

**CHRISTIAN SERVICE UNIVERSITY COLLEGE**



**SCHOOL OF BUSINESS**

**THE PERCEPTION OF ACCOUNTING LITERACY ON PROFITABILITY OF  
SMALL AND MEDIUM ENTERPRISES  
(A CASE STUDY OF SELECTED SMEs IN KUMASI METROPOLIS)**

**JONAH AARON**

**OMANE OPHELIA**

**KUMAH CECILIA AFRIYIE**

**AFRIYIE PRINCE**

**OWUSU SAMPSON AHENKORAH**

**A DISSERTATION PRESENTED TO THE DEPARTMENT OF ACCOUNTING  
AND FINANCE OF CHRISTIAN SERVICE UNIVERSITY COLLEGE IN  
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF  
BACHELOR OF BUSINESS ADMINISTRATION.**

**JUNE, 2015**

**STATEMENT OF AUTHENTICITY**

We hereby declare that this submission is our own work towards the Degree of Business Administration and that, to the best of our knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

<b>Names</b>	<b>Index Number</b>	<b>Signature</b>	<b>Date</b>
Jonah Aaron	10148429	.....	.....
Omane Ophelia	10159922	.....	.....
Kumah Cecilia Afriyie	10145994	.....	.....
Afriyie Prince	10148328	.....	.....
Owusu Sampson Ahenkorah	10148490	.....	.....

**Supervisor’s Declaration**

I hereby declare that the preparation and presentation of this dissertation was supervised in accordance with the guidelines on supervision laid down by Christian Service University College.

**Certified By**

Christopher Bright Daboug	.....	.....
<b>Supervisor</b>	<b>Signature</b>	<b>Date</b>

Solomon Arhin (Dr.)	.....	.....
<b>H.O.D, Accounting &amp; Finance</b>	<b>Signature</b>	<b>Date</b>

Kwaku Ahenkorah (Dr.) ..... ..

**Dean, School of Business**

**Signature**

**Date**

**DEDICATION**

This work is dedicated to our parents for their unflinching support in our education, our supervisor, Mr. Christopher Dabough who made the journey worthwhile and lastly to SMEs in Adum, Asafo, Bantama and Kejetia Business Area for their support throughout our study.

## **ACKNOWLEDGEMENTS**

First and foremost we would like to express our profound gratitude to the Almighty God for leading us to enrol in this degree programme and for His guidance throughout the programme. Lord we thank you for your strength and bringing us in contact with people who helped us throughout our study.

We are also very grateful to our supervisor, Dabough Christopher, who took his time to direct us in following the accepted procedure and structure of thesis writing at Christian Service University College. We are very grateful for your patience and calmness in correcting all the mistakes and for your immeasurable coaching.

We will also want to thank our parents, siblings, cousins and members of our extended families who encouraged and supported us during the entire programme. God richly bless you all.

## TABLE OF CONTENT

<b>Title Page</b>	
<b>Declaration</b>	<b>i</b>
<b>Dedication</b>	<b>ii</b>
<b>Acknowledgements</b>	<b>iii</b>
<b>Table of Content</b>	<b>iv</b>
<b>List of Table</b>	<b>v</b>
<b>List of Figures</b>	<b>vi</b>
<b>List of Abbreviations</b>	<b>vii</b>
<b>Abstract</b>	<b>viii</b>

### **CHAPTER ONE: INTRODUCTION AND RESEARCH CONTEXT**

1.1 Background to the Study	1
1.2 Statement of Problem	1
1.3 Objectives of the Study	2
1.4 Research Questions	2
1.5 Significance of the Study	3

### **CHAPTER TWO: REVIEW OF PRIOR LITERATURE**

2.0 Introduction	4
2.1 Meaning of Small and Medium Enterprises	4
2.2 Accounting Literacy	5
2.2.1 Small and Medium Enterprises and Accounting Literacy	5
2.3 Maintenance of Books of Accounting	6
2.3.1. Keeping of Proper Accounting Records	7

2.3.3 Journals	7
2.3.2. Cash Books	8
2.3.4 Ledgers	8
2.4 Importance of Accounting Literacy	9
2.4.1 Investors Empowerment in Making Informed Decision	11
2.5 Challenges of Operationalising Accounting Systems by SMEs	12
2.5.1 Inadequate Capital for Job Training	12
2.5.2 Deliberate Attempt not to Keep Accounts	13
2.5.3 High Cost of Hiring Accounting Experts	13
<b>CHAPTER THREE:</b>	
<b>3.0. RESEARCH METHODOLOGY</b>	
3.1. Introduction	14
3.2 Target Population	14
3.3 Sample Size	14
3.4 Data Collection Procedure	15
3.4.1 Primary Data Collection	15
3.4.2 Secondary Data Collection	15
3.5 Data Analysis and Presentation	16
<b>CHAPTER FOUR</b>	
<b>4.0. DATA PRESENTATION AND ANALYSIS</b>	
4.1 Introduction	17
4.2 Analysis of Demographic Characteristics of Respondents	17
4.3. Records Keeping System	20
4.4 Accounting Records Kept by Small and Medium Enterprises	23
4.4 Benefits of Accounting Literacy	27

4.5 Challenges of Small and Medium Enterprises	33
--	----

**CHAPTER FIVE:**

**5.0. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION**

5.1 Summary of Findings	39
-------------------------	----

5.2 Conclusion	39
----------------	----

5.3 Recommendations	40
---------------------	----

References

Appendix

**LIST OF TABLES**

Table 1: Gender of respondents	17
Table 2: Age of Respondents	19
Table 3: Educational Levels of Respondents	20
Table 4: Records Keeping by SMEs	21
Table 5: Management of Business	22
Table 6: Types of Accounting Records	23
Table 7: Financial Report or Statement	25
Table 8: Types of Financial Report	26
Table 9: Loans Accessibility	28
Table 10: Evaluation of Performance	29
Table 11: Minimization of Loss	31
Table 12: Profit Margin Determination	31
Table 13: Growth and Survival of Enterprises	32
Table 14: Lack of Accounting Skills and Knowledge	34
Table 15: High Cost of Hiring Experts	35
Table 16: Exposure of Business for Tax	36
Table 17: Employment Family Members without Accounting Knowledge	38

## **LIST OF FIGURES**

Figure 1: Gender of respondents	17
---------------------------------	----



Figure 2: Age of Respondents	18
Figure 3: Educational Levels of Respondents	19
Figure 4: Records Keeping by SMEs	21
Figure 5: Persons Responsible for Management of Business	22
Figure 6: Types of Accounting Records	24
Figure 7: Financial Report or Statement	25
Figure 8: Types of Financial Report	26
Figure 9: Loans Accessibility	28
Figure 10: Evaluation of Performance	29
Figure 11: Minimization of Loss	30
Figure 12: Profit Margin Determination	32
Figure 13: Growth and Survival of Enterprises	33
Figure 14: Lack of Accounting Skills and Knowledge	34
Figure 15: High Cost of Hiring Experts	35
Figure 16: Exposure of Business to Tax	36
Figure 17: Employment Family Members without Accounting Knowledge	37

## **CHAPTER FIVE:**

### **5.0. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION**

5.1 Summary of Findings	39
5.2 Conclusion	39
5.3 Recommendations	40

References

Appendix

## **LIST OF TABLES**

Table 1: Book keeping by the respondents	7
Table 2: Respondents Demographic Information	24

## **LIST OF FIGURES**

Figure 1: Account Records	25
Figure 2: Management of business	26
Figure 3: Employment Creation	27
Figure 4: Boost Tax Base	28
Figure 5: Promotes Creativity	29
Figure 6: Encourages Borrowing	30
Figure 7: Increase Investment	31
Figure 8: Debts	32
Figure 9: Profit Margin	32
Figure 10: State of Business	33
Figure 11: Balance Accounts	34
Figure 12: Spending	35
Figure 13: Lack of Education	36
Figure 14: Lack of Accounting Skills	36
Figure 15: High Cost of Hiring Experts	37
Figure 16: Deliberate Attempts Not to Keep Account	38
Figure 17: Employment of Family Members	39

### **LIST OF ABBREVIATIONS**

SME	-	Small and Medium Enterprises
NBSSI	-	National Board for Small Scale Industries

- USFLEC - United States Financial Literacy and Education Commission
- MYOB - Mind Your Own Business
- ACCA - Association of Chartered Certified Accountants
- DAPE - Development of African Private Enterprises

### **ABSTRACT**

This research is on the perception of accounting literacy on the profitability of Small and Medium Enterprises. The study looks at the problems faced by Small and Medium Enterprises and the need for proper bookkeeping and basic accounting procedures in Small

and Medium Enterprises. Small and Medium Enterprises are unable to monitor their operations which can eventually result in loss of track on various transactions, loss of properties such as records on its tangible assets. The research is a descriptive in nature involving qualitative and quantitative methods which administered through questionnaires. Primary data was obtained from respondents through questionnaires, and secondary data was obtained from text books, magazines, brochures, internet and journals. Data analysis was carried out using frequency distribution tables, charts and percentages.

The total sample comprised of 222 respondents from Adum, Kejetia, Bantama and Asafo business areas. Simple Random sampling was used whereby the researchers went to these business areas and administered questionnaires to the sampled. The study found that about 57.3% SMEs in Kumasi Metropolis have nothing to do with accounting literacy, the reason being that SMEs owners do not adopt means of recording their accounts and believe it exposes their financial position. The researchers recommended that owners should be educated to keep away their personal transactions from their business entities and also the National Board for Small Scale Industries should be strengthened and resourced to solve these numerous problems of the small and medium enterprises.

It is in line with this that the study identifies the perception of accounting literacy on profitability of small and medium enterprises and challenges of these SMEs and came out with ways and means, which will establish and sustain the growth of SMEs.

## **CHAPTER ONE**

### **INTRODUCTION AND RESEARCH CONTEXT**

#### **1.1 Background Of Study**

Ideally all organizations irrespective of their form, size and purpose of existence are expected to keep proper books of accounting of their activities. This among other things helps organizations to keep track of their activities and hence reports adequately on their performance, such as profitability and liquidity for an informed economic decision to be taken by their stakeholders. Many at times the small and medium enterprises are the major suspect of not being able to integrate sound financial practices in maintaining their operations. This most of the time is perceived as their inability to either afford the services of professionals or lack awareness of the benefits associated with the practice or non legal compulsion to do so. The focus of this work is to explore on the consequences of lack of accounting literacy on performance of Small and Medium Enterprises.

#### **1.2 Statement of the Problem**

According to Steve N. (1997), small and medium enterprises are unable to monitor their operations which can eventually result in loss of track on various transactions such as how much is owed to and by creditors and debtors respectively, loss of properties such as records on its tangible assets, plant properties and equipment, machinery and land and building. Such organizations find it difficult in accessing financial assistance from various financial institutions which may among other things be due to their inability to produce audited financial statements. It can also result in arbitrary payments of taxes which's assessment is based on income and can only be attained by proper records keeping and preparation of financial statement. This also inhibits expansion of such organizations as would-be investors

are unable to make informed economic judgement of such organizations. . The research is therefore seeking to address the perception accounting literacy on the profitability of small and medium enterprises.

### **1.3 Objectives of the study**

1. To examine the type of accounting records kept by Small and Medium Enterprises.
2. To evaluate the extent of integration of accounting systems in the operations of SMEs in the Kumasi metropolis.
3. To determine the benefits of accounting literacy.
4. To assess the challenges of accounting literacy by Small and Medium Enterprises.

### **1.4 Research Questions**

The research will find answers to the following questions

1. What type of accounting records are maintained by Small and Medium Enterprises?
2. What is the extent of adoption and integration of accounting systems in the operations of SMEs in Kumasi metropolis?
3. What are the benefits of maintaining proper accounting records and writing financial reports?
4. What are the challenges of accounting literacy by Small and Medium Enterprises?

### **1.5 Significant of the Study**

It will be a source of knowledge to small and medium enterprise operators on how to maintain proper accounting records. The preparation and presentation of accurate, consistent, reliable, complete and timely financial statements will help stakeholders like investors, government, suppliers, and employees, in making economic decisions. A study of this nature

is very imperative as it would provide the entrepreneurs with the needed information in designing a policy frame work to enhance the development of the SMEs. It would also enlighten the public especially students of entrepreneurship and leadership programmes on the effect financial literacy has on profitability of Small and Medium Enterprises.

The findings of this research would also be useful to determining the perception of accounting literacy on the profitability of a firm and also on its financial report. In addition, it will be a source of knowledge to small and medium enterprises who seek to maintain proper accounting procedures, give financial reports.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter is the literature review chapter. It reviews literature on the meaning of small and medium enterprises and accounting literacy, the significance of accounting literacy in small and medium enterprises. It also looks at the benefits small and medium enterprises derive from maintaining proper accounting records and the constraints they encounter in adopting and maintaining proper accounting records.

#### **2.1 Meaning of Small and Medium Enterprises**

There are varied opinions and interpretation of Small and medium enterprises (SMEs). According to the National Board for Small Scale Industries (NBSSI, 1985), a small-scale enterprise is a firm with not more than nine (9) workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Ghanaian Cedi in value. Australian Bureau of Statistics (2001) also defines Small and medium enterprises (SMEs) as a business (excluding agriculture) that employs not more than 200 people. It is clear from the various definitions that there is no general consensus over what is SME. Interpretations assigned to SMEs vary across industries and also across countries. It is important now to examine definitions of SMEs given in the context of Ghana. Researchers visit to the various SMEs in Kumasi Metropolis revealed that employees of most of the SMEs were fewer than nine (9) workers which are in line with the definition of SMEs by the NBSSI.

The researchers would therefore adopt The National Board for Small Scale Industries (NBSSI) definition of small and medium enterprise which defines a small scale enterprise as a firm with not more than nine (9) workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Ghanaian Cedi in value for the reason that it

is an accepted definition in the country. The idea behind this employee base principle is due to the fact that firms can easily be identified by their number of employees.

## **2.2 Accounting Literacy**

Accounting literacy is defined as the ‘ability of an individual to make informed judgments and to take effective decisions regarding the use and management of money’ (ASIC: 2003, Noctor, Stoney and Stradling: 1992). According to Anthes, 2004 ‘‘accounting literacy is the ability to read, analyse, manage and communicate about the personal financial conditions that affect material well being’’.

Huston (2010) points out that there is no universally accepted definition of financial literacy but describes accounting literacy as measuring how well an individual can understand and use personal finance-related information. The researchers point out that accounting literacy includes the ability and confidence of an individual to use his/her financial knowledge to make financial decisions. Entrepreneurs who have the skill and competence may be able to apply this knowledge and skills in their business. It is of this view that the work is being carried out to ascertain how such skill and knowledge can impact on their performance.

### **2.2.1 Small and Medium Enterprises and Accounting Literacy**

Accounting literacy provides a vital service to broad and diverse users. The Financial literacy week which was launched in September 2008 under the theme: ‘Financial Literacy: Knowledge Is Money’. Alhaji Aliu Mahama the late Vice President of Ghana stated: ‘‘There is a large section of our people who know very little about investment, mutual funds, private pension and compound interest.... I will go further to suggest that financial literacy should be taught in our schools, starting from the basic schools.’’ (Ghana News Agency, 22 September 2008). Investors use financial accounting information for investment decisions. Government

agencies need it particularly for tax purposes while regulatory agencies use it to determine whether existing statutory pronouncements are complied with, among others (Kajola and Adedeji, 1999). As operationalised in academic literature, accounting literacy is a multi-dimensional construct comprising of knowledge of financial products, knowledge of accounting concepts, having the mathematical skills or numeracy necessary for effective financial decision making and financial behaviour such as financial planning (Wise, 2013).

Accounting literacy has attained much attention and interest in both developed and developing countries. Applying their broad-based knowledge in accounting and business, accountants are perfectly placed to work with governments and other relevant institutions, such as SME bodies, to provide financial literacy and management training for owner-managers. The goal of every business is to achieve profit and sometimes to expand. The success or failure of most SMEs depends on accounting literacy. Some of the evidence that shows that an enterprise is practicing financial literacy includes the following;

### **2.3 Maintenance of Books of Accounting**

Book keeping is the act of recording business transactions in a systematic manner. (A.H Rosenkamph) and according to R.N. Carter book keeping is the science and act of correctly recording in books of account all those business transactions that result in the transfer of money or money's worth. Book keeping focuses on recording in the journal, posting into ledgers and balancing of account and subsequent preparation of trial balance. Table 1 is a research finding of Olawale Fatoki, 2014 on book keeping.

**Table 1: Book keeping by the respondents**

<b>Do you keep the following Accounting books</b>	<b>Yes</b>	<b>No</b>
Sales book	19	15
Purchases book	13	21
Expenses book	19	15
Stock book	16	18
Cash book	16	18
Debtors book	15	19
Creditors book	16	18
Do you have computers to record your transactions	2	32

*Source:Olawale Fatoki, 2014*

The result is consistent with the findings of Agyei-Mensah (2011) and Maseko and Manyani (2011) that the majority of small firms do not keep complete accounting records because of lack of accounting knowledge. It can be concluded that majority of SMEs keep sales book and expenses book compared with respondents who implement computerized accounting systems to record their transactions. Access to finance by small businesses depends largely on their quality of accounting information and books kept. Quality accounting information will enhance financial management as well as accessibility of finance by small and medium enterprises. Amoako (2013) finds that SMEs do not maintain proper books of accounts because owners do not appreciate the need to keep accounting records.

### **2.3.1 Keeping of Proper Accounting Records**

Good accounting records will ensure that the financial statements of the business are readily available when required to evaluate their performance and running of the business. Without proper financial statements, decisions are mostly based on guesses--not facts and figures which can lead to the collapse of the enterprise. Barte (2012), studied the effect of financial literacy on the performance of SMEs in the fishing subsector in the Philippines and

established that the fish vendors had low financial skills which affected their incomes and growth of the operations. This is one of the main reasons why proper bookkeeping and financial statements is a must for small and medium enterprises.

### **2.3.2 Journals**

Journal is a simple book of accounts in which all the business transactions are originally recorded in chronological order and from which they are posted to the ledger accounts at any convenient time. There are various types of journals, which include: - general journal, or journal proper, sales journal, purchases journal, returns journal and expenses journal (Echomum 1998).

According to International Marketing Digest edited by Malcolm, McDonald and Cavusgil; (1990) a company can maintain one journal for all transactions or keep several journals based on similar activities. That is sales, cash receipt, revenue etc, which help in making transactions easier to summarize. The preparation of journals by Small and Medium Enterprises will help operators in the identification and correction of errors. Whenever business entries occur, they must be recorded in journals before being posted in the ledger.

### **2.3.3 Cash book**

Cash Book is a sub-division of journal used in recording transactions pertaining to cash receipts and payments. All cash transactions are recorded in the Cash book and then posted subsequently to the respective ledger accounts. The Cash book is maintained in the form of a ledger with the required explanation called narration. It plays a dual role of a journal as well as ledger. All cash receipts are recorded on the debit side and all cash payments are recorded on the credit side. Entries in cashbooks are made on the strength of vouchers and receipts. In view of this SMEs can monitor their operations such as how much is owed to and by

creditors and debtors respectively. It can also be ascertained that systematic recording of business transactions reduces the possibility of frauds and errors.

#### **2.3.4 Ledgers**

Transactions are posted from journals to ledgers. A ledger is a main book of account in which various accounts of personal, real and nominal nature, are opened and maintained. In journal, as all the business transactions are recorded chronologically, it is very difficult to obtain all the transactions pertaining to one head of account together at one place. The preparation of different ledger accounts helps to get a consolidated picture of the transactions pertaining to one ledger account at a time. According to Grewal T. B. (1995), a ledger account may be defined as a summary statement of all the transactions relating to a person, asset, expense, or income or gain or loss which have taken place during a specified period and shows their net effect ultimately. From the above definition, it is clear that when transactions take place, they are first entered in the journal and subsequently posted to the concerned accounts in the ledger.

The preparation of ledgers by SMEs entrepreneurs in relation to their day-to-day transactions will help them evaluate their performance in a particular period of time usually at the end of their financial period. From this, it can be concluded that small and medium enterprise operators who have accounting knowledge can easily compare their current operating results with their previous year's operating results with the help of ledgers. Wahab, 1998 affirms that transactions occurred and recorded into books of accounts like journals, cash books, and ledgers prevents omission and duplication of records.

## **2.4 Importance of Accounting Literacy**

According to Saleemi (1997), recording of the business transactions should be accurate and arithmetically correct. Omunuk, 1999 states that 'keeping books of account, proper book keeping helps SMEs operators to identify the current status of their businesses and assess their financial position as well. Books of accounts give a fair view of the current and previous performance of a business and how a firm may survive in the future. Keeping books of account can also reduce fraudulent acts like embezzlement of funds, misapplication and misappropriation of asset of a company.

In a study on the effect of entrepreneur skills on the performance of SMEs in Zimbabwe, Zindiye (2008) established that financial skills, particularly book keeping skills, financial statements preparation, debit and credit control, budgeting skills and tax calculation influenced the performance of the enterprises. Government authorities and law regulators require that enterprises including SMEs submit their financial reports at the end of their accounting periods for tax assessment purposes. These laws and regulations are to be adhered by all organizations.

Accounting literacy integration by Small and Medium Enterprise enhances decision making processes such as payment of debts, proper debt management, economic growth, sound financial systems, and liquidity avoidance. A good level of accounting literacy can improve access to finance by Small and Medium Enterprises (Wise 2013). Accounting literacy reduces the chance of loan default and improves sales and business performance (Kotzè and Smit 2008). Accounting literacy is very critical and ensures survival and growth of every business unit especially small and medium enterprises. Bruhn and Zia (2011) assert that accounting literacy helps to raise funds needed to finance the enterprise's assets and activities

and also ensures that the funds are used effectively and efficiently in achieving the enterprise's goals.

Accounting literacy also reduces the risk of business failures caused by poor financial management (Berryman, 1983). According to a World Bank Report; (1989) and emphasized by Kauda; (1990) in the journal of management studies, the problems facing entrepreneurs is not so much lack of funds, but it is the inability to properly manage financial, material and human resources efficiently. Theodore and Armstrong; (1964), in a report on Development of African Private Enterprises (DAPE), noted that the attitude of management of most private enterprises affects the management of financial resources. It is obvious that accounting literacy can lead to more effective use of financial products and services. It is therefore important for SMEs operators to attend financial counselling programs which will enable them make better decisions and gain the ability to properly manage financial, material and human resources efficiently. The researchers also assert that levels of education often influence SME's entrepreneurial ambition; as education improves their financial management particularly credit management and cash flow management (Berryman, 1983).

#### **2.4.1 Investors Empowerment in Making Informed Decisions**

The United States Financial Literacy and Education Commission (2007) describe financial literacy as “the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being.” ANZ (2008) defines financial literacy as “the ability to make informed judgments and to take effective decisions regarding the use and management of money.”The preparation of financial statements by SMEs enhances their participation in financial markets which facilitates asset accumulation and consumption smoothing and provides access to wider sources of funding (Van Rooj *et al*, 2011). Investors use financial



accounting information for investment decisions; government agencies need it particularly for tax purposes while regulatory agencies use it to determine whether existing statutory pronouncements are complied with, among others (Kajola and Adedeji, 1999).

Accounting exists because it satisfies the users' need (primary need) for information and if this need is not met, those who have money to invest and lend would take it to where this need is met (Germon and Meek, 2001). In essence, the investors in particular, should be supplied with information to help them make good investment decisions to increase their profitability. It can be concluded that the preparation of financial statements can attract potential investors and also help them to determine whether the business is operating profitably or not. SME's must have solid financial information to prepare a meaningful budget. No investor is interested in a company that does not prepare financial statements or do not provide proper accounting records and books of accounts. Woolf 1994 states that, the fact that SMEs' accounting and financial statements are often not transparent makes them risky borrowers and thus less attractive to lenders. A banker or prospective investor will probably want to see budget as evidence that your business is well planned and stable.

## **2.5 Challenges of operationalising accounting systems by SMEs.**

The Association of Chartered Certified Accountants (2014) points out that one of the challenges is generally low level of financial awareness among small business owners. G20 Seoul Summit (2010) states that information asymmetry arising from SMEs' lack of accounting records, inadequate financial statements or business plans makes it difficult for lenders to assess the creditworthiness of potential SME proposals. Also, most entrepreneurs lack adequate skills on setting up financial control systems and developing accuracy in transaction recording.

The question is, is it high cost of hiring accounting experts' management or a deliberate attempt of operators not to keep proper records? Management training is rare among SMEs in Ghana and in the Kumasi Metropolis to be precise and this creates a significant skills gap between Ghana and most developed economies. This skills gap constantly affects operators' ability of records keeping, preparation and presentation of results (financial statement).

### **2.5.1 Inadequate capital for job training**

The biggest obstacle of SMEs is the difficulty of liquidity which affects the performance of both existing and new employees under training. SMEs are often constrained by adequate resources as they operate. Often the profit in one operating cycle is insufficient to fund other activities needed to enhance the accounting knowledge of employees. Most SMEs believe that programs and workshops are of no importance and a waste of time and money. The growth of SMEs has often failed due to inadequate knowledge of efficient accounting principles. Hussein (1983) notes that, a good accounting system is not only judged by how well records are kept but by how well it is able to meet the information needs of both internal and external decision-makers. Support from various financial institutions and the preparation of financial report can help SME operators in raising capital to enhance their knowledge in accounting.

### **2.5.2 Deliberate attempt not to keep accounts**

Small and medium enterprises are reluctant to maintain proper books of accounts as they think there is no need to keep accounting records and believe that it would even expose their financial position for tax purposes (Abudu Dawuda and Ibrahim Azeko, 2015). This work argues that if SME entrepreneurs are to appreciate the relevance of financial records keeping, education on these factors should be given to them. This study concludes that regulatory

bodies must develop specific guidelines for SMEs in accounting and organise accounting training programmes for entrepreneurs in small and medium enterprise. It will improve their behaviour towards financial records keeping.

### **2.5.3 High cost of hiring accounting experts**

Accounting and financial planning are often relegated to the background when it comes to management of SMEs in Ghana. Clute and Gitman (1980) uphold that it is common for qualified accountants to do a good job of keeping records up to date but they fail to provide information needed by decision-makers. Interestingly, however, others argue that the high cost of contracting professional accountants has left SME owners with no better option but to relegate management of accounting information. A lot of business owners most often neglect the finances of the business and concentrate mostly on the sales and marketing aspect of their operations. This leads to unnecessary and excessive expenditures. Most SME owners do not keep proper cash records and usually take money out of the business for personal expenditure. Hiring qualified accounting personnel, exercising financial discipline and taking charge of working capital can greatly ensure the growth SMEs.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1. Introduction

This chapter outlines the research approach adopted for this research. It explains the research designs; the population of the study, the sample for the study, the sampling techniques and data collection tools.

#### 3.2 Target Population

An interview with Mr. William Boakye, personnel at the Kumasi office of National Board for Small-Scale Industries on 12<sup>th</sup> June 2015 showed that 500 businesses have registered with the board from August 2011 to June 2015 so far. In the interview, Mr. William also said that the total number of unregistered SMEs operating in the metropolis was unknown. The population comprises entrepreneurs such as dressmakers, batik, tie and dye makers, traders, carpenters, soap makers and shoe makers.

#### 3.3 Sample Size

Sample size was determined based on the equation given below:

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

Where n = sample size, N= total population, total number of entrepreneurs and  $\alpha = (5\%)$  the confidence level.

$$N=500$$

$$\alpha^2 = 0.0025$$

$$n = x$$

$$500$$

$$\frac{500}{1+500(0.0025)} = 222 \text{ sample size}$$

A sample size of two hundred and twenty- two (222) was therefore chosen.

### **3.4 Data Collection procedure**

The research used both primary and secondary data.

#### **3.4.1 Primary data collection**

Primary data was collected using questionnaires (interviewer-administered and self-administered questionnaires). The questionnaires were self-administered to respondents. Fifty questionnaires were sent out to SMEs in Adum only thirty (30) were received, forty-five to Bantama and all were received, but twenty (20) responded. Forty-eight (48) questionnaires were to twenty-five (25) SMEs in Kejetia and received twenty-four (24). There were numerous follow ups on the respondents of the institutional survey through telephone interaction for clarification and in-depth discussions on some of the response. The face-to-face interview with some of the entrepreneurs enabled the researchers to visit their work environment. The use of interviews was to vary the research designs adopted and to also have a one-on-one encounter with respondents and basically had the same questions as the structured questionnaires. Primary data sources were used. This is due to their effectiveness.

#### **3.4.2 Secondary data collection**

Secondary data is data that has previously been collected and used by others. This data was also obtained from sources which already existed (books, newspapers and journals). Reports and business transactions from various SMEs were obtained by visiting their work environment and establishing relationship with operators. These sources help in obtaining absolute facts needed to base the researchers' conclusions on whether the SMEs prepare and keep financial records. On Wednesday, 6<sup>th</sup> May, 2015, the researchers conducted interviews with Mr. Reindolf Baffoe the Managing Director of Olivana Enterprise located at Adum-PZ

and Mr. Akwasi Addai Mensah the Chief Executive Officer of Lynsfri Trading Enterprise at Central Market.

Some of the questions asked include

1. Do you maintain accounting records?
2. Do you keep track of financial records?
3. Do you prepare financial report or statement?
4. What are some of the books that you maintain?

Mr Reindolf Baffoe said his enterprise maintain accounting records and prepare financial statement but with the second question, he answered by saying 'we barely have time to keep track of our financial records''. Mr Akwasi Addai Mensah on the other hand said his enterprise keep accounting records and also keep track of their financial records but do not prepare financial statement.

### **3.5 Data Analysis and Presentation**

Data collected were analysed, summarised, and interpreted accordingly with the aid of descriptive statistical techniques; total score and simple percentage. Qualitative as well as quantitative methods were used in the analysis of the data. The quantitative data was analyzed using Statistical Package for Social Scientists (SPSS) and Microsoft Excel. The findings are presented in the form of tables, charts and figures.

## CHAPTER FOUR

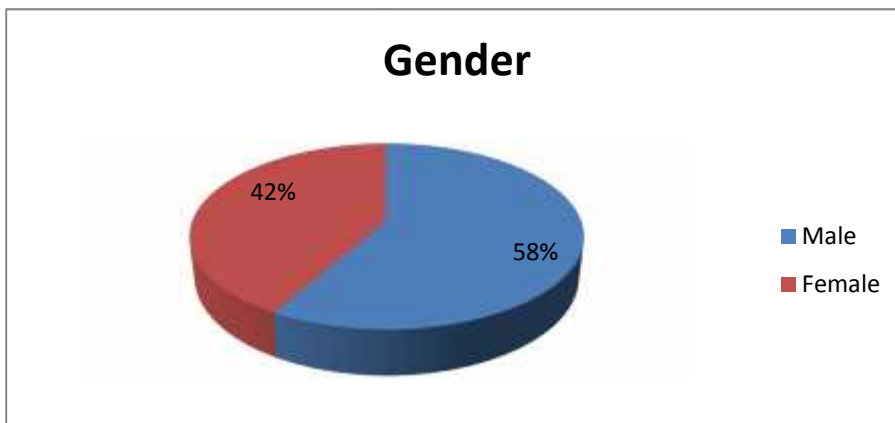
### ANALYSIS AND PRESENTATION

#### 4.1 Introduction

This chapter is the data analysis and presentation chapter.

#### 4.2 Demographic characteristics of respondent

**Figure 1: Gender of Respondents**



**Table 1 Gender of Respondents**

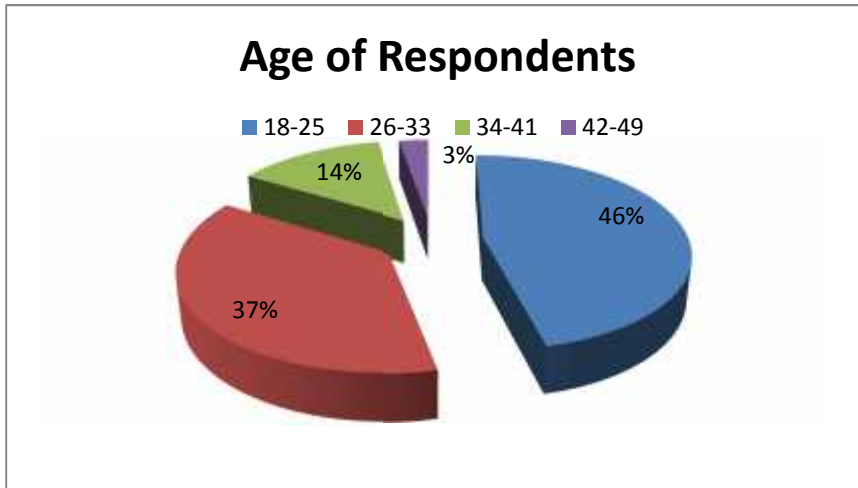
Gender	Frequency	Percent
Male	64	58.2
Female	46	41.8
Total	110	100.0

The analysis shows the demographic details of the respondents involved. As indicated in table 1 and figure 1 above, it can be read that, 64 of the respondents representing 58.2% are males as against 46 of the respondents representing 41.8% females. From the analysis of the gender, it can be deduced that the male respondents outnumber the females by a difference of 18 representing 16.4%. Based on this, it can be suggested that, the male gender operates SME's more as compared to the females.

#### 4.2.2 Age of respondents.

The age of respondents have been clearly shown in the figure 2 and table 2 below;

**Figure 2: Age of Respondents.**



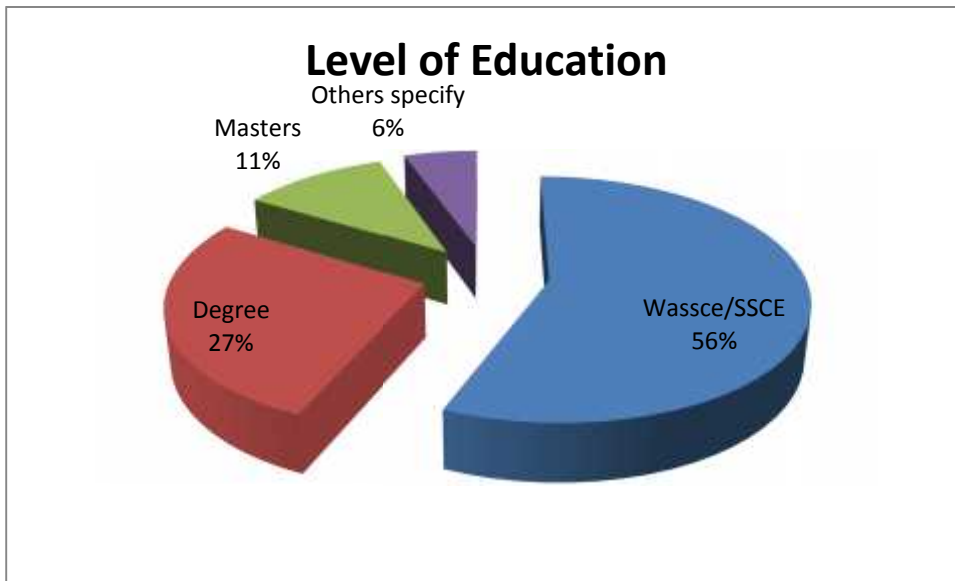
As shown in table 2 and figure 2, it can be read that 51 of the respondents representing 46.4% are in the 18-25 age categories. Also, in the 26-33 age groups, 41 respondents representing 37.3% are found, while 15 respondents representing 13.6% are located in the 34- 41 age bracket. Only 3 representing 2.7% respondents are above 42 years of age. This suggest that, majority of the respondents being 51 representing 46.4% respondents have age's 18-25years. It can be concluded that, they may have little experience in business. It also stands to reason therefore that, majority of the respondents are not matured in understanding the need to have accounting basis so as to operate an SME profitably.

**Table 2 Ages of Respondents**

Age	Frequency	Percent
18-25	51	46.4
26-33	41	37.3
34-41	15	13.6
42-49	3	2.7
Total	110	100.0



**Figure 3: Educational Level**



**Table 3 Education Level of Respondents**

Educational Level	Frequency	Percent
WASSCE	62	56.4
Degree	30	27.3
Postgraduate	12	10.9
Others Specify	6	5.5
Total	110	100.0

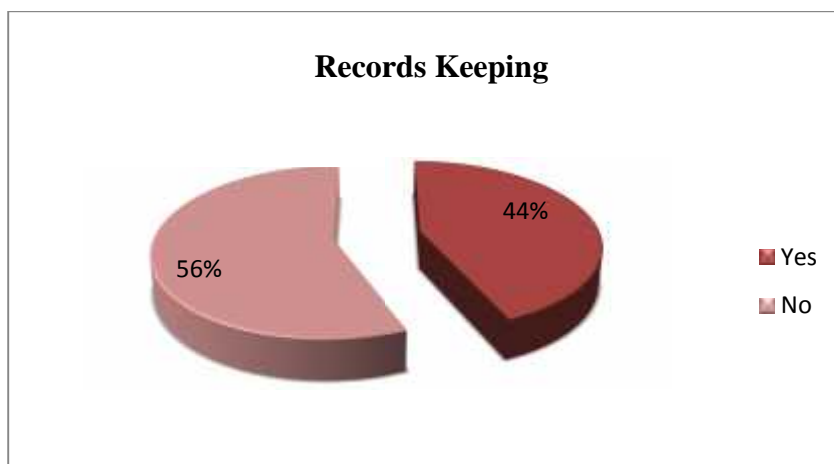
Figure 3 and Table 3 show that, Majority of respondents 62 representing 56.4% have low educational background. It is also clear that 12 respondents representing 10.9% had postgraduate education. The result suggests that, education has no influence on venturing into small and medium enterprises. This outcome also confirms the reasons why Charles Atia, Head of Operations, Campaign for Female Education (CAMFED) Ghana (2009) puts forward that, financial Literacy in Ghana is generally low.

### 4.3. Record Keeping System

**Table 4 Records Keeping by SMEs**

Responses	Frequency	Percent
Yes	48	44
No	62	56
Total	110	100.0

**Figure 4 Records Keeping by SMEs**

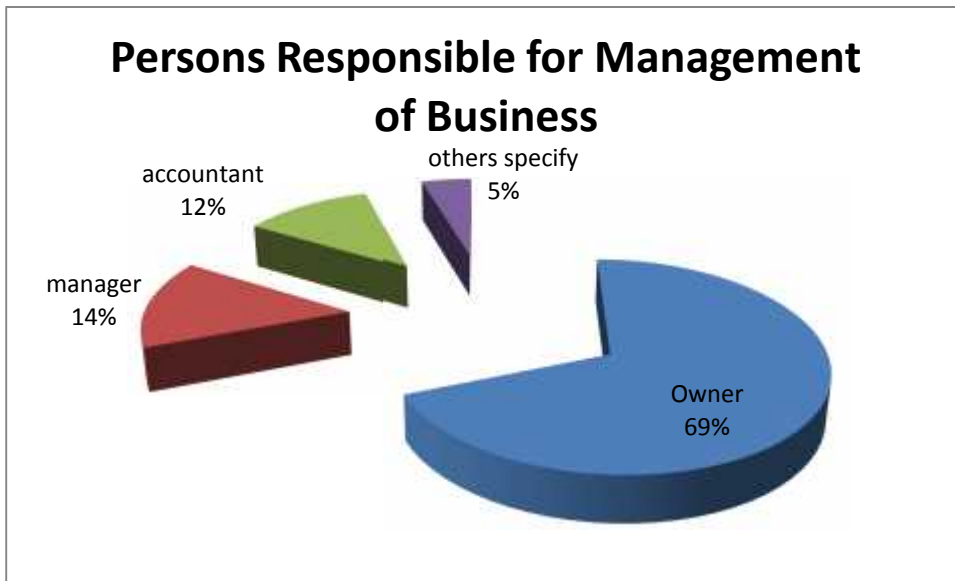


Results from figure 4 and table 4, indicate that, 48 respondents representing 44% of SME operators keep records of their finances while 62 respondents representing 56% do not. This high percentage of those who do not keep proper records could be attributed to low level of education as majority of them had only WASSCE background.

**Table 5 Persons Responsible for Management of Business**

Management	Frequency	Percent
Owner	76	69.1
Accountant	16	14.5
Manager	13	11.8
Others specify	5	4.5
Total	110	100.0

**Figure 5 Persons Responsible for Management of Business**



From Figure 5 and table 5, the research found that 78 respondents representing 69% are owner managers. Accountants constituted 13 representing 11.8%, 16 respondents representing 14.5% are managers. The study also found that 5 respondents representing 4.5% specified that they are sales officers and consultant services. This suggests that, even SMEs who keep financial records are not competent to do so as majority of the owners have only WASSCE background and therefore cannot keep proper books of accounts. Lack of technical and professional training in accounting on the part of SMEs operators contribute to poor financial records keeping and difficulty in realizing profitability. The respondents were of the view that regular training on financial records keeping would sharpen their financial and managerial skills.

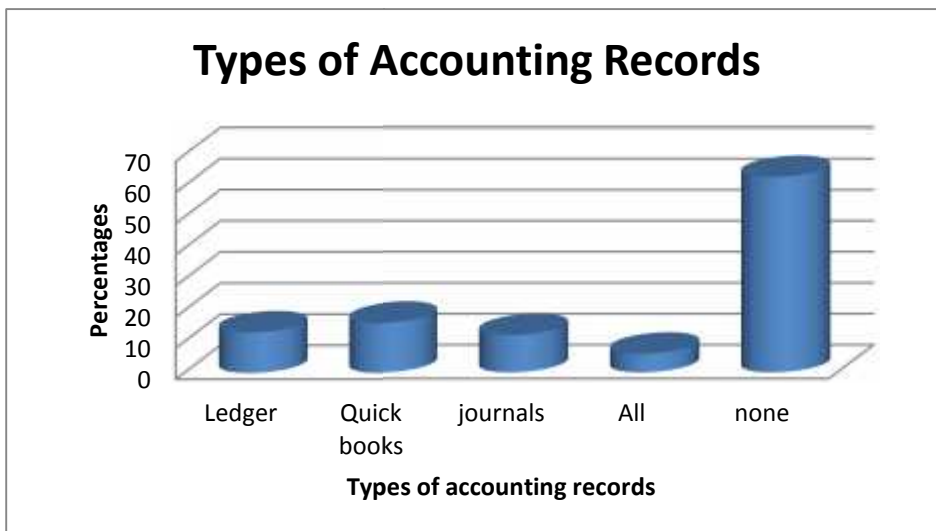
#### **4.3.1 Accounting Records Kept by SMEs**

It was observed that SMEs operators keep improper records like note books, writing on walls and papers. It was also noted that only a few of them keep proper records using, Ledgers, Journals and Quick books.

**Table 6 Types of Accounting Records**

Accounting Records	Frequency	Percent
Ledger	13	11.8
Quick books	16	14.5
Journals	12	10.9
All	6	5.5
None	63	57.3
Total	110	100.0

**Figure 6 Types of Accounting Records**

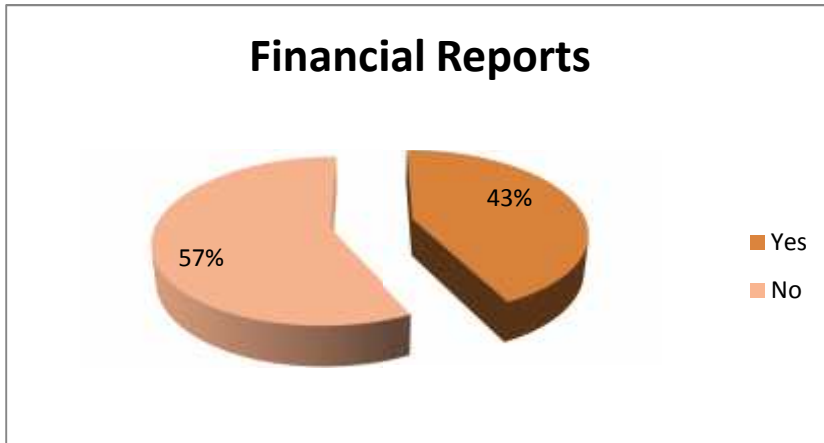


With regards to table 6 and figure 6, 13 respondents representing 11.8% keep ledgers while users of QuickBooks constitute 16 representing 14.5% respondents. With the use of journals, it can be read that 12 respondents representing 10.9% of SME operators use journals while 63 respondents representing 57.3% do not keep accounting records. This analysis obtained points to the fact that, most SMEs have no proper approaches to keeping of accounting records.

The study indicates that, 6 respondents representing 5.5% keep all the accounting records stated, that is, ledgers, QuickBooks and journal but users of these books are on the low side compared to SMEs that have nothing to do with ledgers, QuickBooks and journals, denoted

by 63 respondents representing 57.3%. This explains the fact that, the profitability of the SMEs will be difficult to realize.

**Figure 7 Financial Reports**



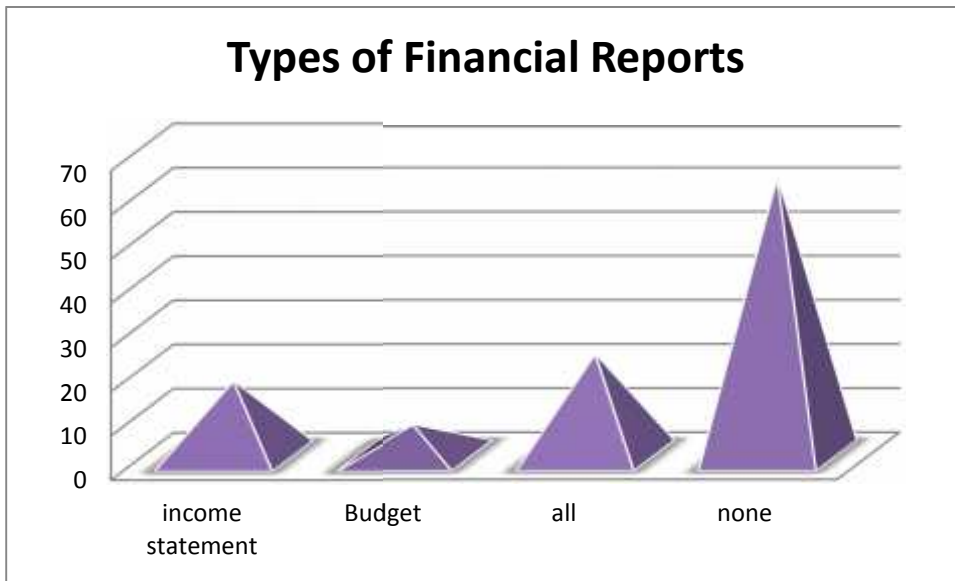
**Table 7 Financial Report or Statement**

Responses	Frequency	Percent
Yes	47	42.7
No	63	57.3
Total	110	100.0

Results from figure 7 and table 7 indicate that, 47 respondents representing 43% of SMEs operators prepare financial reports while 63 respondents representing 57% of them do not prepare financial reports. The respondents who prepare financial reports at the end of their accounting period mentioned some of the benefits they derive from doing so. These included: easy access to loan, assessment performance, determination of profit margin, minimization of losses and attracting investors.

It is suggested that, SMEs who are keeping financial records of their businesses are not fully meeting the requirement of International Accounting Standards Board for SMEs based on the information obtained in table 8 and figure 8 below. They ignore statement of cash flows, statement of changes in equity, statement of financial position and retained earnings and notes to the financial statement.

**Figure 8 Types of Financial Reports**



**Table 8 Types of Financial Reports**

Financial Reports	Frequency	Percent
Income statement	17	15.5
Budget	7	6.4
All	23	20.9
None	63	57.3
Total	110	100.0

As per statistical analysis from Figure 8 and table 8, 17 representing 15.5% of the respondents keep income statements while 7 representing 6.4% of the respondents keep budgets. The majority, 63 respondents constituting 57% who do not keep records of their finances, gave out some methods they use in controlling their businesses which included the cash and carry method. However, the cash and carry method does not allow customers who do not have immediate cash to patronize their products and this would eventually affect their sales and profitability.

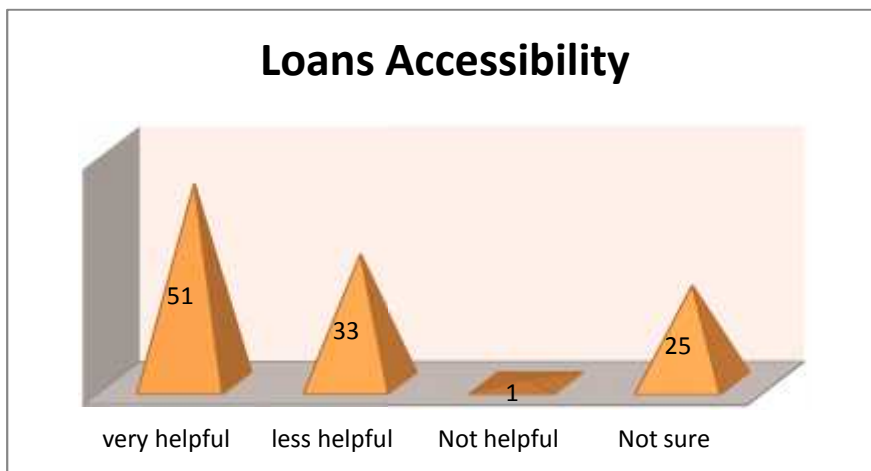
#### 4.4 Benefits of Accounting Literacy

Accounting literacy in essence is of much relevance in business operations. Recording of day-to-day business transactions helps entrepreneurs to keep track of their activities, reports and improve on their performance. The results below show the benefit of accounting literacy that are made clearly among which are; loss minimization, profit margin determination, loan accessibility, performance evaluation and survival of business.

##### 4.4.1 Accounting Literacy and Profitability

From this study it is clear that 48 representing 44% of the respondents keep accounting records and can be found as part of the 47 respondents representing 42.7% who prepare financial reports.

**Figure 9 Loans Accessibility**

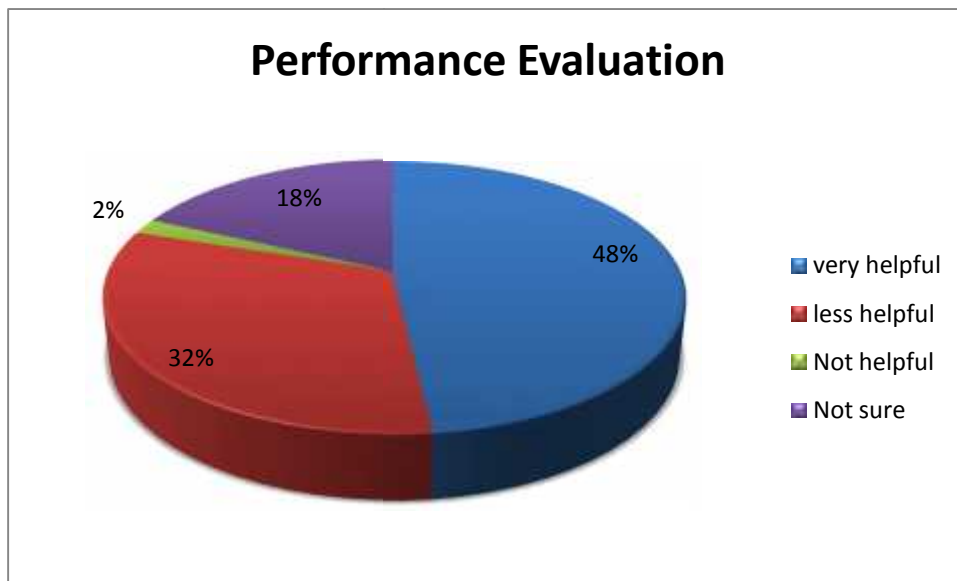


**Table 9 Loans Accessibility**

Responses	Frequency	Percent
Very helpful	51	46.4
Less helpful	33	30.0
Not helpful	1	0.9
Not sure	25	22.7
Total	110	100.0

Table 9 and figure 9 shows that majority of the respondents, 51 representing 46.4% who have accounting background and prepare financial reports at the end of their accounting periods see accounting literacy as very helpful for accessing loans from various financial institutions. Out of the 110 respondents only 1 respondent representing 0.9% disagree with the fact that accounting literacy is helpful for accessing loans.

**Figure 10 Evaluation of Performance**



**Table 10 Evaluation of Performance**

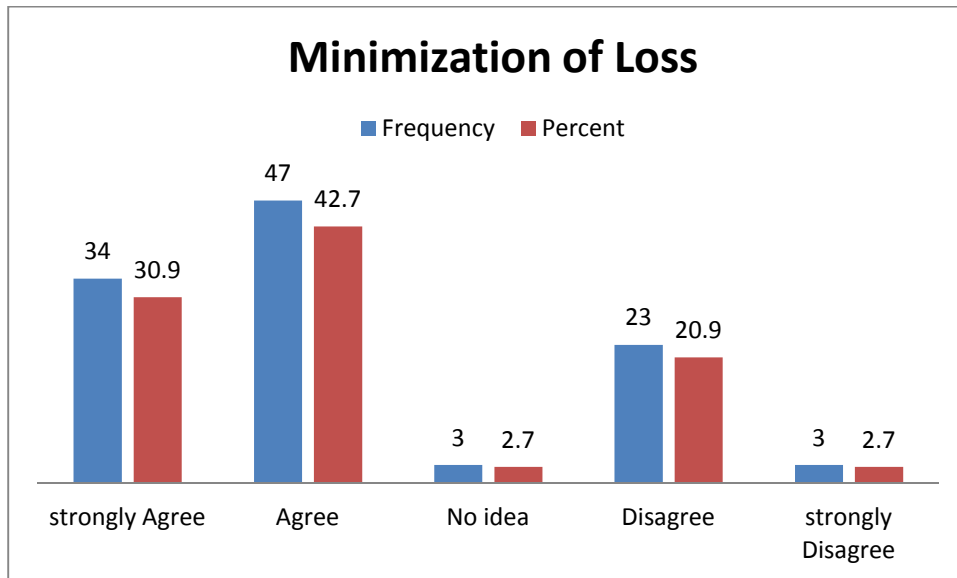
Responses	Frequency	Percent
Very helpful	53	48.2
Less helpful	35	31.8
Not helpful	2	1.8
Not sure	20	18.2
Total	110	100.0

Table 10 and figure 10 indicate that, 53 respondents representing 48.2% who prepare financial statements can easily evaluate their business performance and 2 respondents representing 1.8% believe that the preparation of financial report is of no use to their



business' performance. The total percentages of 80 representing 88 respondents who evaluate the performance of their businesses with the help of financial reports also identify how much their businesses are worth.

**Figure 11 Minimization of Loss**



As specified in table 11 and figure 11, it can be read that 34 respondents representing 30.9% strongly agree that accounting literacy help minimize losses while 47 respondents representing 42.8% also agree that accounting literacy helps to minimize losses. However, 3 respondents representing 2.7% have no knowledge in accounting literacy, and 23 respondents representing 20.9% disagree. Meanwhile 3 respondents constituting 2.7% also strongly disagree with the fact that accounting literacy minimizes loss. The analysis demonstrates that, majority of SME owners knows that the knowledge and application of accounting help reduce a business' debt. This suggests that, with time SME's ability to apply accounting principles will help ensure their existence in the foreseeable future.

**Table 11 Minimization of Loss**

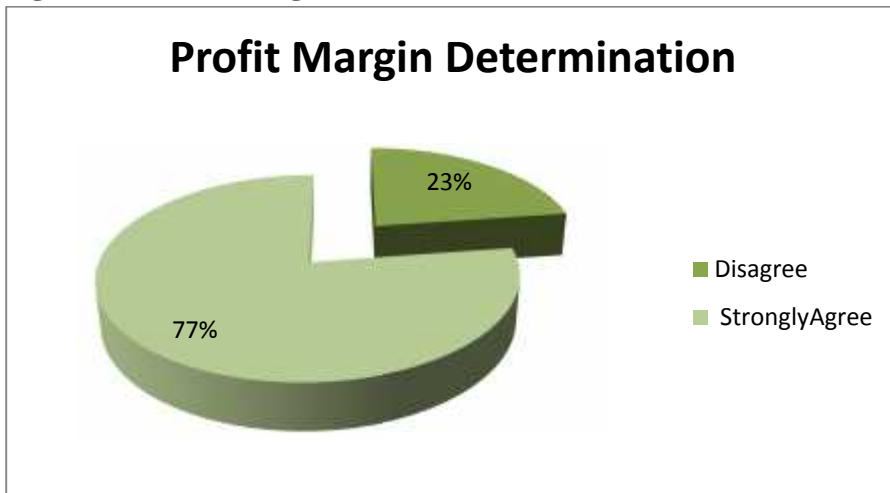
Responses	Frequency	Percent
Strongly agree	34	30.9
Agree	47	42.7
No idea	3	2.7
Disagree	23	20.9
Strongly Disagree	3	2.7
Total	110	100.0

As specified in table 11 and figure 11, it can be read that 81 respondents representing 73.6% agree to the fact that accounting literacy helps minimize losses. However, 3 respondents representing 2.7% have no knowledge in accounting literacy. Meanwhile 3 respondents constituting 2.7% also strongly disagree with the fact that accounting literacy minimizes loss. The analysis demonstrates that, majority of SME owners know that the knowledge and application of accounting help reduce a business' losses. This suggests that, with time SME's ability to apply accounting principles will help ensure their existence in the foreseeable future.

**Table 12 Profit Margin Determination**

Responses	Frequency	Percent
Strongly Agree	85	77
Disagree	25	23
Total	110	100.0

**Figure 12 Profit Margin Determination**

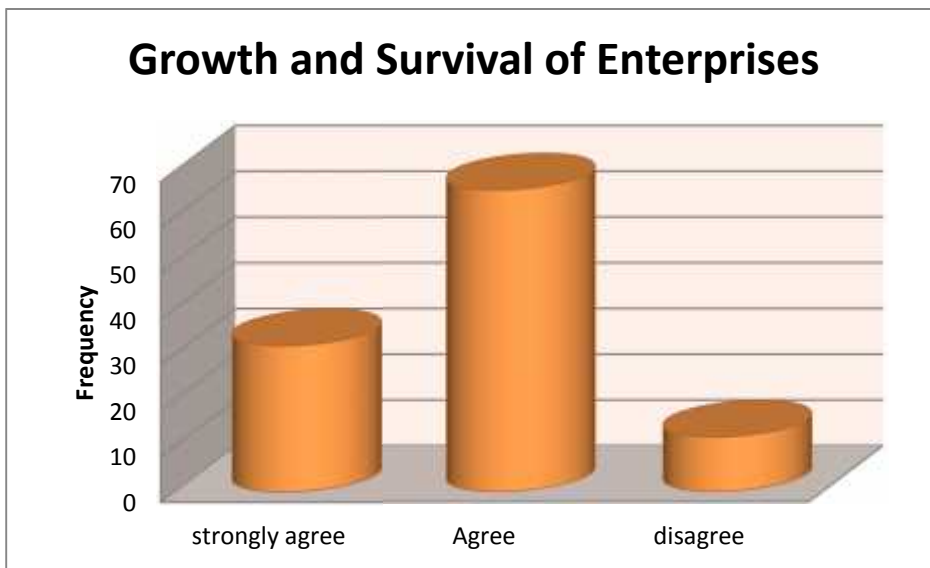


From figure 12 and table 12, 77% of respondents strongly agree that accounting literacy helps determine a business's profit margin while 23% of respondents disagree to the fact that accounting literacy helps to determine a business's profit margin. Considering the responses, it can be realized that majority of the SMEs operators accept that accounting literacy is of great importance to the profitability of every SME. To this end, it can be suggested that, SMEs are less likely to make profit and even survive cost of business if they have no accounting basis.

**Table 13 Growth and Survival of Enterprises**

Responses	Frequency	Percent
Strongly agree	32	29.1
Agree	66	60.0
Disagree	12	10.9
Total	110	100.0

**Figure 13 Growth and Survival of Enterprises**

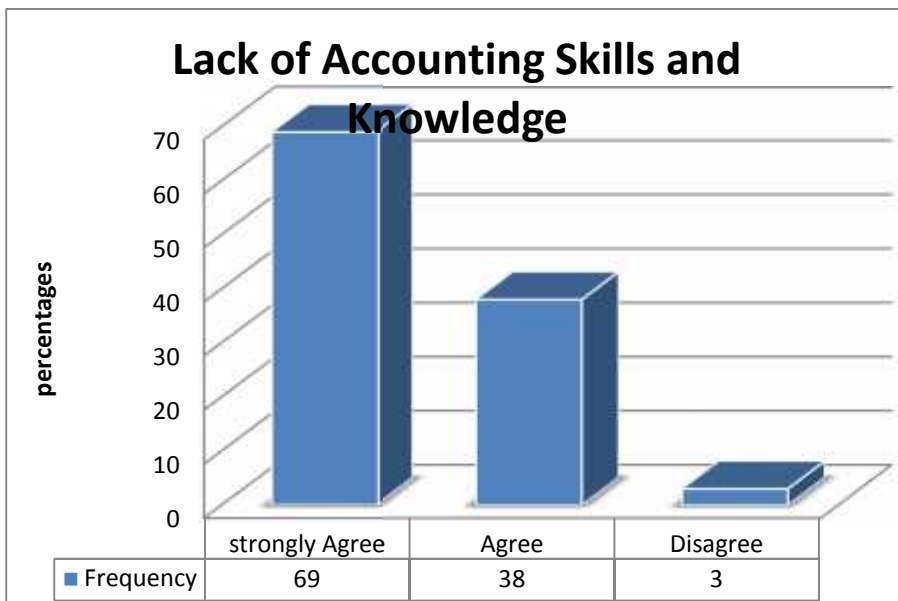


In determining the growth and survival of enterprises, 32 respondents representing 29.1% strongly agree while 66 respondents representing 60% of respondents agree that keeping proper accounting records gives one the right information needed to run a business. Figure 13 and table 13 show that, 12 constituting 10.9% of the respondents disagree. Deducing from the foregoing, it can be said that, majority of the respondents agree to the fact that, proper records keeping positively affect the profitability, growth and survival of businesses. Accounting literacy helps to identify strengths and weaknesses in one's business, financial position and attracts potential investors.

#### **4.5 Challenges of Small and Medium Enterprises.**

The factors that affect SMEs in operational sing accounting systems are; lack of accounting skills and understanding, high cost of hiring accounting experts, exposing business for tax purposes and employment of family members without accounting knowledge.

**Figure 14 Lack of Accounting Skills and Knowledge**

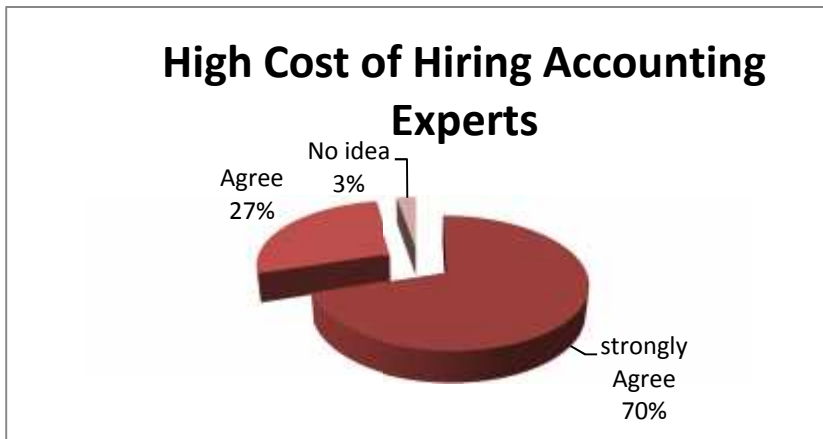


**Table 14 Lack of Accounting Skills and Knowledge**

Responses	Frequency	Percent
Strongly agree	68	62.7
Agree	38	34.5
Disagree	3	2.7
Total	110	100.0

From this study, it is clear that, majority of the respondents run their own businesses. It can therefore be read in figure 14 and table 14 per the responses of the operators of SMEs above that, 69 representing 62.7% respondents strongly agree as 38 denoting 34.5% also agree to this fact that most owners have inadequate accounting skills. Minority of the respondents, 3 representing 2.7% disagree to this fact. This implies that, most SME operators believe that poor accounting skills and understanding negatively affects the management and profitability of their enterprises. It can be deduced that SMEs operator will need progressive education and on-the-job training in order to manage their accounts properly.

**Figure 15 High Cost of Hiring Accounting Experts**

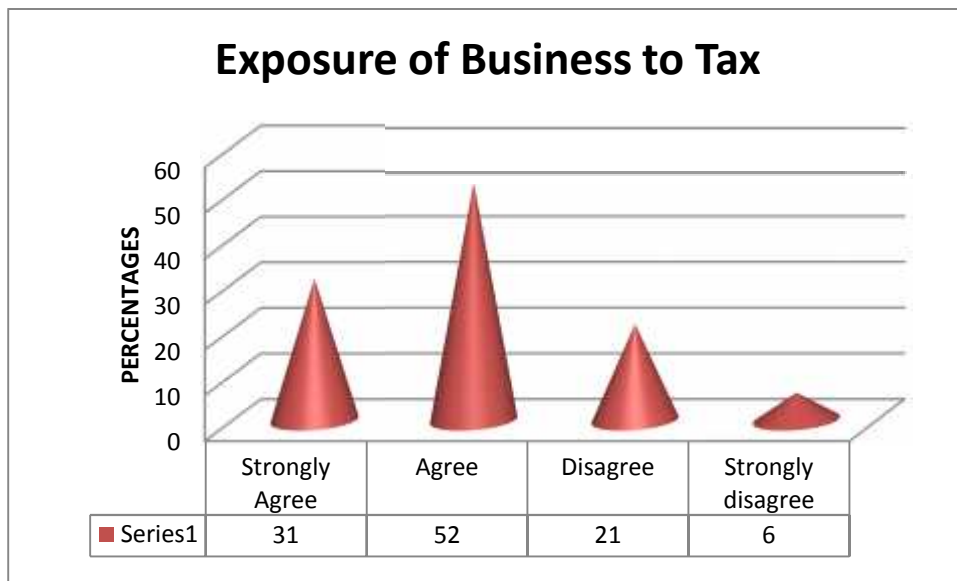


**Table 15 High Cost of Hiring Experts**

Responses	Frequency	Percent
Strongly agree	77	70.0
Agree	30	27.3
No idea	3	2.7
Total	110	100.0

Most SME operators have no accounting background and they believe that hiring qualified persons to be in charge of keeping accounts of their businesses will increase their overheads cost. As illustrated in figure 15 and table 15 above, 77 representing 70% respondents strongly agree to the fact that the cost of hiring accounting experts is very high, 30 respondents representing 27.3% agree. The minority of the respondents, 3 constituting 2.7% have no idea of the purpose of accounting literacy. The responses suggest that, experts' supports cannot be solicited as long as cost involved remains high for SMEs.

**Figure 16 Exposure of Business to Tax**



**Table 16 Exposure of Business to Tax**

Responses	Frequency	Percent
Strongly agree	31	28.2
Agree	52	47.3
Disagree	21	19.1
Strongly disagree	6	5.5
Total	110	100.0

Operators of small and medium enterprises most often like to evade tax and therefore deliberately do not keep or prepare accounts. From figure 16 and table16, it can be seen that, 31 constituting 28.2% respondents strongly agree just as 52 respondents representing 47.3% also agree with the fact that operators of SMEs like to evade tax. Despite the agreements, 21 of the respondents representing 19.1% disagree, while 6 respondents representing 5.5% also strongly disagree. This suggests that, SMEs perhaps lack the requisite understanding of the risk they subject their enterprises if they do not keep accounting records and evade tax. It will therefore be appropriate if SMEs are educated on the importance of keeping records of their accounts.

**Figure 17 Employment of Family Members without Accounting Knowledge**



**Table 17 Family Members without Accounting Knowledge**

Responses	Frequency	Percent
Strongly agree	34	30.9
Agree	58	52.7
Disagree	15	13.6
Strongly disagree	3	2.7
Total	110	100.0

The use of family members despite their background also contributes to the challenges faced by SMEs in accounting literacy. In figure 17 and table 17, it is clear that 92 respondents representing 83.6% agree to the fact that, family members with no accounting background are normally employed to take care of the finances of businesses. Irrespective of this information obtained, 15 respondents representing 13.6% still disagree while 3 respondents representing 2.7% also strongly disagree. This point to the fact that the use of family members especially, those with no accounting background are common among SMEs but this retards the progress of the SMEs.



## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.1 Summary

The study found out that, ledgers, quick books and journals are the books of accounting kept by SMEs. It was found that keeping of proper books of accounting facilitates determination of profit and minimizes losses of business. Besides the above, loan accessibility and performance evaluation are also facilitated. Non integration of accounting systems by the SMEs per the responses of operators are; lack of accounting skills and understanding, high cost of hiring accounting experts and fear of exposure of business to tax authorities .

#### 5.2 Conclusion

The study indeed demonstrates that, most SMEs operated in the Kumasi Metropolis do not have proper accounting basis because they have little knowledge of proper book keeping. These SMEs tend to keep improper records like note books, writing on walls and pieces of papers. It was also noted that only a few of them keep proper records using ledgers, quick books and journals. Despite the contribution of SMEs to the national economy, it is under-tapped because professionals with accounting backgrounds are not employed to manage business affairs of SMEs.

It is obvious from the study that accounting literacy will help SMEs to keep proper records of accounts and prepare financial reports for loan accessibility, payment of appropriate tax and also management of debtors and creditors. This will help attract potential and existing investors into SMEs. Most SMEs try to evade tax payment and therefore deliberately decide not to prepare financial report as well as keep accounts. The cost of hiring accounting experts keep increasing since financial literacy in this era has become very important and relevant in

business growth. SME operators with little knowledge in accounting wish to seek the assistance of qualified accountants but the increasing cost of hiring experts and the lack of income prevent them from doing so.

From the findings of the study, it can be concluded that, there are so many challenges in operationalising accounting systems by SMEs. This is so because majority cannot afford the services of professionals hence resort to family members who do not have any accounting knowledge. This to a greater extent affects the profitability of SMEs especially when the family members have no idea in accounting.

### **5.3 Recommendation**

In view of the various findings obtained from the study in relation to the objectives, it is worth making the following as recommendations for consideration;

That, business owners employ experts to prepare and run the day to day affairs of the business in order to determine their profitability. If the SMEs owners are to appreciate the relevance of financial records keeping, education on these factors should be given to them. This would improve their behaviour towards financial records keeping. Qualified Accountants with skills and experience have greater influence on the decision making process of every business. With their skills and experiences, they are in a good position to measure the financial performance and position of a business. This will help users especially business' management to plan and make good economic decisions.

That, SME operators should be well educated on the importance of proper records keeping of accounts. That, business owners should be enlightened on the fact that poor accounts leads to the collapse of businesses and also desist from employing of family members who do not have any accounting ideas with motive of cutting down cost. Most SMEs do not have a well-designed and effective set of internal control procedures and their failure to keep proper

financial records also be attributed to it. Abudu Dawuda and Ibrahim Azeko, (2015). A well-designed and effective set of internal control procedures can therefore guarantee good financial control and records.

A law on financial records of small and medium enterprises should be passed and strictly enforced. Regulatory bodies such as, the Registrar General Department and the Institute of Chartered Accountants (Ghana) should also provide simple accounting manual for SMEs. Accounting software packages should also be made available by government to all institutions and also for sale at affordable prices for entrepreneurs to be able to purchase and use. Accounting professionals should partnership with SME operators and render services at reduced cost such that business owners can progress in their endeavours. With the right enlightenment operators will be abreast with the relevance of accounting literacy to the success of their businesses.

## REFERENCES

- Abor, J., & Quartey, P. (2010). Issues in SME development in Ghana and South Africa, *International. Research Journal of Finance and Economics*, 39, 218-228.
- Ademola, I. S., Olaleye, S.O., Olusuyi, A. E., & Edun, F. (2013). Why Small Scale Businesses Failed as a Remedy to unemployment problem in Nigeria? *IOSR Journal of Humanities and Social Science (IOSR-JHSS)*, 8(4), 68-73.
- Babarinde A. (2003) *Financial Accounting, Volume 1*, Lagos: JBA Associates Ltd, p 313
- Bamiduro, J. A (2003) An Assessment of Small and Medium Scale Industries Performance in Nigeria in *Babcock Journal of Management and Social Sciences* Volume 1.
- Beck, T., Asli, D., & Ross, L. (2005). SMEs, growth, and poverty: Cross-country evidence. *Journal of Economic Growth*, 10: 197-227.
- Bolton, J.E. (1971). Report of the Committee of Inquiry on Small Firms, HMSO, London.
- Clarke CA, MWE Glantien and B Under down (1978); *Basic Accounting Practice*, Pitman Publishing Ltd, London.
- Douglas Garbut (1980), *Accounting Foundation* London, Pitman Publishing ltd.
- Elly.K. Rwakakoko,( 9th April, 1999) URA Commissioner General (Speech).
- Frankwood, (1983); *Principals of Accounts* London, Longman Group Ltd
- Frankwood, (1989); *Business Accounting: 6th Editon*, Pitman.
- Fraser C.W., *Understanding Financial Statements 6th Edition* Prentice Hal.
- Ghana News Agency(2008).Late Veep launches Maiden National Literacy Week Available at <http://www.modernghana.com/news/183312/1/veep-launches-maiden-national-financial-literacy-w.html> Updated 22nd September 2008, Accessed 1/06/2015
- Harmanson Edwards and Salmonson, (1987). *Accounting Principles, Special Edition*.

- International Accounting Standards Board (IASB) (2009). *The International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. London, United Kingdom: IASC Foundation Publications Department.
- Joseph Ben Omunuk, (1999); *Fundamentals of Accounting for business*.
- Kayanula, D., & Quartey, P. (2000), *The Policy Environment for Promoting Small and Medium-Sized Enterprises in Ghana and Malawi, Finance and Development Research Programme, Working Paper Series, Paper No 15, IDPM, University of Manchester*.
- Lopez-Gracia, J., & Aybar-Arias, C. (2000). "An Empirical Approach to the Financial Behaviour of Small and Medium Companies". *Small Business Economics*, 14(1), 55-63.
- Maseko, N., & Manyani, O (2011). Accounting practices of SMEs in Zimbabwe: An investigative study of record keeping for performance measurement (A case study of Bindura). *Journal of Accounting and Taxation*, 3(8),171-181.
- Ntim, A.L., Evans, O., & Anthony, F. (2014). Accounting practices and control systems of small and medium size entities: A case study of Techiman municipality. *Journal of Finance and Accounting*, 2(3),30-40.
- Palmer Price Brook and Charles E Palmer (1990); *Accounting Basic Principles 6th Edition*; Macmillan Publisher, London.
- Pandy I.M. (1988); *Essentials of Management Accounting: 1st Edition* Vikas publishing house, Ltd.
- Rathnasiri, U.A.H.A.(2014). Financial Reporting Practices of Small and Medium Enterprises (SMES) in Sri Lanka. *South East Asia Journal of Contemporary Business, Economics and Law*, 4(1), ISSN 2289-1560.

Richwood, C., & Thomas, A. (1998). *An Introduction to Financial Accounting*. London: McGraw-Hill Book Company.

Stephen K. Nkundabanyang, (1998) *Advanced Accounting (Practical Approach)*

Steve N. (1997). *Small Business Economics*

Storey D. (1994) *Understanding the Small Business Sector*, Routledge.

Tambunan, Tulus T.H. (2009). *SME in Asian Developing Countries*. London: Palgrave Macmillan Publisher.

The United States Agency for International Development (2009). development of strategy options for SME financial literacy. From [http://pdf.usaid.gov/pdf\\_docs/PNADP093.pdf](http://pdf.usaid.gov/pdf_docs/PNADP093.pdf) (Retrieved on 1st June 2015).

## APPENDIX

### CHRISTIAN SERVICE UNIVERSITY COLLEGE

### DEPARTMENT OF BUSINESS ADMINISTRATION

### RESPONDENT'S CONSENT NOTE

This questionnaire is centered on the perception accounting literacy has on the profitability of Small and Medium Enterprises in Ghana – (A Case study of Kumasi Metropolis). This information is purely for academic purpose and therefore your confidentiality is highly guaranteed. Kindly provide accurate answers to these questions with your objective opinion. Your cooperation and support will be appreciated.

However, by consenting to undertake this study, we understand the basic nature of the study and agree that any information given is beneficial. We are aware that the information is being sought in a specific manner so that no identifiers are needed and so that confidentiality is guaranteed.

#### Section I: Socio-Demographic Characteristics of Respondents

1. Gender. a. Male ( )      b. Female ( )
2. Age: a. 18-25 ( )   b. 26-33 ( )   c. 34-41( )   d. 42-49 ( ) e. 50 and above ( )
3. Educational background  
a. WASSCE/SSCE ( ) b. Degree ( ) c. Postgraduate ( )  
Others specify.....
4. Name of your business.....
5. Location of your business.  
a. Bantama ( ) b. Asafo ( ) c. Kejetia ( ) d. Adum ( )  
Others specify .....

6. Number of employees

- a. 1 - 5 ( ) b. 6 - 10 ( ) c. 11 - 20 ( ) d. 21 and above ( )

7. Have you registered your business?

- a. Yes ( ) b. No ( )

8. Form of business

- a. Private Limited Liability Company ( ) b. Sole Proprietorship ( )  
c. Limited by Guarantee ( ) d. Partnership ( )

9. How long have you been in this business?

- a. One year ( ) b. Two years ( ) c. 3 years ( ) d. 4 years or more ( )

Other specify .....

10. How old is your business?

- a. One year ( ) b. Two years ( ) c. 3 years ( ) d. 4 years or more ( )

Other specify .....

**Section 2: Accounting records kept by small and medium enterprises**

1. Do you maintain accounting records?

- a. Yes ( ) b. No ( )

2. If yes, in what manner do you maintain accounting records?

- a. Ledger ( ) b. Quick books ( ) c. Journals ( ) d. All ( )

Others specify.....

3. Who manages the day to day affairs of the business?

- a. Owner ( ) b. Manager ( ) c. Accountant ( )

Others specify.....

4. Can he or she access the business at his or her own will?

- a. Yes ( ) b. No ( )



5. Does he/she interfere with management decisions?

a. Yes ( ) b. No ( )

6. If yes, how often?

a. Frequently ( ) b. Not Frequently ( )

7. Do you prepare financial report or statement?

a. Yes ( ) b. No ( )

8. If yes, what type of financial report?

a. Income statement ( ) b. Statement of financial position ( ) c. Cash flow ( )

d. Budget ( ) e. All ( )

Others specify.....

9. Please rate how helpful or beneficial is the preparation of your financial report:

(1= Very helpful 2= Less helpful 3= Not helpful 4= Not sure)

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
a. Loan Accessibility	[ ]	[ ]	[ ]	[ ]	[ ]
b. GRA (tax)	[ ]	[ ]	[ ]	[ ]	[ ]
c. Control of resources	[ ]	[ ]	[ ]	[ ]	[ ]
d. Assessment or evaluation of performance	[ ]	[ ]	[ ]	[ ]	[ ]

10. Have you access financial services from any financial institution before?

a. Yes ( ) b. No ( )

**Section 3: The benefit of accounting literacy.**

How do you agree or disagree to the following as being the benefit of accounting literacy.		Strongly Agree	Agree	No idea	Disagree	Strongly Disagree
1	Losses are being minimized.					
2	Profit margin can be determined.					
3	Growth and survival of enterprises.					

**Section 4: Challenges of Small and Medium Enterprises.**

To what extent do you agree or disagree to the following as challenges of Small and Medium Enterprises.		Strongly Agree	Agree	No Idea	Disagree	Strongly Disagree
1	Lack of accounting skills and knowledge					
2	High cost of hiring accounting experts					
3.	Exposure of business to tax					
5.	Employment of family members without accounting knowledge					

Thank You.