducted testing on the following hypothesis:

1. The non – reporting of financial statement of SME's the result of high cost in preparing reports.
2. Poor voluntary compliance to financial reporting is as a result of no provision in the company law.

1.5 METHODOLOGY

The research work basically used both primary and secondary data. The primary data were gathered with the use of questionnaire from the various SME's. The secondary data were used to drawn information from their periodical reports as well as other publications related to the SME's financial reporting and a simple random sampling was used to know the nature of the account being kept by the SME's.

Basic statistical tool used were tables and a chart to organize and analyze the data for interpretation.

1.6 LIMITATIONS

The study could have looked at the income tax administration in detail so as to give better perspective to the study however, due to limited time and resources a review the aspect that relate to identification of financial records were done. There are also so many variables including social, symbolic, lazy, procedural, unknowing a habitual non compliance which may influence voluntary compliance but did not have the opportunity to look into it. The general attitude of SME's has influenced the data gathered and likely personal judgment and projection were used and that result its subjectivity in the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 The Overview of SME's In Ghana.

SME's are seen to be characterized by dynamism, witty innovations, efficiency and their small size allows for faster decision-making process. Developments of SME's are in quo non-for employment generation, solid entrepreneurial base and encouragement for the use of local raw materials and technology. They constitute on average 97% of all establishment in industry and 99% of all services firms. In industry and services in the SME's, provide 37% and 60% respectively of the total employment.

Specifying any size standard to define SME's is necessarily arbitrary because people adopt different standards for different purposes. In the UK SME will employ a maximum of 250 people, in Singapore its 200 and in Kenya, an SME will have 50 employees at most. (Pg. 21 student accountant, April 2006). Legislators for example may exclude SME's from certain regulations and probably specify 10 employees at the cut off point. In Ghana SME's are not bind by law to publish their financial statement.

Most have taken advantage of the provision and are not preparing financial statement. Usually SME's will show two or more of the following:

1. Management is independent, and managers are also owners.
2. Capital is supplied and ownership held by individual or small group.
3. Area of operations is mainly local. Workers and owners are in one home community. Market need not be local.
4. Size with the industry is relative. The business is small when compared to the biggest unit in its field.

The vast majority of Ghana's companies are small and privately owned; audit could be argued that IFRS are not relevant to their needs or to their users. There is however, the need as corporate Ghana to find appropriate means to take stock of what we have and to enable SMEs to provide information to interested parties.

Apart from management and investors, there are various parties interested in the operation of business enterprise. For tax purposes, the government agency like internal revenue service (IRS) would be interested in the operation of the enterprise. In our development process, the need to mobilize resources in the tax cannot be over emphasized. The contribution of direct tax, which includes both SMEs and large companies, continue to trail behind the indirect tax. For example in Ghana, direct tax contributes between 20%-30% while indirect tax contributes 70%-80% of the total tax revenue collected in the country. The dominance of the SME's in the economy does not reflect in our tax revenue for development. Most of the SMEs do not keep books of accounts making it difficult for IRS agents to do proper assessment.

While the existing shareholders are interested in the performance of the company, there are equally other surplus units who may want to invest their surplus funds and therefore need to have access to financial reports to take informed decisions. There macro finance scheme introduced to assist the SME's. The millennium challenge account where Ghana is to assess about \$524 million to assist in the development process will be useless if an effort is not made to identify potential beneficiaries. Most poverty alleviation fund disbursed to SME's for expansion of their business went to the drain. In most cases, either the business does not exist at all or they are not capable of managing such funds. However if the country have proper records on their financial activities proper assessment could have been made.

Notwithstanding, all business entities operate in environment and depends on it one-way or the other. As part of their social responsibility, there is a need for the organizations to report on their activities to enable society to judge their actions. This is very much

prevalent in mining sector where the issue of environmental degradation has been raised in recent times. There is a need for the society to know the effort they are putting in to reclaim the land.

This can be done properly where their financial reports are made available to public. The expenditure on their social responsibility will give an indication of the effort.

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Business all over the world is nurtured into maturity stage.

This has slowed the pace of development in the country. Enough tax revenue cannot be generated to meet the rising cost of social infrastructure. The demand for social service and desire to develop has increased so much recently and this has led to gradual increase in government expenditure. The citizens continuously accused the government of not doing enough to meet their needs from the tax they pay and therefore result in widespread evasion of tax. With such a large-scale evasion, the tax resources needed to provide the necessary infrastructure may be inadequate. Government intends accuses taxpayers of

evading their tax obligations, as result tax revenue at its disposal is inadequate to meet the rising cost of the needed infrastructure and implementation of various poverty reduction strategy. This was termed as 'vicious circle of suspicion' by Otioku (1988). In his theses he identified inability of IRS to identify them as a result to limited provision in the companies' code and the partnership act. He stressed most of SME's not covered in the code do not keep proper financial records and this makes it difficult to impossible to assess their tax liability.

Out of the total number of registered firms who avail themselves for tax purposes from 2000-2005 only 2% presented financial reports as the bases of assessment of their tax liability. The situation at NBSSI shows that the number of firms being managed only 10% keep proper books of account.

Available data indicate the only 5% of the 500 SME's presented their application for credit facility to National Investment Bank in the year 2005 submitted some form account. In all cases, the account figures are easily reconcilable. The trend is serious to the extent that most of the SME's turned to forget the year of operations.

2.2 Africa's SMEs Face Enormous Challenge.

Africa's Small and Medium Enterprises face enormous challenges in this era of globalization since they have widened the range of products and industries involving innovative competition as opposed to conventional price competition, said Mr. A.A. Yusuf, UNIDO's Assistant Director-General for African Affairs at from different African countries with over 500 participants from 16 countries, the forum discussed four themes: promoting SME's in this era of globalization; financing SME's, support structures for SME's and regional co-operation in promoting SME's.

"In addition to confronting African SME's with enormous challenges, globalization also presents opportunities especially in sub-contracting since enterprises in industrialized countries are now searching for out-sourcing and supply opportunities worldwide. The

problem, however, is how can African SME's capitalize on these new opportunities?" asked Mr Yusuf.

2.3 SA first country to adopt proposed International Financial Reporting Standards for SMEs.

Provided by Business Partners Ltd, South Africa's leading investor in SME's Johannesburg, Wednesday, October 3, 2007 – South Africa today became the first country in the world to formally adopt the International Accounting Standards Board (IASB) proposed new and less stringent reporting requirements for Small and Medium-sized Entities (SME's).

This follows the decision by the Accounting Practices Board's (APB), administratively supported by the South African Institute of Chartered Accountants (SAICA), to approve the proposed International Financial Reporting Standards (IFRS) for SME's as a Statement of Generally Accepted Accounting Practice (GAAP) for SME's in South Africa.

These proposed IFRS for SME's, was issued as an exposure draft (ED) in May this year by the IASB. South Africa is the first country to adopt it as a statement of GAAP in the exact format of the IASB's ED. Significantly, this statement of GAAP will reduce the reporting burden on SME's, providing them with a simpler accounting framework - a standard that is easier to understand and apply, and provides relief from many of the disclosures currently required.

Ignatius Schoole, SAICA's Executive President says that when the Corporate Laws Amendment Act (CLAA), 2006 was signed into law on 7 April 2007, it was apparent that differential reporting was becoming a reality in SA. "SAICA has in any case been campaigning for differential reporting for years. The new reporting requirements come in the wake of the amended definition of companies in the CLAA to those that are either 'widely held' or limited interest'. Compliance with the Statement of GAAP for SME's

will ensure compliance with the existing Companies Act, in case the CLAA is not given an effective date.”

In its circular outlining the motives for approving the Statement of GAAP for SMEs, SAICA addresses:

Current and future classifications of companies in the context of the Corporate Law reform process;

The scope and effective date of the Statement of GAAP for SMEs;

Financial reporting frameworks for ‘limited interest companies’;

Development of the Statement of GAAP for SMEs;

Some areas to be aware of in applying the Statement of GAAP for SMEs; and Audit reporting considerations.

In addition, the CLAA introduces a new section (285A) to the Companies Act, 1973, providing that a limited interest company must comply with:

Accounting standards developed for limited interest companies;

The provisions of the Act applicable to limited interest companies; and

Requirements to prepare financial statements that fairly present the financial position and the results of operations of the company.

Schoole says that because accounting standards have not yet been developed for limited interest companies, a CLAA transitional provision requires a limited interest company to prepare its financial statements in accordance with accounting practices adopted by that company. Such practices had to comply with the framework for the preparation and presentation of financial statements included in financial reporting standards.

The statement of GAAP for SMEs states that it is intended for use by entities that do not have public accountability and publish general purpose financial statements for external users such as owners not involved in managing the business, existing and potential creditors and credit rating agencies. Entities have public accountability if they have listed

debt or equity or hold assets in a fiduciary capacity for a broad group of outsiders such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund or investments banking entity.

“The new financial reporting framework may be applied by ‘limited interest’ companies, as defined in the CLAA, if they do not have public accountability as defined in the Statement of GAAP for SMEs.” says Schoole.

“Entities other than companies where legal provisions or other regulations require compliance with a specific financial reporting framework (other than statement of GAAP), can apply the Statement of GAAP for SMEs provided that they don’t have public accountability (as defined in the Statement of GAAP for SMEs).”

Sue Ludolph, SAICA’s Project Director for Accounting, says financial reporting frameworks applied by companies in SA have either been SA Statements of GAAP or IFRS.

“Numerous prepares have called for simplified financial reporting for smaller companies. The CLAA introduced a possibility of a different financial reporting framework for limited interest companies”

She says the IASB’s ED released earlier this year proposed disclosure relief, simplification of many recognition and measurement criteria, removal of choices for accounting treatment, and elimination of topics irrelevant to SMEs.

“There is the task of developing and providing training material ahead of the rest of the world and setting up the necessary infrastructure to do so. SAICA is in the process of providing such report,” says Ludolph.

“An auditor can express an opinion that financial statement are ‘presented fairly ‘in all material respects at accordance with the Statement of GAAP for SME s , ‘” says Berry, who notes that when an auditor issues an audit report on an entity applying the new

financial reporting framework , the audit report should identify the accounting framework as the Small and Medium – sized Entities.”

Berry points out that the audit report may not make reference to “IFRS for SMEs “ because the IASB has not yet issued the final standard.

“The new financial reporting requirement for SMEs puts us in line with internationally recognized standards and will enhance the developing of our economy, and promote investment into the country’ says Bery. (SAICA – The South African Institute of Chartered Accountants).

2.4 International Financial Reporting Standards Forum Japan 2007

The Accounting Standards Board of Japan (ASBJ) hosted an international Financial Reporting Standards (IFRS) Regional Policy Forum in Tokyo on 29 March 2007.

The delegates, from 14 jurisdictions across the Asia – Pacific Region, included senior representatives of accounting standard setting and oversight bodies, professional accounting bodies and government officials. Representatives from the International Accounting Standards Board (IASB), including the Chairman, Sir Davis Tweedie, were also in attendance.

The use of IFRS continue to grow both across the Asia/Pacific region and globally. IFRS is now required or permitted in over 100 countries worldwide and work is in progressing on the convergence of IFRS with US Generally Accepted Accounting Principles. IFRS has also matured since the standards were first released and companies in a range of countries have reported using IFRS for a number of a new accounting standard, modeled on the full suite of IFRS, specifically for Small and Medium Entities (SMEs).

This is the second IFRS Regional Policy Forum and follows the inaugural forum co-hosted by Australia and New Zealand which was held in Sydney, Australia in October 2005.

Forum Sessions

The forum was comprised of three main sessions

- Interpretation of IFRS within the Asia / Pacific
- Financial reporting by SME's; and
- Issues associated with referring to IFRS in describing the accounting framework used in various jurisdictions

These sessions highlighted that while there remained challenges associated with implementing IFRS within the region, the benefit derived from its successful introduction were significant.

Sir David Tweedie, Chairman of the IASB advised delegates that the implementation of IFRS was proceeding well. "The IASB is very pleased with the introduction IFRS both within the region and globally. Initiatives, such as the development of the proposed accounting standard tailored to SMEs, will ensure that global accounting standards continue to deliver benefits to both users and preparers"

2.5 Outcomes.

1. It was agreed that challenges exist in the interpretation of IFRS across the region. Delegates discussed the drivers behind the need for interpretations and possible ways in which these could be addressed without individual jurisdictions needing to issue interpretations in addition to those issued by International Financial Reporting Interpretation Committee.
2. Delegates were invited to provide comments to the IASB on the SME Exposure Draft. In particular, the IASB requested advice on whether the proposed standard would achieve the right balance between the needs of users and preparers. Delegates provided feedback to the IASB on particular challenges faced in

individual jurisdictions and noted that the proposed standard had also inspired many jurisdictions to examine their reporting framework for SMEs.

2.6 How SME's Financial Reporting may Be Limited in Practice.

There is considerable evidence available that, as a group, owner – managers of SME's make considerably less use of standard financial reports, whether historical or future – oriented, in financial management of their businesses than would be proposed or predicted by neoclassical microeconomic.

Moreover, financial reporting practices in SME's seem to fall well short of what is dictated by various external financial reporting imperatives that exist for them. (McMahon et al., 1992c, 1993b, 1994b)

Owner-managers appear particularly reluctant to procure financial reports which might become accessible to outside parties either directly or through the officers of regulatory authorities. One means of anticipating what might be broadly found in the way of financial reporting systems actually employed amongst SME's is via of continuum devised by Friedlob & Plewa (1984, 1992) as follows:

- Misleading financial reports being produced. Strictly cash based accounting with no accruals.
- Income tax basis accounting (in compliance with income tax legislation) which includes accruals for inventories, receivables and depreciation.
- Basic full accrual accounting with no compliance to accounting standards.

Basic full accrual accounting with footnote disclosures of departures from accounting standards. The discussion thus far suggests it is realistic to anticipate that the financial reporting practices found in SMEs may not accord with mandated, recommended or preferred practices in some or all of a number of specific respects:

- Not all financial statements may be prepared – preferable balance sheets, profit and loss statements and cash-flow statements should all be obtained, and both historical and future-oriented reports should be prepared.
- Financial statements may not be provided to all parties with reasonable expectations of receiving them-preferably financial statements should be supplied to non-managing owners, owner-managers, managers, key employees, creditors, financiers, advisers, taxation authorities and corporate regulatory bodies as needed, requested or mandated.
- Financial statements may not be used appropriately-preferably financial statements should be routinely analysed and interpreted using accepted techniques for this purpose such as inspection of key figures, trend analysis, inter-firm comparisons and variance analysis.

Conclusively, numerous ways in which SME financial reporting may be limited in practice; and there appear to be a variety of explanations for why this may be so – many of which do not necessarily suggest irrational thinking on the part of owner-managers. The location on the continuum assumed by any particular SME may be dictated by the distinctive characteristics and circumstances of the business concerned, possible moderated by rational and/or irrational views subscribed to by its owner-managers(s). It is believed that this portrayal of SME financial reporting establishes a conceptually sound but realistic backdrop against which to view existing empirical evidence on financial reporting practices in SMEs.

Abdel-Khalik, R. (1983, Financial Reporting By Private Companies: Analysis and Diagnosis, Federal Accounting Standards Board, Stanford, Connecticut).

CHAPTER THREE

METHODOLOGY

3.1 RESEARCH DESIGN

The case study method and simple random method were used to design this research work. This method enabled the study to investigate Small and Medium Scale Operators reaction to financial reporting and challenges. It also helped the study to quantitatively collect and critically analyzed the views of respondents as every SME had equal chance to be interviewed.

3.1.1 SOURCES OF DATA

Primary data

Primary data was gathered through the distribution of questionnaires consisting both closed and open-ended questions among Small and Medium Scale Operators. Questionnaires were administered because it enables respondents to provided frank answers, it also facilitates the collection of huge amount of data within a limited period of time and again questionnaires helps to gather useful information about respondents.

Secondary data

Secondary data for this research was sourced from project works, books, relevant to the study pamphlets. Secondary data was also used because it gives extra insight into the project topic and it also gives the necessary tools required in designing the research work.

3.1.2 INTERVIEW

Some managers and staff in the Small and Medium Scale Businesses were interviewed to ensure how financial reporting is been carried out.

The interview was used for both managers and employees and it took part of the questionnaire questions. The interview was used because in the SME's they are always busy and for that matter may not get time in answering the questionnaires. It was also used because it provides brief answers and express ones feelings and also answers are given immediately and again ambiguous questions may be clarified for the respondents.

3.2 THE STUDY POPULATION

The study population covers the entire SME's in Ghana. But then, Kumasi Metropolis was sampled due the limited time and resources.

3.3 SAMPLING SIZE AND SAMPLING TECHNIQUE

Both managers and staff of SME's were used as the population for the study. Forty (40) questionnaires were sent out twenty (20) for management and twenty (20) for employees. All responses were used as data for the study.

3.4 DATA COLLECTION METHOD

Data for the research was collected by using self administered questionnaires which comprises of closed and open - ended questionnaires. The open and close questions allowed the respondents to express their views.

3.5 DATA HANDLING AND ANALYSIS

Data collected through questionnaires were edited and grouped. Data was then drawn from each questionnaire and were presented on tables and a chart using figures and percentages.

CHAPTER FOUR
DATA ANALYSIS

SECTION ONE

From the questionnaires provided to management and the interviews conducted, these are the responses which have being analyzed.

4.1 RESPONSES TO FINANCIAL REPORTING NEEDS

From the side variety of answers given by both senior and junior staff were of the view that financial reporting is preparing financial accounts for the purpose of taxation and government use. Few mention the need for management decision making.

4.2 THE NEED TO KEEP ACCOUNTS

Table 1: Distribution Showing need to Keep Accounts

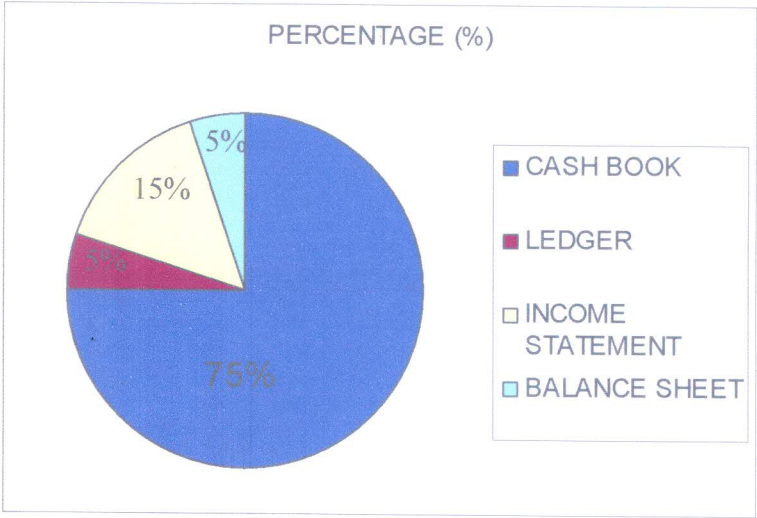
RESPONSE	FREQUENCY	PERCENTAGES (%)
YES	6	40
NO	4	20
SOME ACCOUNTS	10	50
Total	20	100

Source: Field Survey (2008)

Table 1 shows the need for keeping accounts. It was revealed that half of the respondents keep some form of accounts. This was ascertained to be cash book only. Only 40% keep accounts and 20% have no need for financial records.

4.3 THE TYPE OF ACCOUNTS NEED

Figure 1: Pie Chart Distribution showing the Type of Accounts Need



Source: Field survey (2008)

Figure 1 above shows need for specific accounts. 1 respondent representing 5% felt ledger was necessary, 1 respondent representing 5% also felt balance sheet was necessary and 15 respondents representing 75% felt cash book was very important. This is the fact that most traders felt by keeping cash book, they will be able to keep tract of their sales and expenses.

4.4 USES OF ACCOUNTS

Table 2: Distribution Showing Uses of Accounts

RESPONSE	FREQUENCY	PERCENTAGE (%)
TO IRS	15	75
TO GOVERNMENT	2	10
FOR DECISIONS	3	15
Total	20	100

Source: Field Survey (2008)

In Table 2 above, it was revealed that majority of small scale operators think that preparing accounts is just for internal revenue services for tax purposes (75%).

Only 3 respondents representing 15% think the financial statement could be used for decision making

SECTION TWO

The following are the analysis of the staff that answered the questionnaire and were also interviewed.

4.5 AGES OF ACCOUNTS STAFF

Table 3: Showing Distribution of Ages of Accounts Staff

RESPONSE	FREQUENCY	PERCENTAGE (%)
18-25 Years	15	75
25- 40 Years	2	10
40-60 Years	3	15
Above 60 Years	-	-
Total	20	100

Source: field survey (2008)

Most of the operators were employing senior secondary students to prepare some form of accounts for them. This shows 75% of the survey. As low as 10% represent those in the middle class prepare accounts for the small scale operators.

4.6 PROBLEMS OF PREPARING ACCOUNTS

Table 4: Distribution Showing Problems of Preparing Accounts

RESPONSE	FREQUENCY	PERCENTAGE (%)
Sometimes	7	35
All the time	12	60
Not at all	1	10
Total	20	100

Source: field survey (2008)

Table 3.5 indicates the kind of problems accounts officers face during the preparation of accounts, after the accounts have been prepared and whether the accounts are used at all! 60% of the respondents indicated that there were always problems with the preparation of accounts and its use. Only 10% were of the view that they face no problem. This happens to be the medium scale firm where proper accounting procedures have been put in place.

4.7 FINDINGS

From the various analyses of findings of the study, the following conclusions have been drawn:

1. Most of the respondents do not know the use of accounts;
2. Majority of them do not have any idea of international accounting standards;
3. Qualified accountants are not employed to keep the accounts of the business, they depend on SSS students;
4. Employees' suggestions were less considered;

The employees were not encouraged to adopt new accounting standards.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

INTRODUCTION

This chapter entails the summary, conclusion and recommendations. The study was aimed at examining challenges of financial reporting in SME's.

5.1 SUMMARY

For the study to be effective, both primary and secondary data collected were used. These were specifically interviews and questionnaires, which enabled the study to obtain the necessary information from the selected organization. With the question on the type of accounts prepared, it was found out from most of the respondents that the organization uses cash book.

The most commonly cited use of the accounts is for internal revenue service. There were some deficiencies in the preparation of the accounts. From the analysis it was realized that, although some accounts are kept, they did not follow the accepted accounting principles and concepts.

Finally, majority of the respondents suggested that, specific accounting standards be promulgated for use by SME's alone since the generally accepted standards are too cumbersome for them to use.

5.2 CONCLUSION

In Ghana SME's are not bind by law to publish their financial statement. Most of them have taken the advantage of the provision and are not preparing the financial statement. If Ghana can attain the objective of the millennium challenge goals then much support and attention should be given to the SME's by government to enforce flexible measures that will make them willingly to be able to keep financial records as it is done in Gambia and South Africa to be able to close the existing gap.

5.3 RECOMMENDATIONS

In view of the findings of the study, the following recommendations are made:

1. The accounting community should adopt new international accounting standards for SME's alone. And those business which form part of SME's in Ghana should be allowed provisional requirement that enjoins them to preparation of financial statement.
2. SME's should be educated on the use of accounts.
3. Gradual training programmes through ASSI should be organized, so that when the SME's are conscious that they are required by law to prepare financial reports annually they will voluntarily comply.
4. SME's should employ qualified accountants to prepare their accounts for them and be ready to learn the use of accounts.
5. Specific accounts type should be designed for SME's to make them understand.
6. The government should disabuse the minds of the SME's that accounts are only needed for tax purposes.

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Questionnaire for SME's

1. The position of the person. Manager. ☐ Accountant. ☐ Clerk. ☐
Others. ☐

2. The type of business. ☐ Sole proprietorship. ☐ Partnership.
☐ Limited liability Company.

3. The object or nature of the business.....
.....

4. Do you keep accounts? ☐ Yes. ☐ No.

5. What type of account do you keep? A. Cash book. B. Debtors or Creditors
Ledger. C. Income statement. D. Balance sheet.

6. Who prepares the account?

7. What is the academic background of the one who prepares account? ☐ SSS.
☐ HND. ☐ Degree. ☐ Others.

8. Why do you prepare an accounts.....

9. What problems do you encounter when preparing an account?.....
.....
.....

.....
10. Do you know any accounting standards? ☐ Yes. ☐ No.

11. What accounting standard do you know you normally use?

.....

.....

.....

12. Do you use accounting software in preparing accounts? ☐ Yes. ☐ No.

13. If Yes, what accounting software?

14. If you prepare accounts, does management use them? ☐ Yes. ☐ No.

15. If Yes, for what purpose? Please, give reasons.....

.....

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