CHRISTIAN SERVICE UNIVERSITY COLLEGE, KUMASI

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

ACCOUNTING SYSTEM USED IN SMALL AND MEDIUM SCALE ENTERPRISES IN GHANA, A CASE STUDY IN KUMASI METROPOLIS

A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS, CHRISTIAN SERVICE UNIVERSITY COLLEGE, KUMASI, GHANA, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION

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DECLARATION

We hereby declare that this submission is our own work towards the Degree of Bachelor 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.

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ABSTRACT

In developing countries like Ghana, Small and Medium Enterprises (SMEs) constitute about 90% of all businesses and occupy a central part of the Ghanaian economy as the main driver in terms of its contribution to income, employment generation and ultimately economic growth. However, over the years, many SMEs have folded up shortly after their establishment due to many factors; both environmental and internal. Key among these factors is poor accounting and financial record keeping. The study therefore examines the type of accounting systems used in SMEs. The study adopted a case study research design. The data collected was analysed quantitatively and qualitatively. The researcher used purposive and random sampling techniques to reduce the possibility of research limitations. The primary data collected were analyzed using Microsoft Excel. The analyzed results are presented into graphical and descriptive representations such as tables, percentages, charts and graphics. The study discovered that majority of SME operators in the Municipality do not employ accounting record keeping systems in their operations. It also revealed that accounting systems have positive effects on the operations of SMEs. Finally, the study found out that SMEs faced major challenges in adopting and implementing record keeping systems in the municipality. Based on the findings the study concludes that the inability of SME operators to use accounting record keeping systems in their daily record keeping activities leads to negative effects on their operations. The researcher therefore recommend that for better decision making and improved performance of SMEs, the National Board for Small Scale Industries (NBSSI) should collaborate with other benevolent NGOs to set up training organizations to offer basic training in accounting to SMEs operators at affordable cost.

DEDICATION

We dedicate this work first and foremost to the Almighty God, who has been our provider, our sustainer, the source of our strength and wisdom throughout our lives to this day. Secondly, this work is dedicated to our families for their unceasing prayers, support and understanding throughout this programme. Not forgetting our supervisor, Mr. Francis Onuman for his selfless dedication, guidance and tremendous effort in helping us accomplish this work.

ACKNOWLEDGEMENTS

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CHAPTER ONE

INTRODUCTION

1.1 Background

Accounting plays a critical role in the success or failure of contemporary business institutions. Accounting systems are responsible for recording, analyzing, monitoring and evaluating the financial condition of companies, preparation of documents necessary for tax purposes, providing information support to many other organizational functions, (Amidu et al., 2011). In the context of SMEs, accounting information is important as it can help the firms manage their short-term problems in critical areas like costing, expenditure and cashflow, by providing information to support monitoring and control (Mitchell et al., 2000; Son et al., 2006).

According to AICPA (American institute of Certified Public Accountants) Accounting is defined as "the art of recording, classifying and summarizing in a significant manner and terms of money, transactions and events which are in part at least of a financial character and interpreting the result thereof.

Accounting is often described as the language of business because it is the medium of communication between a business firm and the various parties interested in its financial activities. These parties include: shareholders, suppliers, customers, employees, investors and Government. Accounting is useful in measuring performance and making business and investment decisions.

Development of more formal accounts keeping methods is attributed to the merchants and bankers of Florence, Venice and Genoa (ITALY) during 13th -15th centuries.

The first known treatment of the subject was written in 1494 by an Italian monk and mathematician, Luca Paciolo who is regarded as the father of accounting.

Small companies are often established from family business. Mostly, in family business, the management is among the family members. However, the workforce can be from non-family members. Therefore, the business environment is different according to the style of management as well as the culture that the family inherited from generations to generations (Peter and Buhalis 2004).

The changes that occurred in business environment have led to an increasing number of information to be processed, generated and delivered. Thus, the critical part is the quality of information produced by the business itself which will be used in making business decisions (Mukherji, 2002). Accounting systems provide a source of information to owners and managers of SMEs operating in any industry for use in the measurement of financial performance.

In any sense, profit can analogously be viewed as the life-blood of a business and hence the accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement. Reported profits reflect changes in wealth of owners and this can explain why major economic decisions in business are centered on financial performance as measured by profitability (Maseko & Manyani, 2011).

1.2 Statement of the Problem

Small business enterprises (SMEs) have an important role to play in Ghana's development. The extent of contribution these business units can make towards the growth and development of Ghana is dependent on the level of success attained by

their operations. The fact is that, underlying the success of a business enterprise is the establishment and application of controls by the owners or management in addition to the systematic record keeping of business transactions, which, at the end of the period, keeps the owner well-informed about the performance of the business. (Mbroh et al., 2011). It has been recognized that appropriate accounting information is important for a successful management of any business entity, whether large or small (European Commission (EC), 2008). This research; therefore, focuses on investigating the types of accounting records being kept and maintained by SMEs, their completeness and the availability of accounting skills and knowledge to capture and process accounting information which can be used to measure performance in SMEs

1.3 Objectives of the Study

The objectives of the work are

1. To assess if accounting systems used by Small and Medium Scale businesses conform to the accepted accounting principles.

2. To find out the problems of accounting systems in Small and Medium Scale businesses.

3. To provide recommendations on the use of accounting systems.

4. To examine the quality and qualification of workers working with accounting information in small and medium enterprises in Ghana.

1.4 Research Questions

Based on the problem statement, the following research questions were asked:

1. What accounting systems are used by Small and medium scale industries?

2. What problems are encountered by Small and Medium Scale industries in their use of accounting systems?

3. What recommendations can be used to reduce errors in accounting systems?

4. What is the quality and qualification of workers working with accounting information in small and medium enterprises in Ghana?

1.5 Significance of the Study

The study will help small and medium scale businesses to achieve value for money. By this they will be able to use the correct accounting systems in their activities. This will help them know the profits they are making and hence the need to expand or seek advice from the accounting experts.

1.6 Limitation of the Study

The study is limited by confining it, to small and medium scale businesses in Kumasi between March 2017 and April 2017.

1.7 Organization of the Study

The following chapters are organized as follows: Chapter one contains a background to the study, the research problem, research objectives and questions. It also discussed the research scope, significance and limitation of the research. Chapter two contains a review of the literature on accounting systems used by the small and medium scale enterprises. It addresses the differences and relationship between the accounting

systems used by the various institutions and how it affects profits. Chapter three describes the research methodology and design that were used in this study. Chapter four includes the results from the study and the discussion. Finally, Chapter five includes the conclusions from the study, a summary of the findings and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Small and Medium Business Defined

Small and Medium Enterprises have been defined in various ways according to the capital of the enterprise, size, the number of people employed by the enterprises, the ownership and management of the enterprises and sales volume, all the definitions agree on the common views that small or medium businesses employ few people and are characterized by a relatively small amount of capital and turnover. According to the International Labor Organization (ILO, 1997), no single definition can capture all the dimensions of "micro", "small", "medium" or "large". Nor can it expect to reflect the differences between firms, sectors or countries at different levels of development. The International Accounting Standards Committee Foundation (IASCF) (2007) defines an SME as an entity that does not have public accountability and thus, publishes general purpose financial statements for external users.

2.2 Overview of SMEs

Defining SMEs is quite challenging, even though several attempts have made to define it. Different jurisdictions and economies classify a firm as SME or otherwise considering a varied number of factors; mainly the size of the economy and its micro and macro development indicators. Some of the definitions are based on the capital employed, level of technology among others. SMEs in Africa are defined according to the economic activities within a specific geographical (Beyene, 2000; Hallberg, 2004).

According to the National Board for Small Scale Industries (NBSSI, 1990) a small-scale enterprise is a firm which employs less than 10 and Medium-sized enterprises are enterprises which employ50 persons but not exceeding 250 employees . They must have an annual turnover ranging from GHc 90,000 to GHc 15million for small businesses and GHc 15million and not exceeding GHc 45million for Medium-sized enterprises.

2.3 Importance of SMEs to the Ghanaian Economy

Globally, SMEs have contributed significantly to the growth and advancement of national economies. Small businesses are noted to be the pivot of advancement of many developed economies such as Russia, United Kingdom and Germany (Carsamer, 2009). Recent studies conducted in developed market indicate that small business account for the highest number of registered companies. Hence they significantly add to the growth and development of an economy (eServices, 2011). Even when one considers the situation of both developed and developing economies, SMEs are still a significant tool to the growth and development of an economy.

Researchers like Beyene (2004), Snodgrass and Biggs (1996) reports that SMEs contribute significantly to create employment, innovation and thus generate economic wealth. Hence it is noted to be the device for the development of many nations in the emerging and developing nations. Small businesses are the employers of majority of the labour force in most developing nations.

In Ghana, SMEs constitute about 85% of manufacturing works, offer 70% to GDP of Ghana. Hence they have a significant impact on the growth, income and employment of the country (eServices, 2011).

Aryeetey (2001), reports that small enterprises in Ghana have characteristics of production landscape. Hence they offer about 85% of manufacturing employment of Ghana. The Ghana Statistical Services projections indicate that 69% of the Ghana's workforce is employed in SME sector. The sector offer work opportunity for large number of people in both rural areas as well as cities (GSS, 2007).

2.4 Types of Accounting and Financial Record Keeping Systems of SMEs

Hagenimana (2008) reports that, accounting records for SMEs can be a simple manual one. For instance the general journal, general ledger and other journal used in daily business activities like the purchase, payment, sales receipts, and payroll journals. Alberta Economic Development and Tourism Agency has reported that the type of records kept by small scale business include daily cash records, Account receivable ledger, Account payable ledger, petty cash records and person staff records, customer service records, business safety records and inventory records. Ademol, Samuel & Ifedolapo (2012) has recommended that an enterprise must have many distinct daybooks which are a descriptive and orderly record of daily accounting transactions. Entries in the day books are properly entered in the journals before posting to the ledgers. The research stated that the transaction any organization must keep include: Accounts receivables, Accounts payables, Accounts inventory records, Bank records, Sales records, Payroll records, Personnel records, Cash records, Purchase records. These books according to Wood & Sangster (2011) comprise Sales book which records all sales invoices, Sales credits book to record all sales credit notes, Purchases book which records all purchase invoices and purchase credit books to record purchases credit notes.

In a related study, Reed, (2009) indicates that for small scale businesses to succeed, they have to keep these prime documents; invoice , receipt and bank statements which are recorded in subsidiary books, purchases and sales day books, preparation of trial balance and the final financial reports.

McChlery, Godfrey & Meechan, (2005) in their review of financial records in small firms concludes that financial records of SMEs should include; sales journal, purchase journal, cash receipt book, cheque payment book, petty cash book, general journal, nominal ledger, sale's ledger and purchases' ledger.

2.5 Record Keeping Systems of SMEs

The Federal Deposit Insurance Corporation (FDIC) and U.S. Small Business Administration (SBA) describe record keeping as an organized routine practice of keeping business records. One key responsibility of a business owner is record keeping which is major ingredients for business success. The success of business in adopting and maintaining an effective record keeping system be it sole proprietorship, partnership or corporation. Records can be kept in the form of simple manila folder filing systems to complex on-line electronic systems. Irrespective of its form, a record system must provide adequate storage and retrieval of records and it must be easy to use. The type, size, and complexity of the business and its available resources, is what determines the better record keeping system appropriate for the business.

Record keeping practices among businesses vary with size and capacity of the business and its location. Thus, as Howard (2009) indicates that record keeping system used to record information may vary from business to business, but the

principles are the same. According to William, Susan, Mark, Bettriel, & Carcello (2008), record keeping cycle involves a process that is followed by Accountants and book keeping staff in processing raw financial data into output information in the form of financial statements. The process ranges from creation of business transactions, analyze and record the transactions in the journals by account name, post transactions from journals to ledgers, ascertain the trial balance, make journal adjustment, post adjustments from the journal to the ledger, prepare an adjusted trial balance, journalize closing entries, post closing entries from the journal to the ledger, ascertain the trial balance, and prepare the financial reports.

According to Amidu, Effah and Abor (2011) record keeping is the basic step of accounting; as a system it serves as a way that SME owners, managers and operators adopt to get information for use in the measuring business performance and business growth. As opined by Maseko and Manyani (2011) Micro and Small business record keeping is the backbone of the business. As much as it seems to be a laborious task for many, it makes or breaks a business, thus, keeping accurate records is actually what creates a profitable business. This is supported by Germain (2010) who reported that most SMEs operators view record keeping as a chore practice that must be done to simply get back some much needed cash at the end of a particular period of time for example after a year. Thus in order for SMEs to survive, owners and managers need updated, accurate and timely accounting information (Amidu and Abor, 2005).

2.6 Conventional/Manual Record Keeping System of SMEs

Tavakolian (1995) stated that the manual record keeping systems involve the use of paper ledgers, the use of typewriters and calculators. Manual record keeping systems imply that workers carry out the whole accounting information process manually on an intermittent basis: they prepare trial balances, journalize transactions, and prepare financial statement reports. Prior to the arrival of personal computers, businesses were restricted to adopt manual approaches for recording financial information. Typewriters were used to type invoices and cheques, and all computations were done with the use of calculators. This approach needs more time, capital and effort in big businesses. It also needs trained accountants to prepare the financial record of business transactions, thus manual record keeping systems take much time. Among the merits of conventional manual record keeping systems include comparatively cheap labour force and resources, consistency, free from machines, availability of skilled workers.

However, this system has some demerits like working at a slower pace, much effort of accountants, comparatively slower internal control reporting and many more. Again, it was possible for errors to be brought into the data with this system, and these errors could go unnoticed for a long time. Most SMEs usually prefer manual record keeping systems without injury to quality while big corporate bodies adopt computerized record keeping systems which cost huge amount of money but the consequence from their application is far above the effort, cost incurred and the prospects.

2.7 Types of Conventional/Manual Record Keeping Systems

Two common types of conventional/manual record keeping systems usually known as bookkeeping systems are applied by businesses entities in their operations. These are the single entry and double entry systems (Abdul-Rahamon & Adejare, 2014).

2.7.1 Single-entry bookkeeping system

Single entry System of book keeping is the method of maintaining financial records in which an entry is made for every financial transaction. In this system, the corresponding opposite entry is not made because the transactions are recorded only once. Full record keeping of transactions is not done due to a single entry of every transaction. It mainly keeps track of the transactions relating to cash receipts and disbursements

According to Ademola, *et al.,* (2012) the main single entry bookkeeping record kept is the cash book. It records the income and expenses in the cash book and then posts them to the income and expenditure account. Different records of account are kept for petty cash, accounts payable and receivable, and other pertinent transactions like inventory and travel expenses. Kuriawati and Hermawan, (2010) observes most SMEs maintain single entry accounts unless important transactions which both records in logbooks and subsidiary books.

2.7.2 Double-entry bookkeeping system

Double Entry System is the scientific method of keeping financial records. This system is based on the principle of duality that is every transaction has a dual aspect.

Each transaction affects two accounts at the same time, in which one account is debited while the other is credited.

Due to two-fold effect, the system possesses completeness, accuracy as well as it matches with the Generally Accepted Accounting Principles (GAAP). A complete procedure is therefore used in recording every transaction. The procedure starts from source documents, followed by the journal, ledger, trial balance, then at the end, financial statements are prepared

For instance to record an increase in asset, the asset is debited and a corresponding credit entry is made in the other account. If all transactions are recorded correctly, the account books would 'balance' because the total credit entries would be equal to the total debit entries.

2.7.3 Cash Accounting

Cash accounting is an accounting method that records income when it is received and records expenses in the period in which they are paid.

2.8 Accounting and Financial Information

The Financial Management of the Small Enterprise conducted by Ismail (2009) emphasized the common belief that better financial information means better control and higher chance of success. Accounting information is information provided by accountants and accounting systems. This information is usually presented in financial statements such as the income statement and the statement of financial position. It also includes any financial ratios extracted from these financial statements. Accounting systems are responsible for analyzing and monitoring the financial condition of firms, preparation of documents necessary for tax purposes, providing

information to support the many other organizational functions such as production, marketing, human resource management, and strategic planning. Without such a system it will be very difficult for SMEs to determine performance, identify customer and supplier account balances and forecast future performance of the organization. The primary purpose of an accounting information system (AIS) is the collection and recording of data and information regarding events that have an economic impact upon organizations and the maintenance, processing and communication of such information to internal and external stakeholders (Stefanou, 2006).

2.9 Accounting practices and financial reporting of SMEs

The changes that occurred in business environment have led to an increasing number of information to be processed, generated and delivered. Thus, the critical part is the quality of information produced by the business itself which will be used in making business decisions (Mukherji, 2002).

Accounting systems provide a source of information to owners and managers of SMEs operating in any industry for use in the measurement of financial performance. In any sense, profit can be viewed as the life-blood of a business and hence the accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement. Reported profits reflect changes in wealth of owners and this can explain why major economic decisions in business are centered on financial performance as measured by profitability (Maseko & Manyani, 2011).

2.10 Accounting Practices and Book-Keeping in SMEs

It is reiterated that accounting is paramount in any business. Accounting is basically defined as the process of recording economic information in a significant manner in order to measure the performance of a firm. Basic accounting is needed to "keep the score" so that the entrepreneur knows what is happening in the business, how much has been sold, what the costs are, what activities are profitable, whether selling prices leave a suitable margin against cost and so on. Accounting practices consist of the methods and records established by management to identify, assemble, analyze, classify, record and report a company's transactions and to provide assurance that the objectives of internal control are being met. This is sometimes called the accounting system. It analyzes record and measures business transactions to ascertain the performance of an entity.

A good accounting system is not only judged by how well records are kept but by how well is able to meet the information needs of both internal and external decision-makers. Maseko and Manyani, (2011), suggested that for a small or micro business, accounting practices will involve the maintenance of adequate Cash Book (if possible with analysis), Bank Accounts (with policies on deposits and withdrawals), Petty Cash system, irregular or regular preparation of Bank Reconciliation statement, Credit Policies with creditors for Purchase s and with customers on Sales, Stock keeping policy, Fixed Asset register and Budgeting for the entire business.

The accounting transactions of an enterprise need to be recorded in the accounting books. The process of recording and maintaining these books is known as book-keeping. Efficient financial mangers dwell on the past and present in order to predict

the future and for proper evaluation and comparison of financial activities. To achieve this aim, proper book-keeping remains integral. UNCTAD (2000), observed the need for promoting transparency with adequate records-keeping early in the business development phase of SMEs as paramount. Some form of recording will be essential to all business for the day-to-day management of their operations and the fulfillment of unavoidable governmental obligations (e.g. taxation). It is well known that inadequate record keeping is frequently associated with failures in small businesses even if it is not actually the direct cause of failure.

<p style="text-align:center">**CHAPTER THREE**</p>

<p style="text-align:center">**RESEARCH METHODOLOGY**</p>

3.1 Introduction

This chapter highlights the materials and methods applied in the study. It gives a background of the study area, outlines the research design and study variables. It also gives details about the population, samples and sampling approaches and the research instruments used in collecting data for the study. The chapter also discusses the data collection approaches and tools for data processing and analysis. It also deals with the ethical considerations taken into account in the conduct of the study as well as constraints or limitations of the study.

3.2 Research Design

This research adopts a descriptive survey through which views and opinions of SME owners are sampled. To Ary, Jacobs and Rezavieh (2002), survey allows researchers to gather information from a sample of people comparatively quickly and cheaply. This is used to identify and assess the factors that influence or control the growth of Small, Medium Scale Enterprises (SMEs). The descriptive survey was further considered the most appropriate design for carrying out this research since it is the approach which deals with things as they currently are (Creswell, 2012). Information obtained from the descriptive survey research could be meaningful in analyzing a situation since it involves describing, recording, analyzing and interpreting conditions that exist. Again, Creswell (2002) has indicated that a survey can be done within a short time in which investigators administer a survey to a sample of the entire population of people in order to describe the attitudes, opinions, behaviors or characteristics of the population. The survey is also appropriate for the study as the

current views, attitudes and opinions of SME owners are sampled. Since the study mainly seeks to assess the use of accounting and record keeping systems, cross sectional study design enjoined the researcher to capture the relevant information from almost all the stakeholders within the industry across the municipality, to be able to do a critical impact assessment.

3.3 Population of the Study

The study population involves various SMEs in the Kumasi municipality. entrepreneurs and business owners or managers engaged in the sector; agriculture and agro-processing, artisans, soaps and detergents making; weaving fabrics; cloth designing and tailoring; textiles and leather works; brewing beverages; food processing and baking; creative and art industry, wooden /furniture processing; assembling electronic products, chemical based products among others will form the population for the study. According to Parahoo (1997) research population is defined as the total number of units from which data can be collected, such as individuals, artifacts, events or organizations. Again, Burns & Grove (2003) describe population as all the elements that meet the criteria for inclusion in a study. The number of SMEs in the Kumasi municipality as at the time of the study was assumed to be 250 since there was readily available data.

3.4 Sample Size and Sampling Technique

The study employed purposive and simple random sampling techniques for selecting the participants for the study. The SME owners or managers are purposively sampled because they have adequate knowledge and experience in the management of SMEs and also based on the objectives of the study. Creswell (2002) stated that, in purposive

sampling, researchers intentionally select individuals and sites to learn or understand a phenomenon.

Again, Polit et al (2001) define a sample size as a proportion of a population. Therefore a total of 150 respondents are sampled for the study. In this way, the researcher builds up a sample that is satisfactory to specific needs. Purposively, the study limited itself to only SMEs in the municipality which have been in operation for three (3) or more years were purposively sampled for the study. These are categorizing under manufacturing, retail services, and service providers.

3.5 Source of Data

Data used for research work can be sourced from two main ways, namely primary data and secondary data (Saunders et al, 2007). For this study both primary data and secondary data were adopted to achieve the objectives.

3.5.1 Primary Data

Interview guide and structured questionnaires are the main research instruments used to gather the primary data for the study. The guide helps the interviewer to pace the interview and make interview more systematic and comprehensive. The structured questionnaire was used to gather the views and opinions of respondents.

3.5.2 Secondary Data

A number of secondary data are also used to obtain additional information on the subject to support responses gathered from the interview and the questionnaire used. The secondary source of data includes published and unpublished articles, thesis, journals, books and other reports.

3.6 Data Collection Tools and Techniques

The study employed mainly both open and close ended questionnaire, formal and informal interviews, to solicit information from respondents. The study made use of both qualitative and quantitative methods to purposively obtain primary data through the use of questionnaire. According to Ary, Jacobs and Rezavieh (2002), interview and questionnaire are the two basic ways in which data are gathered in survey research.

Questionnaire: The main data collection instrument was an interview guide. The guide had both semi-structured and structured items. The open ended items gave the respondents a greater freedom of expression of ideas, opinions, and suggestions and and the closed items enabled the researcher to get specific responses from the respondents. All the sampled respondents are interviewed with the aim of collecting data on their skills of recordkeeping, their attitudes towards bookkeeping and the implications of recordkeeping on the success and stability of their enterprises. Orodho (2005) asserts that interview guides have the ability to collect a large amount of information in a reasonable quick space of time.

3.7 Data Processing and Analysis

The primary data which are obtained through the survey method from the response of individuals and institutions engaged in SMEs in the Kumasi municipality are analyzed through the use of Microsoft computer software such as Excel. This is to help reduce the data into descriptive statistics representations such as graphs, charts, ratios, frequencies, among others.

RESULTS AND DISCUSSION

4.1 Introduction

This section presents a summary of the data presented by the respondents. It also gives an explanation of the findings.

4.2 Demographic information

The personal information of the respondents is presented in figure 1.

4.2.2 Education of respondents
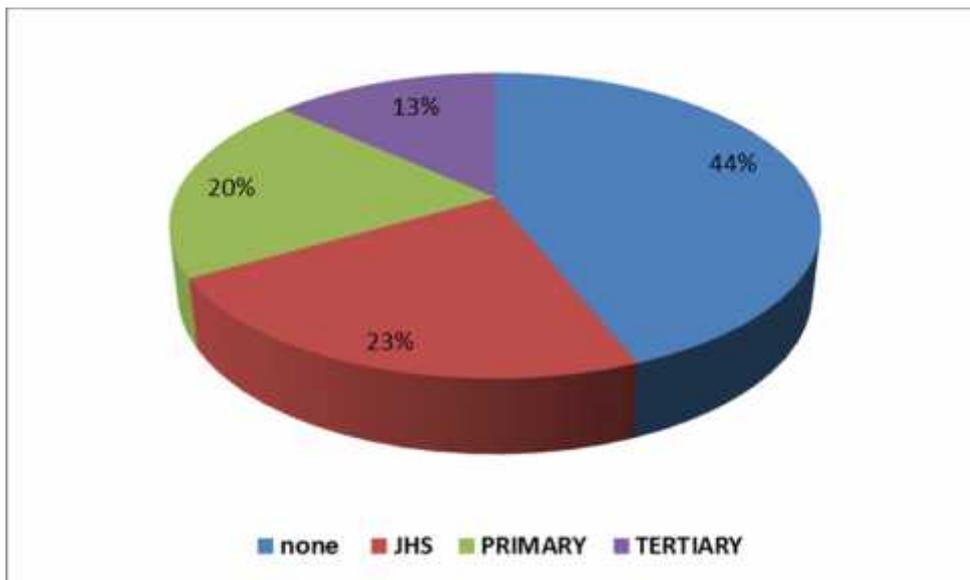
The education of respondents is presented in Figure 1

Figure 4.1: Education of respondents

The respondents showed a low level of education. Only 13% of the respondents had tertiary education. In all 44% had no education.

4.3 Type of conventional accounting systems employed

4.3.1 Ownership type

Management and ownership of an SME can help in its administration. Different types of ownerships are given. They include sole proprietorship, partnership and limited liability SMEs. The respondents concluded that about 60% of the businesses were petty traders. 30% of the businesses had formed partnerships in running the business. While 10% was limited liability.
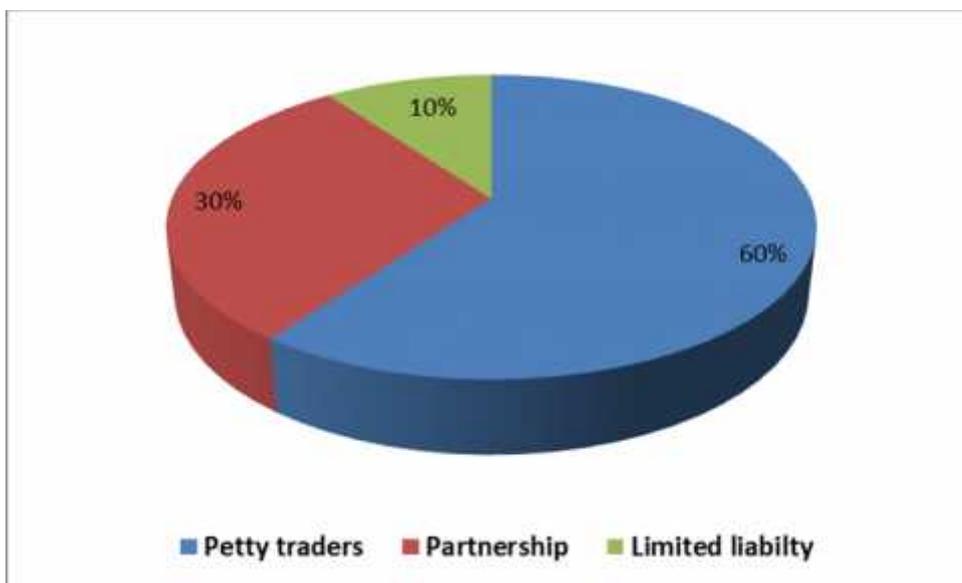
Figure 4.2: Type of ownership

Results from this work are in line with work by Aryeetey, (2009) who also asserts that in Ghana most businesses are funded by individuals. Husain (2005) also claims that most small and medium scale firms are self owned. They control their own resources as they do not keep business and family separated.

4.3.2 Years in SME

On the issue of the period of existence of SMEs it came out that majority (62 percent) have been operating between the period of 6 and above 15 years in their respective sectors. Again, it was noticed that 20 percent of respondents had been operating for more than 15 years; 35 percent between 9 and 12 years and 18% was found to be in existence between 3 to 5years. It could be deduced that by the number of years operation, at least above three years, SMEs are in the best position to give an account of the financial challenges the industry faces.
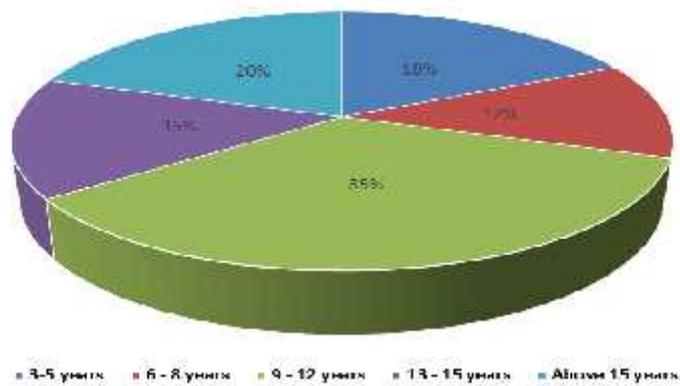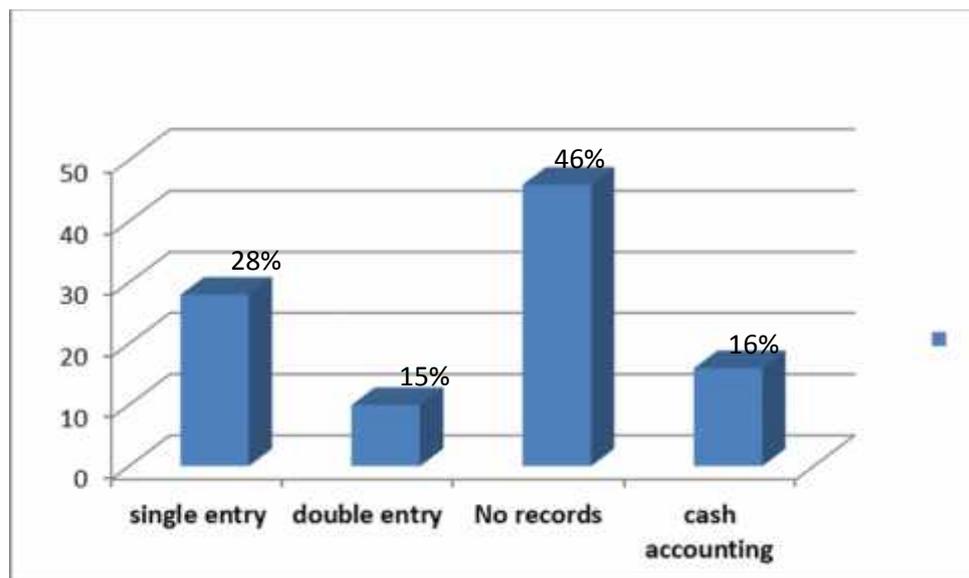

Figure 4.3: Years in SME

Figure 4.4: Type of book keeping system

The study wanted to find out the type of book keeping system used in the SMEs visited. The respondents concluded that they did not keep any accounting information. This was confirmed by 46% of the respondents. 28% used single entry while 16% of the respondents used cash accounting and only 10% of the respondents used double entry accounting systems. This could be as a result of the educational background of the respondents.

4.4 Benefits of accounting systems

Accounting systems are expected to provide benefits to the SMEs. This is presented in table 2.

Table 4.1: Benefits of accounting systems

QUESTIONS	Agree	Uncertain	Disagree
	Percentage (%)		
Do you agree that accounting systems makes it easier and quicker in making business decisions	80	15	5
Do you agree that accounting systems help in better use of resources and time	75	10	15
Do you agree that accounting systems help to reduce staff time doing accounts and reduce audit expenses	98	2	0
Do you agree that accounting systems help in keeping accurate record and reducing multiple errors	88	10	2

The results from table 1 shows that accounting systems helps the SMEs have an easy and quick way of making business decisions. This was accounted for by 80% of the respondents. Only 5% of the respondents disagreed with this. 15% were however uncertain of the benefits of accounting systems in making business decisions. On the better management and use of resources, 75% of the respondents concluded that accounting systems played a major part. 15% were of the view that time management was not as a result of the use of accounting systems. 98% of the SMEs concluded that

the use of accounting systems helped the staff reduce time in conducting accounting activities. It also reduced the audit expenses. Majority of the respondents again agreed that accounting systems help in keeping accurate records. They also confirm that it also help to reduce multiple errors in their operations.

4.5 Challenges faced by SME in using accounting systems

Small and medium scale enterprises face challenges in working with accounting systems. These challenges are discussed and presented in table 2. Challenges faced in the use of accounting systems include high cost of preparing financial statements, disclosure of relevant information, and lack of financial management skills and ignorance of the se of the system.

Table: 4.2 Challenges in using accounting systems

CHALLENGE	YES	NO
		Percentage (%)
High cost of preparing financial statements	60	40
Excessive disclosure requirements	80	20
Inadequate Financial Management skills	75	25
Ignorance	88	12

A major challenge on the use of accounting systems includes ignorance. The work concludes that 88% of the challenges are due to ignorance in preparing the records. This was followed by 80% who stated that they were meant to expose and disclose some vital information. They were therefore not ready disclosing such information. Some of the respondents said one needs to have knowledge in financial management. This was accounted for by 75%. Only 60% concluded that high amount of money was

required in preparing the financial statements. In all the challenges were rated above 50%. This is an indication that the challenges presented really affect the SMEs.

4.6 Effects of challenges of using Accounting systems

On the effects of the challenges facing SMEs in the use of accounting record keeping systems, it can be observed as shown by Table 3 below that there was a general negative effect on the operations of SMEs. As can be seen, majority of the respondents identify reduced profits 35%, low production 30%, limited or no expansion 25% and reduction in market share accounted for 30%. This outcome is line with the work of Goltz (2011) who noted that poor accounting is one of the top ten reasons why small-scale businesses fail. This implies that effective record keeping helps SMEs to be efficient in keeping track of their business operations and helping them to survive as stated by Jones (2012).

Table 4.3: Effects of challenges of using Accounting systems

EFFECTS	YES	NO
	Percentage (%)	
IT LEADS TO REDUCED PROFIT MARGINS	35	65
IT LEADS TO LOW PRODUCTION LEVELS	30	70
IT LEADS TO LIMITED OR NO EXPANSION	25	75
IT LEADS TO REDUCTION IN MARKET SHARE	30	70

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The findings made so far from the study suggest several important conclusions.

Firstly, it was apparent from the findings that the respondents had little or no idea about accounting systems. Secondly, this study has established that despite the benefits of financial record keeping systems, only a few SME operators employ book keeping records. Moreover, the study was able to recognize challenges that impede the operations of SMEs. These challenges including inadequate financial management skills, perception of excessive disclosure requirements, and time constraints among others were found to have adverse effects on the operation of SMEs. Poor perception of excessive disclosure requirements and time constraints for example were noted to have resulted in lack of information for taxation preparation and securing loan facilities which have impeded SMEs' capacity to grow.

5.2 Recommendation

The study proposes the following recommendations based on the deductions and implications from the findings of the study;

Firstly, for better decision making and improved performance of SMEs, the National Board for Small Scale Industries (NBSSI) should collaborate with other benevolent NGOs to set up training organizations to offer basic training in accounting to SMEs operators at affordable cost.

Secondly, small and medium enterprises should gradually move from single entry to double entry as this will improve management decision taking.

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APPENDIX I

QUESTIONAIRES FOR ACCOUNTING SYSTEMS

	Questionnaires For Accounting Systems				
	Period Of Operation	**Sole Proprietorship**	**Partnership**	**Limited Liability**	**Other**
1	X< 5 Years				
2	5< X<10 Years				
3	10< X 15 Years				
	BOOKING SYSTEMS				
4	Single entry				
5	double entry				
6	cash accounting				
7	None				
	BENEFITS				
8	Track debtors				
9	Calculate tax				
10	Decision making				
11	Save time				
12	Keeping accurate records				
	CHALLENGES				
13	Ignorance				
14	Excessive disclosure				
15	little skills				
16	Time constraint				
	EFFECT OF PROBLEMS				
17	Low profit				
18	low production level				
19	limited expansion				