

Assessing the Effects of Sound Financial Statement Preparation on the Growth of Small and Medium-Scale Enterprises

Edinam Agbemava

Department of Accountancy ,Ho Polytechnic, Ghana

Godwin Ahiase

Post Graduate Student, Kwame Nkrumah University of Science and Technology, Kumasi, Ghana

Edward Sedzro

Department of Accountancy ,Ho Polytechnic, Ghana

Thomas Clarkson Adade

Department of Accountancy ,Ho Polytechnic, Ghana

Albert K. Bediako

Department of Accountancy ,Ho Polytechnic, Ghana

Israel Kofi Nyarko

Department of Marketing, Ho Polytechnic, Ghana

Matthew Brains Kudo

Department of Accountancy ,Ho Polytechnic, Ghana

Abstract

The objective of this study is to assess the contribution of sound financial statements preparation to the growth of Small and Medium Enterprises (SMEs) and identify the challenges SMEs face in preparing their financial statements. The study employed descriptive survey design and targeted SMEs operating in Ho Municipality of Ghana. A sample of 200 respondents was selected purposively for review. The data was analyzed using descriptive statistics and the results presented using tables and figures. The study result revealed that many SMEs maintained sales day book using single entry bookkeeping. Most SMEs prepare financial statements with the help of full-time accounts officers. Majority of SMEs highlighted high cost involved maintaining and preparing financial statements as a challenge in preparing financial statements. The study findings also show that there is a significant relationship between sound financial statement preparation and SMEs growth. Sound accounting bookkeeping leading to sound preparation of financial statements serves as leverage to SMEs in monitoring, analyzing their business for financial performance evaluation and accessing credits from financial institutions which translates into their growth ultimately.

Keywords: Financial Statement, SMEs, Growth, Ho Municipality, Ghana

1. INTRODUCTION

Globally, Small and Medium-Scale Enterprises (SMEs) play crucial roles in the support of both developed and developing economies. About 75% of the work force in Europe are employed by SMEs (Rathnasiri, 2014). In Korea, SMEs represent 99% of the total number of companies and corresponded to 43% of the country's exports. A study by Shandong University of Technology in China, showed that 60-80% of new jobs are solely generated by the SME sector annually.

The dynamic role of SMEs in developing countries cannot be overemphasized. These enterprises have been recognized as the conduit through which rapid industrialization and other developmental goals of these countries can be achieved. United Nations Commission on Trade and Development (UNCTD) (2004) stated that SMEs were sustaining up to 60% of emerging economies growth output. The SME sector also employed a projected 22% of the adult population in developing countries. The sector employs about 15.5% of the labour force in Ghana (Kayanula & Quartey, 2000), and has witnessed higher employment growth than micro and large scale enterprises (5% in Ghana). In Ghana, the sector's output as a percentage of Gross Domestic Product (GDP) accounted for 6% of GDP in 1998.

Although, SMEs form a substantial part of the economy, unfortunately their contribution to the economy is yet to be fully realized due to a myriad of problems. This is evidenced by the large number of SMEs spread throughout the country but, with very little to show in terms of sustained growth and diversity in Ghana's industrial output. Moreover, most SMEs work on small margins of cash flow, such that when they are faced with financial difficulties, they have neither the necessary resources nor the borrowing power like the

bigger companies to sustain their operations. (Kayanula & Quartey, 2000). This problem generally occurs in SMEs due to lack of financial management practices. Cash outflows seem to outweigh cash inflows, access to credit facilities and loans are limited. The result is normally the SMEs operating on losses other than the profits they think and that eventually collapse the business. The growth response of this sector has been limited by countless problems comprising the unavailability of comprehensive financial statements. The development of the concept of incomplete records emerged from the background that vast majority SMEs do not keep proper accounting records. To most of them a simple cashbook to record receipts and payments may be enough. As the business grows and the need for finance acquisition is envisioned, a realization is reached that the need for additional accounting information is required to facilitate the growth and sustainability of these enterprises.

The problem of incomplete records, when it comes to preparing period-end financial statements, is that they do not show the actual performance of the business, as to whether it is progressing or retrogressing. As a prerequisite to profitability, sound business practices must be adopted to ensure the business ability to survive in the rapidly changing environment. Small business owners have failed to recognize the importance of putting in place a well-structured system as a means of helping them to provide accurate financial statement through which credit facilities could be obtained from banks and increasing their capital base. Adequate and proper records therefore are important feature of any business unit, as it helps in preparing up to day financial statements that are used in prudent business decision making.

Dawuda and Azeko (2015) observed that poor records keeping or non-availability of financial records lead to mismanagement of resources and poor cash management and this do have negative effect on the growth of SMEs leading to the collapse of some of them. According to Van Aardt et al. (2008) and Rankhumise (2010) poor records keeping makes it difficult to differentiate between business transactions and personal transactions. It is the responsibility of business owners and managers to avoid using assets of the business for personal use at the expense of the business.

A primary purpose of preparing financial statement is to make available accurate information to owners and managers of SMEs for use in measuring financial performance. Thus, the significance of financial performance measurement to any business, big or small, is very imperative (Amoako et al, 2014). Haryani (2012) postulates that as profit maximization is most often the main concern of business entities, the accounting bases, concepts and principles adopted have to capture and report all the relevant accounting information to ensure consistency in its measurement. Owing to dire consequence that improper accounting practices can have on SMEs producing incomplete financial statements, it is imperative that the accounting practices of SMEs supply holistic and pertinent financial information needed to improve economic decisions made by entrepreneurs (Amidu and Abor, 2005).

Information gathered from the National Board for Small Scale Industries (NBSSI) in Ho Municipality revealed that majority of SMEs prepare financial statements annually yet most of them have difficulty in accessing finance from financial institutions and also difficulty measuring their financial performance based of the accounting records kept due to inadequacy of the accounting records to help prepare sound financial statements representing the true state of financial standing of the enterprises.

LITERATURE REVIEW

To appreciate the relationship between sound financial statement preparation and growth of SMEs, it is important to consider definitions of SME, theories that underpin the study and empirical reviews in line with the study objectives as well as conceptual review of the study.

2.1 Definitions of SMEs

There is no universally uniformly acceptable definition for SMEs (Amoako, 2012 & Storey, 1994). Therefore, the definition of SME varies and is contingent on the viewpoint of the person defining it (Adair & Taylor, 1994). According to Hauser (2005) SMEs are enterprises which employ fewer than 250 persons and/or have an annual turnover not exceeding EU R 50 million, and/or an annual balance sheet total not exceeding EUR 43 million”.

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

Furthermore, the International Accounting Standards Committee Foundation (IASCF) (2007) also defines an SME as an entity that is not required to account to the public and hence publishes general purpose financial statements for external users. The definition that is usually used in Ghana for SMEs is the number of employees of the enterprise. In using this definition, however, there is some uproar in relation to the arbitrariness and cut off points used by the various official records (Amoako, 2012; Kayanula & Quartey, 2000). The Ghana Statistical Service - (GSS) (2011) explains that SMEs are entities that employ fewer than 10 persons while those that employ more than 10 people are classified as Medium and Large-Sized Enterprises (Amoako, 2012). Alternately, the National Board for Small Scale Industries (NBSSI) in Ghana combines both the “fixed asset and

number of employees” criteria to define SMEs. Thus Micro enterprises are enterprises that employ between 1-5 people with fixed assets not exceeding 10,000 USD excluding land and building. However, Small enterprises employ between 6 and 29 or with fixed assets not exceeding 100,000 USD, excluding land and building (Amoako, 2012; Osei et al, 1993). Enterprises with between 6 and 29 employees were classified as small firms and medium sized firms also had between 30 and 100 employees (Abor & Biekpe, 2007). The study therefore, adopt the number of employees according to NBSSI definition as operational definition for the study.

2.2 Theoretical Review

The study review two theories postulated by scholars that were seen pertinent in comprehending the effects of sound financial statements on the growth of SMEs. The theories are the information theory and the decision theory.

2.2.1 Information Theory

The basic function performed by accounting and book keeping is to communicate through financial statements. Accounting statements are used as to bring information to managers, business owners and external users of the financial aspect of the business entities. Freeman (2008) posits that financial statements form the bases for formal finance decisions as accounting systems essentially serve as information system. Holmes and Nicholls (1988) stated that data becomes accounting information only when it can be measured quantitatively and satisfied the criteria of relevance, verifiability and freedom from bias. The terms, relevance, verifiability, freedom from bias and quantifiability may be seen as the features that provide internal frontier of accounting information. Under this theory, information is viewed as a resource, the collection, processing and transmission of which include cost. As the volume of information increases there is a corresponding rise in the costs. It is, therefore, imperative to associate the process of information generation with the costs associated with it which is the main impediment on the way of most SMEs in keeping sound accounting records culminating into sound financial statements. Only this benchmark can assist to cogitate the optimum level of information supply by measuring cost of information supply in relation to its benefits to the users.

2.2.2 Decision Theory

Decision theory on accounting was pioneered by Herber Simon in 1952. Decision theory is concerned with identification of the best decisions to use to make decisions. Therefore the use of mathematical approaches like ratio to analyze and explain the relations of the variables, like to identification of current asset to current liabilities, decision on buy or make all this will help the SMEs in routine decisions making processes. Freeman (2008) observed that the essence of this theory is that decision-making is not a spontaneous process but a cognizant assessment of the probable choices that optimizes the desired goal.

Accounting functions are entwined with managerial analysis because, as an information system it offers momentous meaningful information about the firm both for internal management use and external financial reporting (Freeman, 2008).

2.3 Empirical Review

The empirical literature is based on similar works done by other researchers on the subject matter under study. The literature is focused on findings from other part of the world, Africa and findings from researches conducted in Ghana.

A study conducted by Peacock (2008) on effects and causes of proprietary company failures in South Australia, found that proprietary companies failures can be attributed to inadequate or no accounting records. He concluded that the effect of accounting records on the success or failure of businesses of the proprietary companies are minimal and recommended for further research on causes of business failures. In a survey undertaken by Williams (2010) on accounting information requirements of 928 SMEs operating in Sydney, Melbourne and Brisbane found out that 57% of the respondents used the double entry systems. This finding is in contradicted to Peacock’s (2008) findings of types of records kept by enterprises that failed, where only 2.1% of respondents were found to be using double entry systems. He recommended for further research on the effects of book keeping on the growth of SMEs.

Similarly, in a survey conducted by Bwana and Mwakujonga (2013) on the practice of preparing and using financial information in financial decisions of SMES in Tanzania; where the study seeks to examine the purpose of preparing financial information; ascertain how financial information are prepared; to determine how often SMEs monitoring financial information for decision making and ascertain how important financial information are to the SMEs management. The study revealed that, a great number of SMEs prepare financial information so as to meet the requirements of financiers, business registration and revenue authorities. The study also showed that they are oblivious of the fact that financial information can be used to measure performance, growth, financial position and effect the proper decisions. Furthermore, a most of these SMEs prepare financial information by using external financial experts. The research concludes that SMEs’ managers believe that financial information add nothing of value to their businesses.

A study on the assessment of financial records keeping behavior of small scale businesses in Ghana focusing on Bolgatanga Municipality seeking to find out the kinds of financial records kept by small-scale business operators; to examine the benefits of proper records keeping and to determine the factors that account for the failure of SSBs in keeping proper books of accounts, the study revealed that the high cost involved in the engagement of qualified staff made it very difficult for SME owners to maintain proper books of accounts. The study further found out that SMEs also failed to maintain proper books of accounts in order to evade payment of tax. They conclude that the overall effect of poor financial records keeping is that, the owners prepare sound financial statements precluding them from performing financial analysis to establish trends to know whether their businesses are doing well or not. They cannot comprehend and predict business environment and this can result into business failure (Azeko and Dawuda, 2015).

Hussy and Hussey (1994) observed that SMEs and large enterprises do have diverse strategies to pursue because their objectives differ. Large enterprise's mostly emphasis on maximization of wealth of shareholders while SMEs possess a number of objectives mainly autonomy, survival and financial growth. Many studies concluded that, after SMEs comply with statutory requirements when they seeking to get business licenses from the relevant authorities, afterwards, SME owners/managers do not prepare financial statements any longer for various financial decisions. Sometimes, they prepare financial statements only when they want to access loan from financial institutions. Banks mostly demand audited financial statements from SMEs to be used a basis for assessing how much loans to be advanced to them (Kitindi, 2000). The motivation of most SMEs in patronizing accounting and external auditing services is solely driven by their quest to obtain financial resources from banks. Financial institutions are the only dependable source for SMEs financing, as it is well known that there is no effective capital markets for SMEs globally (Chittenden, et. al., 1980; Javis et. al. 1996).

Mbroh and Attom (2012) observed that businesses that have the interested in determining their profitability and to ascertain the profit, they should embrace suitable accounting bases, concepts, principles and standards to ensure the consistency of its measurement. Accounting records can help improve the performance of a business and as Abdul-Rahamon and Adejare (2014) noted, there is a strong positive relationship between accounting records keeping and Growth of SMEs. Accounting records keeping is critical for decision making which invariably affects the Growth of SMEs. If the SMEs will not be able to know if their businesses are growing or declining without maintaining proper books of accounts (Ademola, Samuel & Ifedolapo, 2012).

On the challenges of SME owners face in preparing financial statements, Ismail and King (2007) conclude that the development of a sound accounting information system in SMEs largely depends on the owners' level of accounting knowledge. Keasy and Short (1990) posit that SMEs use professional accounting firms for financial statements and for other accounting needs. Jayabalan and Dorasamy (2009) nonetheless argue that the exorbitant fees charged by professional accountant's leaves SME owner/managers with no choice but to relegate accounting information management. Zhou (2010) suggests the use of accounting software by owner managers in SMEs to improve accounting practices but laments that developers of accounting software are yet to produce the medium-sized software for SMEs.

Amoako (2013) observed that most SME owners are unwilling to maintain proper books of accounts as they think there is no need to keep accounting records and have the believe that, it would even expose their financial position for tax purposes. Musah & Ibrahim (2014) were also of the view that the business owners, have the tendency to rely on their memory and do not necessarily see the need to keep proper books of accounts. According to them lack of record keeping by SMEs in Ghana would not only limit their capability to correctly and reliably measure their financial performance and position, but also deny the government the right tax revenue from them. Customers, suppliers, financial institutions, existing and potential investors would find it challenging to make financial decisions as a result of improper or non-availability of financial records.

2.4 Conceptual Review

The conceptual review deliberate on the review of the variables and concepts that are relevant to the current study and have been revealed from the theoretical review. It helps put in perspective conceptual issues that the researcher considers critical to the research and gives the inter-related relationships that have existed between those variables. Financial statements mostly prepared by SMEs such as statement of comprehensive income, statement of financial position, statement of cash flow and statement of changes in equity and growth of SMEs. Financial statements are reports that show how income and expenses have affected the business in totality. They provide a snapshot of the current financial standing of the business. There are many types of financial reports, but for the purpose of this study, four basic and essential financial statements are looked at in relation to the growth of SMEs as stated above. Preparation of these financial statements by SMEs have a relationship with their growth as accessing credit facilities from financial institutions are largely dependent on the presentation of these statements to serve as basis for assessment of their ability to pay off the loan when it is due.

It imperative to know that financial statements provide information about the financial position, performance and changes in financial position of a business that is useful to a lot of users in making economic

decisions that translate into the growth or otherwise of an entity. According to Maheshwari & Maheshwari (2004) financial statements should be understandable, relevant, reliable and comparable. He further stated that reported assets, liabilities, equity, income and expenses are directly related to an organization's financial position which depicts the performance and growth of the business. Sound accounting recording keeping assists owners of SMEs to have up to date accounting data to prepare financial statements which are interpreted to analyze the financial health of the businesses. Proper and sound financial statements is a prerequisites for assessing the viability of the business or otherwise. Besides, it gives leverage to SMEs in securing funding from financial institutions. All these help in the growth and expansion of SMEs as the funding and ability to accurately assess the financial health of the business is made possible by preparing sound financial statements by SMEs.

2.4.1 Empirical Measurement of SMEs Growth

Employment, age of the firm and expansion rates shown by increase in branches are ways of measuring growth of enterprises, as they account for a major share of jobs created and are major players in economic growth. (Organization for economic co-operation and development (OECD), (2002)). Additionally, OECD (2002) stated that SMEs exhibit higher net job creation rates than large companies, as they also do in the wide-ranging population of businesses. Jovanovic, (1982) states that one important distinguishing traits of firms are age. There is consent in the empirical literature about the link between age, size and (proportional) growth: for any given size, the proportional growth rate of firms tends to decrease with age. At the same time, older firms have a greater probability of survival than younger ones. Such patterns are consistent, for example, with models of firm selection as market entrants take time to learn about their relative efficiency. (Jovanovic, 1982).

Growth of business was also found in all sectors, though their distribution was more uneven. Jovanovic (1982) from their study it was revealed that continuous growth over a ten-year period is extraordinary more especially SMEs. As a result, the overwhelming greater part of businesses experiencing strong growth did not grow incessantly. The model of a firm with a yearly increase in its workforce has been adopted as the model in many studies and in many policy statements. (Jovanovic, 1982). For the purpose of this study, increase in number of employees was used as a measure of growth in SMEs.

3 METHODOLOGY

The study employed descriptive survey design. A research design is a plan, structure and scheme of investigation that is developed to assist in obtaining answers to research questions. The plan is the complete scheme or programme of the research (Kerlinger 1986). The target population for the study includes 200 SMEs registered within Ho Municipality. These include the industrial sectors, the service sector and the commercial sector with sporadic presence of wholesale activities in agricultural and industrial goods. In order to achieve the study objectives, structured questionnaires were designed to collect primary data from SMEs respondents operating within the Ho Municipality. The questionnaires segmented into three parts: demographic data of the SMEs, accounting practices and financial statement preparation and growth measurement. Pilot testing of the questionnaires were using 10 SME respondents before the actual data collection in order to ascertain the authenticity of the questionnaires. A total of 200 questionnaires were administered with the help of trained research assistance. The SME respondents were sample using purposive sampling technique since SMEs who maintained accounting records and prepare some financial statements are only considered for the study in order to establish the effect of financial statement preparation on SMEs growth within Ho Municipality. Out of the 200 questionnaires administered 184 was retrieved. The questionnaire were edited and coded into SPSS version 22 and data was analyzed according to the study objectives.

4. RESULTS AND DISCUSSIONS

The results obtained from the survey are presented using descriptive presentation.

The demographic data of SMEs surveyed showed that majority of the business were in operation between 11- 15 years representing 43.5%; 40.8% were operating between 6- 10 years; those operating between 1-5 years constitute 9.2% of the SMEs surveyed and the rest 6.5% were operating for 16 years and above. When the SMEs were asked to state the number of employees they have, the results showed that 52.2% of the respondents stated that they have between 30-100 employees; 39.7% of the respondents indicated that they have 6-29 employees working for them and only 8.2% of the respondents employ between 1-5 people working for them. The results showed that majority of the SMEs surveyed are medium firms followed by small firms according to the definition of SMEs by NBSSI of Ghana. Besides, with majority of SMEs operating for more than 5 years, this will in measuring their growth over a period of time.

Table 1: Prepares Accounts and Financial statements in SMEs

	No. of Respondents	Percentage (%)
Owner/Manager	41	22.3
Full-time Accounts Officer	79	42.9
Hired Accountant	64	34.8
Total	184	100

From table 1 above, 22.3% of SME owners/ managers keep accounting records and prepares financial statements for their businesses, 42.9% of SMEs hired full-time accounts officers to man their accounts department who have the duty of preparing accounting books and financial statements. The rest 34.8% hired the services of private chartered accountants to prepare their financial statements. This finding supports the findings of Keasy and Short (1990) who posit that SMEs use professional accounting firms for financial statements and for other accounting needs. The results indicates that SMEs surveyed really understand the need for professionals to handle their accounting records as these may help them when looking for finance from banks.

Table 2: Principles Adopted in Recording Accounting Transactions by SMEs

Principle	No. of Respondents	Percentage (%)
Double entry bookkeeping system	83	45.1
Single entry bookkeeping system	101	54.9
Total	184	100

Majority of SMEs indicated that the adopted single entry bookkeeping system in maintaining their accounting records representing 54.9% of respondents whilst 45.1% adopts double entry bookkeeping system of keeping their accounting records in their businesses. The finding above corroborates the findings of Musah & Ibrahim (2014) who observed from their study that business owners, have the tendency to rely on their memory and do not necessarily see the need to keep proper books of accounts.

Table 3. Types of Accounting Books Kept

Type of Accounting Book	No. of Respondents	Percentage (%)	Ranking
Cash book	171	92.2	2
Petty cash book	90	48.9	8
Sales day book	184	100.0	1
Purchases day book	166	90.2	3
Fixed asset register	42	22.8	9
Expenditure book	161	87.5	4
Payroll records	132	71.7	6
Stock register	22	12.0	10
Debtors book	132	82.3	5
Creditors book	93	50.5	7

The respondents were asked to state the accounting books they keep for their businesses; from the results as shown in table 3 above, all the respondents maintained sales day book to record their daily sales representing a 100% response. 171 out 184 respondents say the keep cash book, followed by purchases daybook constituting 90.2% response rate. 87.5% of the 184 respondents keep expenditure book to keep track of their business expenses, 82.3% keep debtors records book, 71.7% of the respondents prepare pay roll records. Furthermore, 50.5 of the 184 respondent's maintained creditors' record, 48.9% prepare petty cash cashbook, 22.8 keep fixed asset register and only 12% of the 184 respondents keep stock records. The findings showed that all SMEs surveyed keep at some accounting books for their business activities.\

Table 4: Type of Financial statements prepared by SMEs

Financial statement	No. of Respondents	Percentage (%)	Ranking
Statement of income	183	99.5	1
Statement of financial position	159	86.4	2
Statement of cash flow	60	32.6	3
Statement of changes in equity	23	12.5	4

From table 4 above, 183 out of 184 respondents prepare statement of income representing 99.5%. This followed by 159 respondents who say they prepare statement of financial position out of the 184 respondents surveyed. 60 of the respondents prepare statement of cash flow and only 23 out 184 respondents responded positively that they prepare statement of changes in equity. The findings is supported by the observation of Ademola, Samuel and Ifedolapo, (2012) who noted that the if SMEs will not be able to know if their businesses are growth or declining without maintaining proper books of accounts.

Table 5: Effects of Financial Statements on the Growth of SMES

Measurement Indicator	Mean	Std.	Sig. (2-tailed)
Preparing financial statement have contributed greatly to the growth of my business over the years and it enables me to employ more people.	4.342	0.9791	0.000

Respondents were asked to express their level of agreement with the assertion that preparing financial statement have contributed greatly to the growth of my business over the years and it enables me to employ more people. This assertion was rated on a five point likert scale with 5 being strongly agree and 1 representing strongly disagree. The result as shown in the table 5 above revealed respondents agree to that preparing financial statements for their businesses have contributed greatly to the growth of their businesses. This shown by mean of 4.342 and a standard deviation of 0.9791. This has been further confirmed by the significant figure of 0.000. The findings is supported by the findings of Abdul-Rahamon and Adejare (2014) who noted, there is a strong positive relationship between accounting records keeping and Growth of SMEs. Accounting records keeping is critical for decision making which invariably affects the Growth of SMEs. Conversely, the findings is at variance with the finding of Bwana and Mwakujonga (2013) who postulate that SMEs' managers in Tanzania believe that financial information add nothing of value to their businesses. It can be deduced from the findings that when SMEs prepare financial statement it aids them to assess the performance of the business thereby helping them improve upon the performance of the enterprises.

Table 6: Challenges Faced by SMES in Preparing Financial Statements

Assertion	Mean	Std.	Ranking
The cost involved in preparing financial statements is too high	4.543	0.7154	1
It takes too much time to prepare	4.424	0.7786	2
Lack of accounting knowledge	4.277	3.9511	3
It requires more staff	4.033	0.9048	5
It makes your business pay more tax	4.136	1.1152	4

With the challenges SMEs face in preparing financial statements, respondents were giving assertions ranked on a five point likert scale to express their extent of agreement to the assertions on the challenges of preparing financial statements. The results as shown above in table 6 revealed that SMEs when preparing financial statements do face challenges. Ranked highest is "the cost involved in preparing financial statements is too high" with a mean value of 4.543 indicating that majority of the respondents 'agree' and 'strongly agree' that it is too expensive to prepare financial statements in terms of employing a full-time account officer and engaging chartered accountants to prepare accounts. This findings is line with earlier findings as most of the respondents either employ full-time accounts officer or hire chartered accounts to prepare financial statements for them.

Besides, respondents also asserted that "it takes too much time to prepare", "lack of accounting knowledge", "it requires more staff" and "it makes your business pay more tax" with mean values of 4.424, 4.277, 4.033 and 4.136. the findings is line with the findings of Jayabalan and Dorasamy (2009) who argue that the exorbitant fees charged by professional accountant's leaves SME owner/managers with no choice but to relegate accounting information management.

5. CONCLUSIONS

The main objective of this study is assess the effect of financial statements preparation on the growth of SMEs in Ho Municipality. The study has established that SMEs in Ho municipality maintain accounting books with almost all SMEs preparing one or more financial statements for their businesses. Majority of SMEs adopted single entry bookkeeping system. The type of accounting book kept by all SMEs surveyed is sales day book. The study concludes that majority of SMEs employ full-time accounts officers to manage their accounts department of their businesses. The study also concludes that majority of SME owners have a challenge of cost of preparing accounting records due to high salaries and fees paid to accounting professionals. The study established that there is a significant relationship between sound accounting record keeping, financial SME growth and preparation of financial statements and growth of SMEs.

The study recommends that SME owners and managers should be educated and enlighten on the need to employ double entry bookkeeping systems in maintaining accounting records. Even though majority of SMEs prepare financial statements using accounting professionals, SMEs still prefer single entry to double entry bookkeeping. Intensive training in financial literacy and bookkeeping for SME owners/managers will help them in appreciating the need to adopt sound accounting principles in managing accounting records. The study also recommends that Ghana revenue Authority (GRA) should effectively enforce the use of double entry bookkeeping systems for keeping accounting records for tax purposes. GRA should work hand in hand with National Board for Small Scale Industries (NBSSI) to provide free accounting services to SMEs who cannot afford the exorbitant fees charged by accounting firms.

REFERENCES

- Abdul-Rahamon, O. A., & Adejare, A. T. (2014). The Analysis of the impact of Accounting Records Keeping on the Performance of the Small Scale Enterprises. *International Journal of Academic Research in Business and Social Sciences*, 4(1), ISSN: 2222-6990.
- Abor, J., & Biekpe, N. (2007). Small Business Reliance on Bank Financing in Ghana. *Emerging Markets Finance and Trade*, 4(3), 93-102.
- Ademola, G. O., Samuel, O. J., & Ifedolapo, O. (2012). The Roles of Record Keeping in the Survival and Growth of Small Scale Enterprises in Ijumu Local Government Area of Kogi State. *Global Journal of Management and Business Research*, 12(13).
- Amidu, M. & Abor, J. (2005). Accounting Information and Management of SMEs in Ghana. *The African Journal of Finance and Management*, 14(1), 15 – 23.
- Amoako, G. K. (2013). Accounting Practices of SMEs: A Case Study of Kumasi Metropolis in Ghana. *International Journal of Business and Management*, 8(24).
- Amoako, I. O. (2012). *Trust in exporting relationships: the case of SMEs in Ghana*. D Prof thesis, Middlesex University.
- Amoako, K.O., Marfo, E. O., Gyabaah, E. N., & Gyamfi, O. (2014). Accounting records keeping practices of SMEs in Ghana: Evidence from Sunyani Municipality. *British Journal of Economics, Finance and Management Sciences*. 9 (1) -ISSN 2048 125X.
- Bwana K.M. & Mwakujonga J. (2013). The Practice of Preparing and Using Financial Information in Financial Decisions: A Survey of SMEs in Tanzania. *European Journal of Business and Management* 5(9), 161-169.
- Chittenden, F., Mcconel, J. & Risner, C. (1990). *The Role of Accounting Profession in the Growth and Development of Small Business*. London: ACCA.
- Dawuda A. Azeko I. (2015). An Assessment of Financial Records Keeping Behavior of Small Scale Businesses in Ghana: A Case Study of Bolgatanga Municipality. *International Journal of Finance and Accounting*, 4(3): 187-194 DOI: 10.5923/j.ijfa.20150403.06
- Freeman, J. (2008). *Accounting Practical Approach*. United States.
- Ghana Statistical Service. (2011). *2010 population and housing census of Ghana: Provisional results: summary of findings*. Accra: Sakoa Press Limited.
- Hauser, H. (2005). The European Commission Recommendation on Small and Middle Enterprises — Impacts of the incorrect application of a rigid definition. *Jahrbuch Zur Mittelstandsforschung 1/2005*, 47-66.
- Holmes, S., & Nicholls, D. (1988). An Analysis of the Use of Accounting Information by Australian Small Business. *Journal of Small Business Management*, 26(2), 57–68.
- Hong Kong Institute of Certified Public Accountants. (2005). *Small and medium-sized entity financial reporting framework and financial reporting standard*. Hong Kong: Hong Kong Institute of Certified Public Accounts. <http://dx.doi.org/10.1080/00014788.1989.9728844>.
- Hussy, J. and Hussey, R. (1994), *How Companies Succeeded in the Recession*, Kingston Smith, London.
- International Accounting Standards Committee Foundation (IASCF 2007). Exposure Draft of a proposed IFRS for SMEs. February 2007. IASC Foundation Pubs. London.
- Ismail, N. A., & King, M. (2007). Factors influencing the alignment of accounting information in small and medium sized Malaysian firms. *Journal of Information System and Small Business*, 1(1–2), 1–20. John Wiley and Sons, USA.
- Javis, R., Kitching, J., Curran, J. & Lightfoot, G. (1996). *The Financial Management of Small Firms: An Alternative Perspective*. London: ACCA.
- Jayabalan J. Dorasamy M. (2009). Outsourcing of Accounting Functions amongst SME companies in Malaysia: An Exploratory Study. *Journal of Accounting. Business. Publication Interest*. 8(2): 96-114.
- Jovanovich, B. (1982). Selection and the evolution of industry. *Econometric*, 3(50), 649-670.
- Kayanula D. and Quartey, P. (2000). The Policy Environment for Promoting Small and Medium Sized Enterprise in Ghana and Malawi. Finance and Development Research Programme Working Paper .Series No.15.
- Keasy, K., & Short, H. (1990). The accounting burdens facing small firms: An empirical research note. *Journal of Accounting Business Research*, 20(80), 307–313.
<http://dx.doi.org/10.1080/00014788.1990.9728889> (Accessed 25 December, 2015)
- Kerlinger, F. N. (1986). *Foundations of behavioral research*. , CA: Hybrid Publisher Limited
- Kitindi, E. (2000). The Small and Micro Enterprise Audit in Tanzania – Is it Worth the Effort? Evidence from an Exploratory Study. *African Journal of Finance and Management*, 8(2). doi:10.4314/ajfm.v8i2.24330
- Maheshwari, S. N., & Maheshwari, S. K. (2004). *Corporate accounting*. New Delhi: Vikas Publishing House.
- Mbroh, J.K. & Attom, B.E. (2012). Accounting and Control Systems Practiced By Small and Micro Enterprise Owners within the Cape Coast Metropolitan Area of Ghana. *Asian Journal of Business and*

- Management Sciences*: 9(1), 28-47.
- Musah, A., & Ibrahim, M. (2014). Record Keeping and the Bottom Line: Exploring the Relationship between Record Keeping and Business Performance among Small and Medium Enterprises (SMEs) in the Tamale Metropolis of Ghana. *Research Journal of Finance and Accounting*, 5(2)-ISSN 2222-1697.
- Organization for Economic Cooperation and Development (OECD) (2002). *High-growth SMEs and Employment: Member Countries Experience*, Paris, France
- Osei B, Baah-Nuakoh A, Tutu K.A, & Sowa N.K (1993). *Impact of Structural Programmes in Africa*. Accra: I.T. Publications.
- Peacock, R. W. (2008). Small Business Bankruptcy, *Accounting Forum*, 1(3), 51-52.
- Rankhumise, E. M. (2010). *Lessons and Challenges faced by Small business owners in running their businesses*. In: proceedings of the IAMB conference, 25-27 January 2010. Las Vegas: USA.
- 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), 154- 168.
- Storey, D. J. (1994). *Understanding the small business sector*. London: Routledge.
- Taylor, W. A., & Adair, R. G. (1994). Evolution of quality awards and self-assessment practices in Europe: a case for considering organization size. *Total Quality Management & Business Excellence*, 5(4), 65-78. doi:10.1080/09544129400000044
- UNCTAD (2000). Accounting by small and medium-sized enterprises. In D. D. Son, N. Marriott, & P. Marriott (2006) Users perceptions and uses of financial reports of small and medium companies (SMCs) in transitional economies: Qualitative evidence from Vietnam. *Qualitative Research in Accounting and Management*, 3(3), 218-235.
- Van Aardt, I., Van Aardt, C., Bezuidenhout, S., & Mumba, M. (2008). *Entrepreneurship and New Venture Management* (3rd Ed.). Southern Africa: Oxford University Press.
- Williams. A. J. (2010). A longitudinal analysis of the characteristics and performance of small business in Australia, *Institute of Industrial Economics*, 2(3) 201-258.
- Zhou, L. (2010). The Research on Issues and Countermeasures of Accounting Information of SMEs. *International Journal of Business Management*, 5(3), 223–225.