

## Bookkeeping and Perception of Growth of Small and Medium Scale Enterprises in the Cape Coast Metropolis

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### Abstract

The role of SMEs in the development of any nation cannot be over-emphasised. Yet their growth into bigger firms is often beset with many challenges. This study sought to examine the perception of business owners about the effect of bookkeeping on the growth of small and medium-scale enterprises (SMEs) in the Cape Coast Metropolis. The study employed the quantitative research method and survey design. The Krejcie and Morgan sample size determination table was used to generate a sample size of 135 SMEs out of the 413 registered SMEs at Cape Coast. A structured survey questionnaire was used in gathering primary data for the study. The simple random sampling method was used and a response rate of 74% of the 135 registered SMEs was generated and analysed. The study found that most SMEs surveyed did not keep complete written records even though majority (74%) of them perceived bookkeeping as an important tool for business growth. The challenges that confronted SMEs owners in bookkeeping were lack of personal knowledge in bookkeeping, lack of record keepers, time and resources constraints among others. The study also found that majority SME owners perceived bookkeeping to have an effect on the growth of SMEs and level of education of SME owners or managers also had a positive relationship with their bookkeeping practices. The study recommended that the National Board for Small Scale Industries (NBSSI) in Ghana should initiate policies that will intensify education of SMEs operators on bookkeeping since many of them lacked personal knowledge in bookkeeping. Business operators were also recommended to go for seminars and training that will improve their record keeping skills.

**Keywords:** SMEs, Bookkeeping, Growth, Cape Coast, Metropolis, NBSSI

### 1. Introduction

There has been a growing concern for supporting the operations of Small and Medium-Scale Enterprises (SMEs) among governments (Amoako, 2012). Given their contribution to national growth and economic development, it is believed that small and medium-scale enterprises (SMEs) are the backbone of many economies across the globe (Alhassan & Muazu, 2014; Okoli, 2011). According to Amoako, Marfo, Gyabaah, and Gyamfi (2014), a major indicator of a booming economy is a vibrant Small and Medium Scale Enterprises and how efficiently they contribute to Gross Domestic Product (GDP). Aside generating income for their owners, Alhassan and Muazu (2014) argued that SMEs promote innovative ideas and creativity in the business arena, as well as providing employment for many people. Even in the developed industrial economies, it is the SME sector rather than the multinationals that takes the largest proportion of employees (Adu, 2013; Quartey & Abor, 2010). For instance, it has been shown that in 2008, SMEs employed 90 million people in Europe (Bowen, 2009).

In Ghana, the impact of SMEs on the economy cannot be overemphasized. Aryeetey (2001) and Amoako (2012) argued that in addition to contributing to Ghana's Gross Domestic Product (GDP), SMEs form a characteristic feature of the production landscape and thus provide about 85% of manufacturing employment. Thus, SMEs have been described as proficient and prolific job creators, the seeds of big businesses and the supporting pillars of development in many economies (Adu, 2013; Quartey & Abor, 2010). While recognizing the potential roles of SMEs in national development, one key issue worth considering is their growth and sustainability. In spite of the concerted efforts by successive governments coupled with the financial support given to SMEs in Ghana, they still face the threat of failure, with past statistics indicating that three out of five SMEs fail within the first few months of operation (Bowen, 2009). It is estimated that 25% to 40% of SMEs below 5 years in Ghana collapse every year (Acheampong, 2015; Amidu & Abor, 2004). SMEs' development in Cape Coast is no exception. Some authors argue that in Ghana, most businesses that were started in the early 2000s are no longer in existence (Amidu & Abor, 2005). For enterprises to grow, however, they must be able to survive and then inch up gradually. It is, thus, imperative to investigate the factors that militate against survival and hence constrain the growth of such ventures. Muchira (2012) opined that the problem that might require emphases in research may be the management of these SMEs. She, however, noted that the efficient management of these enterprises revolves around sound accounting practices, which is highly dependent on proper bookkeeping of records on the business transactions. A recent study by Mbro and Attom (2012) discovered that basic book-keeping practices were not in operation in many of the enterprises operating in Cape Coast with majority (52%) frequently seeking external assistance in their business accounting. Mbro and Attom (2012), however, did not related book-keeping to any performance measures of SMEs which is the focus of this study.

### 1.1 Statement of the Problem

In the past, the common factors that constrained SMEs growth included lack of government support, lack of access to finance, high operating costs and stiff competition among others (Esaete, 2005). However, with the current legal and regulatory framework in Ghana coupled with the increased number of lending institutions, these problems have been substantially reduced (Alhassan & Muazu, 2014). Alhassan and Muazu (2014) further indicated that the banking sector has recently improved its financial services to the SMEs in Ghana. Despite the several attempts to boost activities of SMEs the survival and growth of SMEs in Ghana is still a problem (Alhassan & Muazu, 2014). It is against this background that the need arise for current studies to explore other equally important factors that can contribute to the problem. Earlier studies have suggested that record keeping is at the heart of any external interaction with the SMEs be it access to finance or eligibility for assistance. That is, credit worthiness and growth potentials are all embedded in bookkeeping records of enterprises. It is theoretical plausible to expect some positive effects of proper record keeping and enterprise performances such as profitability and growth. According to Blank (1966), however, "Theory and introspection have their proper place in economic analysis but at some point they must be tested by the actual reactions of the market place".

Recent empirical studies on bookkeeping in Ghana include Amoako, Marfo, Gyabaah and Gyamfi (2014), Alhassan and Muazu (2014), Suraj (2011) and Amissah (2011). However, Amoako, Marfo, Gyabaah and Gyamfi (2014) investigated the accounting records keeping practices of SMEs in Ghana using the Suyani Municipality as a case study and found that majority of SMEs did not keep complete accounting records. Alhassan and Muazu (2014) on the other hand also investigated the relationship between record keeping and performance of SMEs in the Tamale Metropolis and discovered that there was a positive relationship between record keeping and business performance. Again, Suraj (2011) conducted a study on bookkeeping practices and its relevance to SMEs in the New Juaben District in the Eastern Region and found out that many SMEs did not keep proper books and could not obtain financial assistance from banks. Amissah (2011) also conducted a study on proper bookkeeping and basic accounting procedures among SMEs in the Greater Accra Region and discovered that lack of knowledge in bookkeeping and lack of finance to engage the services of a bookkeeper contributed to most SMEs not keeping books.

As partitioned by the World Bank group in 2007 and 2013 (World Bank, 2013), none of the studies was done in the Western Zone which includes enterprises in Cape Coast and Takoradi. For a complete picture of the situation and role of bookkeeping in Ghana, a study on SMEs in Cape Coast is a step in the right direction. Notwithstanding the fact that SMEs in the Cape Coast municipality are struggling with growth, a major motivation for the study was the observation by Majumdar (1997) that it will not be appropriate to approximate the findings of studies done on size from one setting to another because how size and age relates to firms' performance cannot be analysed outside the institutional framework that the firms operate within. One area that has received little attention in the literature is the Central Region and it is this gap that has propelled the study. This study sought to examine the relationship between bookkeeping and the growth of small and Medium-scale businesses in the Cape Coast Metropolis.

### 1.2 Objectives of the Study

The main objective of this study is to examine the dependency between bookkeeping and the growth of SMEs in the Cape Coast Metropolis. Specifically, the study:

1. Examine the types of records kept by SMEs operators
2. Assess the relationship between levels of education of SMEs owners' and willingness to keeping business records.
3. Examine the perception of SMEs owners on the effects of bookkeeping on the growth of their enterprises.

### 1.3 Research Questions

The study seeks to answer the following questions:

1. What types of records are kept by SMEs operators?
2. To what extent does willingness to keep records depends on level of education of SMEs owners?
3. What is the perception of SMEs owners on the effects of bookkeeping on the growth of their enterprises?

## 2 Literature Review

The main theory for the study is the Records Continuum Theory. The records continuum theory provides the theoretical justification for keeping business records (Alhassan & Muazu, 2014). The theory involves a consistent and coherent regime of management processes of records from the time of the creation of these records through to the preservation and use of those records (McKemmish, 2001). The International Council on Archives defines the records continuum theory as 'a consistent and coherent process of records management throughout the life of records, from the development of recordkeeping systems through the creation and preservation of records, to their retention and use as archives' (Flynn, 2001). The records continuum theory was formulated in the 1990s by

Australian archival theorist Frank Upward based on four principles:

The first principle was that, a concept of “record” which is inclusive of records of continuing value (archives) stresses their use for transactional, evidentiary, and memory purposes, and unifies approaches to archiving/recordkeeping, whether records are kept for a split second or a millennium. The second principle was that there is a focus on records as logical rather than physical entities, regardless of whether they are in paper or electronic form. The third principle was that institutionalization of the recordkeeping profession’s role requires a particular emphasis on the need to integrate recordkeeping into business and societal processes and purposes. The final principle stated that archival science is the foundation for organizing knowledge about recordkeeping. Such knowledge is revisable but can be structured and explored in terms of the operation of principles for action in the past, the present, and the future.

The records continuum theory has four main levels. Kennedy and Schauder (1998) explained the four dimensions that Upward (1994) used in his understanding of the continuum theory: At level one, the model identifies accountable acts and creates reliable evidence of such acts by capturing records of related/supporting transactions. Records of business activities are created as part of business communication processes within the organization (e.g., through e-mail, document management software, or other software applications). At level two, recordkeeping systems manage “families” of transactions and records series documenting processes at the work-unit or single-function scope of complexity. Records that have been created or received in an organization are tagged with metadata, including how they link to other records. At level three, a seamless recordkeeping scheme embraces the multiple systems and families of records that serve the entire documentary needs (i.e., business, regulatory, and cultural/educational/historical) of a single juridical entity. Records become part of a formal system of storage and retrieval that constitutes the organization’s corporate memory. Finally at level four, a collaborative recordkeeping establishment under the guidance of a suitably empowered public recordkeeping authority serves the needs of the total society, its constituent functions, and the entities that carry them out. The recordkeeping establishment serves the documentary needs of many entities within its jurisdiction and ensures the accountability and the cultural memory of the society as a whole. Records required for purposes of societal accountability (e.g., by corporate law) or other forms of collective memory become part of wider archival systems that comprise records from a range of organizations.

All the stages of records keeping are interrelated, thereby forming a continuum where both record keepers and archivists are involved in the management of recorded information (Atherton, 1985). Because it involves a broader context of archival science that connects the past to the present and the present to the future, this theory is assumed to be the best for managing or keeping both electronic and paper records with the view to improving efficiency as well as satisfying users (Atherton, 1985). The records continuum theory is significant because it provides a broader interpretation of records and record keeping systems offered by the lifecycle (Flynn, 2001). The continuum theory reminds us that records are created and maintained for use as a result of business and administration functions and processes, rather than as ends in themselves. The records continuum theory focuses on the multiplicity of purposes. It aims at the development of recordkeeping systems that capture, manage, and maintain records with sound evidential characteristics for as long as the records are of value to the organization (Marshall, 2000). It promotes the integration of recordkeeping into the organization’s business systems and processes. The theory provides common understanding, consistent standards, unified best-practice criteria, and interdisciplinary approaches and collaborations in recordkeeping and archiving processes for both paper and digital worlds. It also provides sustainable recordkeeping to connect the past to the present and the present to the future (McKemmish, 2001).

The theory is relevant in this study because it brings out the importance of keeping business records that can be helpful in tracking an organization’s performance and growth. Without records, owners and managers of SMEs would remain oblivious of the progress of their firms. Other resource providers will not also know how well their resources are managed and whether or not they will get any returns from their investments. Record keeping has become the foundation on which the totality of modern businesses depends (Olukotun, James & Olore, 2012). This is because record keeping helps a business to measure its performance and profitability. It can also assist owners to detect fraud quickly. Record keeping and good record management is, therefore, essential for any corporate body to function effectively.

## **2.1 Perceptions about Bookkeeping**

There are different reasons for keeping or not keeping records among SME owners and these vary from business to business (Alhassan & Muazu, 2014). While Amidu and Abor (2005) argued that the primary motive for keeping records is to provide ample evidence of information about business activities, ensure accountability as well as providing a back-up memory, Muchira (2012) discovered that many SME owners held a contrary perception about bookkeeping – they perceived bookkeeping as a waste of time and resources. Many who called for the need for bookkeeping saw it as enhancing business performance. For instance, Hughes (2003) asserted that keeping business records is an important driver for the success of a business and argued that a comprehensive record or

book keeping system enables business owners to generate accurate and timely financial reports that detail the progress and prospects of the business. Thus, the performance of a business is contingent on the existence of a proper book keeping system.

Muchira (2012), while advocating for bookkeeping among SMEs, found that many SME owners/managers were content with using informal ways to judge whether or not their enterprises were growing. The author asserted that the accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement. Okoli (2011) also postulated that accounting information is important for a successful management of any business entity, whether large or small. It is, therefore, imperative that the accounting practices of SMEs source complete and relevant financial information needed to improve economic decisions made by entrepreneurs. Okoli (2011), as cited by Alhassan and Muazu (2014) linked proper record keeping to profitability of small scale enterprises in Nigeria and argued that the lack of proper record keeping makes it impossible for owners of small businesses to do a critical assessment of their performance. He thus, called for the maintenance of proper record keeping in enhancing their profitability and performance. Unfortunately however, research has shown that bookkeeping seems not to be important to many business operators in Ghana (Amoako, 2012). Muchira (2012) opined that if one does not keep accurate and complete records the success of the business could be threatened in many ways. For example one may end up paying more tax than is due because of lack of evidence of tax deductible expenditure or/and inaccurate sales. One may not be able to obtain financial credit because record keeping is the basis for granting financial assistance by financial institutions (Olukotun, James & Olore, 2012). Banks would want to see evidence of a firm's performance through documented financial statements prepared using available records before advancing credit. Moreover, government agencies and organizations that support SMEs would want to be furnished with accurate information and financial statements which can only be generated through bookkeeping records. Managers would also need useful information for decision making and policy formulation to make a firm succeed which all come from bookkeeping (Amoako, 2012).

The above studies indicate that there are mixed opinions about bookkeeping among SME owners/managers. While some believe that bookkeeping is important for ensuring that one has control over the business and can assess its profitability and the cash flow situation at any point in time, others simply see it as unnecessary waste of time and economic resources. To some, bookkeeping ensures discovery of any potential problems as soon as possible and can make business decisions effective with all available information at hand. Yet to others, only effective supervision of business activities is enough for them to ensure growth and profitability.

## **2.2 Perceptions about bookkeeping and growth of SMEs**

Many have called for the need for keeping records in enhancing business performance. For instance, Hughes (2003) asserted that keeping business records is an important driver for the success of a business. The author further argued that a comprehensive bookkeeping system enables business owners to develop accurate and timely financial reports that detail the progress and prospects of the business. Thus, the performance of a business is contingent on the existence of book keeping system (Alhassan & Muazu, 2014). Whilst the role of record keeping is widely acknowledged, the drivers of record keeping itself are at best subjective. To this end, Mairura (2011) assessed the relationship between record keeping and performance of small businesses in Nairobi City of Kenya and found that the level of education, type of business ownership, number of employees and age of business were the drivers of record keeping.

Mairura (2011), however, failed to empirically establish the correlation between record keeping and business performance. Using a more formal approach, Akande (2011) examined the bookkeeping skill as a performance factor for small business in Nigeria by invoking chi-square test statistic. Results from his study showed that possession of a proper bookkeeping skill by business owners significantly improved business performance. Evidence shows that keeping good records helps increase the chances of business survival (Muchira, 2012). In spite of the fact that evidence abound on the role of record keeping in business performance, many owners of SMEs do not keep records, with many of them even suggesting that record keeping is time consuming. In effect, many of them remain unconvinced about the role of record keeping in business growth, performance and profitability (Alhassan & Muazu, 2014). Chemoli and Sopia (2012) postulated that every serious entrepreneur must as a matter of fact be able to maintain proper records of his or her business transactions. Proper book keeping is important to sustaining and expanding a business (Muchira, 2012). Without it, the entrepreneur runs the risk of hitting cash flow crunches, wasting money, and missing out on opportunities to expand his business. According to Alhassan and Muazu (2014), keeping proper records of business transactions enables one to properly evaluate the business to see its performance and growth level.

Muchira (2012) observed that the purpose of book keeping is to help manage the business and to enable tax agencies evaluate the earnings of the business for tax purposes. The author further opined that as long as book keeping achieves both of these objectives, the business was bound to be in the right direction. Chepkemoi (2013) established that any financial institution that wants to do business with SMEs usually demand for their business

records and the ability to produce it means that the business is serious. The author further indicated that business records were important because they prevent theft and also keep things organized in the organization. Peacock (2008) emphasized that the practice of keeping accurate records of the business inventory makes it easier to record products and to enable the business owner see what's selling and those that are not selling. It is important to keep business records because without them you would not know how to break even, or even how much each different product is really making (Chepkemoi, 2013).

Effective and efficient record keeping practices secure your business from internal thieves and dishonest employees (Amidu & Abor, 2005). The authors further argued that tracking the transfer of money is important so that the wise business owner can know who received money, how much they currently have or if there are any inconsistencies that need to be investigated or corrected. Keeping accurate records is highly fundamental for a successful business to stay organized and profitable (Alhassan & Muazu, 2014). Peacock (2008) in his investigation of the effects and causes of 1,000 proprietary company failures in South Australia, found that 4.6 percent of failures had inadequate or no accounting records. He concluded that there was a minimal effect of accounting records of the success or failure of businesses of the proprietary companies and recommended for further research on causes of business failures. In another study of company failures in South Australia, Peacock (2008) reviewed the bankruptcy reports of 418 unincorporated businesses for four years and found that 50.5 percent of this used single entry system of bookkeeping, 32.8 percent used bank and taxation records whereas only 2.1 percent utilized double entry bookkeeping. He recommended further research to be done on double entry systems of recording in companies.

In another study Peacock (2008) found out that a significant element in the failure of many of the businesses was inefficient or absence of accounting records. More than half of the non-performing businesses were found to have no records or only bank and taxation records. Peacock's (2008) findings are very important in examining the impact of bookkeeping practices on the growth of SMEs in Cape Coast. Williams (2010) in his evaluation of the adequacy of bookkeeping records for 10,570 small enterprises operating in Australia found that a significant proportion of owners kept inadequate records.

### **2.3 Level of Education and Record Keeping**

Research has shown that higher education provides superior technical knowledge and contributes positively to develop individual learning capabilities to process new information and hence, recognize business opportunities (Shane, 2000). According to Westhead, Wright and Ucbasaran (2001), higher education implies the acquisition of organizational abilities that allow entrepreneurs to better exploit new opportunities. Therefore, more educated entrepreneurs have the requisite skills, discipline, motivation, information and self-confidence to attain higher growth rates in their businesses. These assertions suggest a direct relationship between education and bookkeeping practices.

However, Tolentino (2000) on the other hand argued that educational and training policies and programmes may discourage entrepreneurship and hinder the development of the enterprise culture necessary to nurture viable SMEs. Closely linked to Tolentino's assertion, Woodruffe as cited by Esaete (2005) observed that the possession of such knowledge is not in itself a demonstration of competence but without it, managers are most likely to sustain competent performance over time or in a variety of situations. In relation to bookkeeping, Tolentino (2000) avowed that the educational level and experience of owners/managers have an impact on the quality of record keeping. While Ojala (2002) established that poor record keeping is a result of managerial incompetence that hinders the growth of SMEs, Muchira (2012) found that accurate recordkeeping of SMEs transactions is essential to the growth of these enterprises. In addition, Gaskill et al as cited by Esaete (2005) confirmed that managerial skill development is related to a firm's success. To conclude, Stover (1997, 5) noted that level of education affects both record keeping and growth of SMEs. The researcher further asserted bluntly that "a small business that fails to keep complete and accurate records places its long term success and continuance in grave, grave doubt."

### **2.4 Types of Records Kept by SMEs**

In many countries, the laws mostly require that the Enterprises prepare financial statements and, often, have them audited (Amoako, 2012). This requires that the owners of the enterprises have some knowledge of bookkeeping and accounting. Ismail and King (2007) concluded that the development of a sound accounting information in SMEs depends on the owners' level of accounting knowledge. According to Ismail and King (2007) and Muchira (2012), there are some basic financial records SMEs managers or owners need to keep for the success of a business. These basic records will normally include the sales day book (sales journal), purchases day book (purchases journal), cash receipt book, cheque payments book, petty cash book, general journal, nominal ledger, debtors' ledger and creditors' ledger. These, according to McMahan, (1999) must be kept and maintained in a sound accounting arrangement. McMahan postulated that the following financial records need to be kept in an organisation: a record of all business sales, with copies of any invoices one has issued; a record of all one's business purchases and expenses; invoices for all business purchases and expenses; details of any amounts one personally

pay into or take from the business; and copies of business bank statements. Muchira, (2012) alluded that the Entrepreneur or an accountant usually use these records to create a profit and loss account which shows the sales income received, and the expenses paid, and to determine what profit/ loss the business actually made.

However, not all SMEs may need to keep and maintain all the previous mentioned financial records but an entity has to decide this on the basis of its needs. When the entity makes the judgment of what financial records to maintain, it also needs to take into account whether some financial records are compulsory to be kept by regulatory authorities like Ghana Revenue Authority (GRA).

### 3 Research Methodology

The study employed the survey research design and the quantitative approach. The goal of survey design is to describe a behaviour, phenomenon or situation as it is. Since one of the objectives of the study was to examine the perceptions of respondents about bookkeeping and to describe opinions and preferences, this design seemed more appropriate for the study. Another objective of the study was to survey the types of records kept by SMEs operators by obtaining information from a representative selection of the population. The quantitative approach is more objective and provides observed facts on a problem or condition as they are and since this is the aim of the study. Moreover, since the study used the survey design and a semi-structured questionnaire, the analysis was less in-depth but more in breadth using information across a large number of respondents. This makes the quantitative approach more relevant in this study.

The population of the study was SMEs engaged in trading, services and manufacturing in the Cape Coast Metropolis. This decision was partly informed by the fact that these are the type of enterprises that are more prevalent in the Metropolis and easy collection of data was another factor influencing the choice of the sample population. There are 413 registered SMEs at the Cape Coast (Chamber of Commerce, 2015). The sample size was 135 registered SMEs, and this was determined using the Krejcie and Morgan (1970) sample size determination table. The study adopted the simple random sampling method. This was to guard against biases and permit a justifiable inference from the sample to the population. The main data collection instrument was a questionnaire which contained mostly structured questions, relating to each of the variables in question. The questionnaire had four main sections sub-headed as Demographic information, Perceptions about bookkeeping, Effect of bookkeeping on growth of SMEs, and Types of records kept. The questionnaire was personally administered. The reason for the self-administration of the questionnaire was to ensure data quality control in anticipation of resistance from respondents in providing financial data on the status of their businesses. All the sampled SME owners were given the questionnaire with the aim of collecting data on their skills in bookkeeping, their perception about bookkeeping, the implications of bookkeeping on the success and stability of their enterprises and the types of records kept by them. A visit was paid to each selected enterprise through the address provided on the list obtained from the Cape Coast Chamber of Commerce. A self-introduction was made and the purpose of the survey was explained to the respondents. The respondents' consent was sought and they were assured of confidentiality of their information. Respondents were given the option to participate willingly or refrain from participating in the survey. The response rate was 74% representing 100 respondents of SMEs. The completed questionnaires were coded and entered into SPSS software (Statistical Product and Service Solutions - version 21) for processing. The data was analysed using descriptive statistics such as frequencies and percentages. A chi-square test for dependence was also used to analyse the third objective. Finally, the interpretation of data was made and the presentation of data was done using tables, charts and graphs.

## 4 Results and Discussion

### 4.1 Demographic Characteristics of Respondents

Table 1. Age and gender distribution of respondents

Age group	Male	Female	Total	Percentage (%)
20 – 29	12	15	27	27.0
30 – 39	11	12	23	23.0
40 – 49	13	19	32	32.0
Above 50	9	9	18	18.0
Total	45	55	100	100.0

From Table 1, 45(45%) of the respondents were males while 55(55%) were females. The majority (32%) of the respondents fell within the age bracket of 40-49.

## 4.2 Business Sector

Table 2. Type of business sector

Business sector	Frequency	Percentage (%)
Trade	71	71.0
Services	24	24.0
Manufacturing	5	5.0
Total	100	100.0

The study covered three (2) selected business sectors namely trade, services and manufacturing. The results are presented in Table 2. The results indicate that about 71 percent of the respondents were engaged in trading. Those engaged in rendering services were 24 percent while 5 percent were in the manufacturing sector. This means that majority of the SMEs in the Cape Coast Metropolitan Assembly are engaged in trading. This could probably be caused by the fact that most SMEs (informal sector) cannot afford the huge start-up capital of manufacturing firms and there are no stringent entry requirements or regulations into informal trading.

## 4.3 Nature/Type of Business

Table 3. Type/Nature of business

Business	Frequency	Percentage (%)
General Merchant	29	29.0
Restaurant	6	6.0
Provisions and Cosmetics	19	19.0
Pharmaceutical Services	12	12.0
Hair dressing and barbering salon	6	6.0
Auto Mechanic/Spare parts dealers	5	5.0
Construction and building materials	9	9.0
ICT	5	5.0
General Electricals	8	8.0
Manufacturing	1	1.0
Total	100	100.0

Table 3 shows the results of the types of businesses sampled and or covered in the study. From the results, majority of the business operators were general merchants with 29 percent, followed by provisions and cosmetics shops with 19 percent. The least category of SMEs in the Cape Coast Metropolis were the manufacturing firms with 1 percent. One interesting observation was the rate at which pharmaceutical and ICT firms were represented in the study. Pharmaceutical enterprises were the third largest in the survey with 12 percent while ICT was 5 percent.

These results are so probably because of huge start-up capital for manufacturing ventures. Hence majority who cannot afford rather go in for retailing instead. The pharmaceutical firms could spring up as a result of the National Health Insurance Accreditation which allows such firms to now supply drugs to patients and get paid by the National Health Insurance Authority. So there is guaranteed payment for their services. It could also be due to the conversion of the Regional Hospital into a Teaching Hospital which now makes the hospital capable of treating many diverse cases which the pharmacies may standby to offer medications to patients who might not get some services from the Teaching Hospital. The ICT firms could be on the increase partly because the Central Region is a hub for education in Ghana and ICT services are likely to be on high demand.

## 4.4 Awareness about Bookkeeping

The analyses of the responses were done in terms of the percentage of the respondents who either “Affirmed” or “Rejected” a given statement. If the percentage of respondents who either “Strongly Agreed (SA)” or “Agreed (A)” exceed the percentage of active respondents who responded “Strongly Disagree (SD)” or “Disagreed (D)”, then the statement was said to have been “Affirmed” in the study. In the binary sense, a statement is said to have been affirmed if the sum of the responses in the SA and A columns exceeds 50 percent or otherwise rejected. The closer the total percentage of responses on a given statement by the respondents to 100 percent, the more acceptable is the statement.

Table 4. Awareness of respondents on bookkeeping

Statement	SD (%)	D (%)	A (%)	SA (%)	Remarks
I have personal knowledge about bookkeeping	5.0	73.0	17.0	5.0	Rejected
I keep complete written records of my business transactions	7.0	57.0	21.0	15.0	Rejected
I keep manual records	1.0	6.0	61.0	32.0	Affirmed
I sometimes keep mental records of my business activities	4.0	16.0	56.0	24.0	Affirmed
I update my business records regularly	47.0	29.0	18.0	6.0	Rejected
I see bookkeeping as very important in my organization	1.0	25.0	52.0	22.0	Affirmed
I will recommend bookkeeping for a colleague business operator	1.0	3.0	76.0	20.0	Affirmed
I have an accountant or bookkeeper who keeps my records	39.0	47.0	11.0	3.0	Rejected
I prepare financial statements for my business	29.0	53.0	12.0	6.0	Rejected
I will welcome any training or education on bookkeeping	1.0	3.0	41.0	55.0	Affirmed

From Table 4, it could be concluded that majority of the respondents had limited personal knowledge about bookkeeping since 78 percent [SD+D] of the respondents rejected the statement that they had personal knowledge about bookkeeping. Even though majority of the respondents (74% - A+SA) said they knew about the importance of bookkeeping, only 36% (A+SA) indicated that they kept complete written records of their business activities. This means that 64% of the respondents did not keep written records. About 80% (A+SA) of them affirmed that they kept mental records of their business activities.

Among those who kept written records, 93% (SA+A) of them kept manual records. Again, among those who kept some form of records, about 76% (DS+D) did not update their records regularly and only 14% (A+SA) had an accounts clerk or bookkeeper who kept business records. In general, it can be said that 26% (SD+D) of the respondents did not perceive any importance of bookkeeping and 86% (SD+D) did not also see the need to have an accountant or bookkeeper for records keeping purposes. However, about 96 percent (A+SA) of the respondents indicated that they were ready to welcome any training offered them on bookkeeping.

The underlying reason for the results was that many of the respondents lacked personal knowledge in bookkeeping and because of that some did not even believe that bookkeeping has any benefit to offer their business. Other reasons that were given for the lack of proper bookkeeping included time consuming, records keeping being expensive or logistical constraints. Olukotun, James and Olore (2012) argued that whatever reasons may be, it is important that timely and accurate records be kept by business organisations so that they can achieve the objectives for which they were set up.

Among those who were ready to be trained in bookkeeping, 96% (A+SA) affirmed that they were ready to recommend bookkeeping to other business operators. The policy implication for the National Board for Small-Scale Industries (NBSSI) and other policy makers is that there would be a multiplier effect if the registered SMEs are giving some form of training in bookkeeping.

#### 4.5 Level of Education and Bookkeeping

Table 5. Level of education of respondents

Qualification	Frequency	Percentage (%)
No Education	4	4.0
Basic Education	1	1.0
Technical	21	21.0
SHS	58	58.0
HND	9	9.0
Bachelor's Degree	4	4.0
Master's Degree and above	3	3.0
Total	100	100.0

Table 5 presents the academic qualification of the respondents. This information was to help the study to discover whether or not the level of education of respondents influenced their bookkeeping practices. From the results, 96 percent of the respondents had at least basic education. Majority of them 58(58%) had Senior High School education followed by Technical education 21(21%) and Higher National Diploma being 9 percent. This means that majority of the respondents had formal education and could read and write. The results were further cross tabulated with those who keep complete records to see whether level of education was capable of influencing owners/managers rate of records keeping. The results are shown in figure 1.



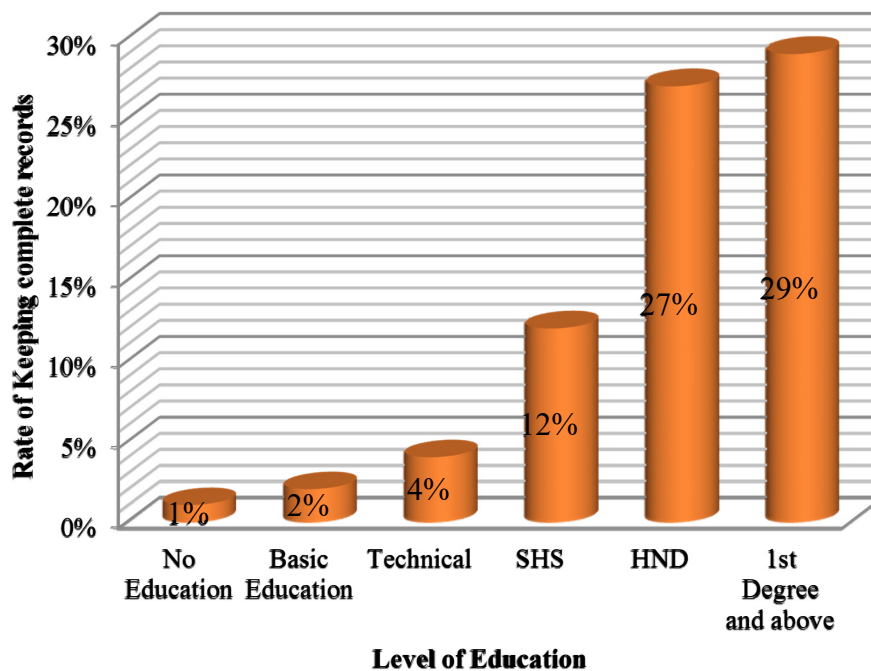


Figure 1. Level of education and rate of records keeping

From the figure, there is an observed relationship between level of education and rate of practice of bookkeeping. It can be seen that the higher the level of education the higher the owners keep records of their businesses. For instance, one percent (1%) of the respondents who had no education agreed to keeping complete records, two percent (2%) of those who had basic education confirmed that they kept complete records and four percent (4%) of those who had Technical education agreed to keeping complete records. Again, twelve (12%) of those with SHS qualification kept complete records, twenty seven (27%) of HND holders also kept complete records and twenty nine (29%) of First Degree holders and above confirmed that they kept complete records. Though in all the cases the owners are not keeping enough records, it clears from the percentages that the practice of bookkeeping increases with level of education.

The Chi-square test of dependency was used to formally test whether if the perception of importance of bookkeeping depends the level of education of the owners. The test results suggest that that there is no dependency between level of education and perception of the importance of book keeping can be rejected at the five percent significant level (See Appendix 1). It could therefore be concluded that perception of bookkeeping as important and for that matter to practice bookkeeping depends on the level of education of the owners of the small and medium scale enterprises in the Cape Coast Metropolis.

The results are consistent with Tolentino (2000) who asserted that the readiness of owners to practice proper bookkeeping was influenced by the level of education of the owner or manager. Confirming the findings of Tolentino (2000), Muchira (2012) avowed that the educational level and experience of owners/managers has an impact on the quality of bookkeeping. Shane (2000) also established that higher education provides superior technical knowledge and positively influences an individual's record keeping practices. The results also support the findings of Westhead, Wright and Ucbasaran (2001), who asserted that higher education implies the acquisition of organizational abilities that allow SME owners to better keep records and also exploit new opportunities.

#### 4.6 Types of Records Kept

The study sought to assess the types of records commonly kept by the surveyed SMEs. Statements were given to the respondents to indicate either "Yes" or "No" depending on the existence or availability of the type of records kept. The results were presented in Table 6.

Table 6 - Types of Records Kept

Records	Frequency	Percentage
Sale journal	93	93.0
Purchase journal	66	66.0
Cash receipt book	83	88.0
Creditor (Payables) ledger	61	61.0
Stores voucher or Goods received notes	60	60.0
Separate bank account separate for business	38	38.0
Cheque payment book	34	34.0
Petty cash book	34	34.0
Debtor (Receivables) ledger	23	23.0
Payment voucher	30	30.0
General journal	23	23.0

The results in Table 6 depict that most of the enterprises had Sales Journals (93%), Purchases Journal (66%), Cash Receipt Book (83%), Credit Ledger (61 %) and a Store Voucher or Goods Received Book (60%). Clearly the numbers that possess such valuable business items was quite encouraging for small and medium enterprises in a developing country like Ghana. However, other valuable records were not being kept by the enterprises. About 62 percent did not have separate bank account from that of the owner for the business, 66 percent did not have cheque payments book, another 66 percent did not have petty cash book, 77 percent did not have debtors ledger, 70 percent did not have payment voucher and 77 percent did not have general business journal for record keeping. In all the respondents were handed with 11 types of business records and generally they were keeping 5 out of the 11 records.

The findings is in consistent with Ismail and King (2007) and Muchira (2012) who established that there are some basic financial records that SMEs managers or owners need to keep for the success of a business. The basic records include the sales day book, purchases day book, cash receipt book, cheque payments book, petty cash book, general journal, nominal ledger, debtors' ledger and creditors' ledger.

#### 4.7 Relationship between bookkeeping and sales & profitability

The analyses of the responses were done in terms of the percentage of the respondents who either "Affirmed" or "Rejected" a given statement. If the percentage of respondents who either "Strongly Agreed (SA)" or "Agreed (A)" exceed the percentage of active respondents who responded "Strongly Disagree (SD)" or "Disagreed (D)", then the statement was said to have been "Affirmed" in the study. In the binary sense, a statement is said to have been affirmed if the sum of the responses in the SA and A columns exceeds 50 percent or otherwise rejected. The closer the total percentage of responses on a given statement by the respondents to 100 percent, the more acceptable is the statement.

Table 7. Respondents' view on the effect of bookkeeping on sales and profitability growth

Statement	SD (%)	D (%)	A (%)	SA (%)
My sales have been increasing in the past few years	10	63	19	8
My customer base has increased in the past few years	7	48	30	15
I shall experience growth in profitability if I keep proper records	0	7	65	28

The results of Table 7 have a number of implications for the study. First about 73 percent [SD+D] of the enterprises declined to accept that their sales volume had increased in the recent years though 93 percent [A+SA] agreed that they had experienced some growth in their profitability in the same period. The major economic explanation to the two conflicting observations could be that firms had improved in their cost containment strategies and sales had been stable despite no significant increments in customer base.

The observation of non-increasing sales was supported by the observation that about 65 percent [SD+D] felt their customer base had not shown any significant increments in the past one year.

Another explanation could be that since majority of the respondents agreed that they did not keep complete written records, they were unable to determine whether or not their sales and customer base were really increasing. With regards to the increase in profitability, this could be explained from the point of view that since many of the enterprises did not have qualified bookkeepers to keep records, they were unable to prepare proper financial statements. The far they could go was to prepare an income and expenditure statement to find the difference and declare profits but they did not take into account both the implicit costs (i.e depreciation, etc) and the explicit costs in the preparation of their financial statements.

From the reasons given to the role of bookkeeping in business operations, it is admissible that bookkeeping could have a positive or negative effect on the growth of enterprises. However, it is only those who keep records that can trace a trend over time to detect any growth or decline but those who do not keep records would have no evidence to detect any growth or otherwise.

Okoli (2011) established that profitability of a business can only be determined accurately when there are proper records. Some respondents confirmed that bookkeeping helped them to access credit from their bankers. This finding validates that of Alhassan and Muazu (2014) who opined that most financial institutions will often require evidence of a business performance before they advance credit. This evidence, the authors noted, can only be authenticated with accurate records of the business. Many respondents acknowledged that records keeping enabled them to track the activities of their businesses, plan their business effectively and to prevent money leakages out of their business.

On the other hand, since majority of the SMEs surveyed do not keep records, many did not even know whether they were experiencing growth in their businesses. For instance, 73 percent did not agree that they experience any growth in sales over the last one year and 65 percent did not agree that they experience any growth in their customer base much less in profitability. All these are the ingredients for business growth and survival. This finding is not surprising because Alhassan and Muazu (2014) who linked proper record keeping to profitability of small scale enterprises in Nigeria found that lack of proper record keeping makes it impossible for owners of small businesses to do a critical assessment of their performance. The authors called for the maintenance of proper record keeping in enhancing their profitability and performance. In the same vein, Muchira (2012) opined that if one does not keep accurate and complete records the success of the business could be threatened in many ways.

The unfortunate thing is that many of the SME owners are just running the enterprises not bothering to know whether or not they are growing. Many of them said they “believe” the business is growing because there is no evidence of decline. This view is very dangerous because by the time they will observe the evidence of decline, the business might have gone beyond recovery. The surest way to know is by keeping records ‘over a time’. A comparative analysis can then be made either over one year or six months to determine growth or otherwise (Olukotun, James & Olore, 2012).

The dependency between commitments to bookkeeping and perception of profitability growth was tested using Chi-square test of dependency. The test results suggest that a statistical dependency can be observed between commitment to bookkeeping and the perception of growth in profitability at the five percent significant level (See appendix 1). The possible conclusion was that the owners of enterprises that do not keep active record do not foresee any positive impact that bookkeeping can bring to their business if they should adopt it.

## 5 Conclusion and Recommendation

From the findings, it can be concluded that there is a mixed perception about bookkeeping among small and medium-scale enterprise owners in the Cape Coast Metropolis. Though some people did not see any benefit in bookkeeping, the majority understood the importance of bookkeeping in the growth of their businesses. Since the majority had a positive perception about bookkeeping, this is a good starting point for the National Board for Small Scale Industries (NBSSI) to intensify efforts to educate and train SME operators in bookkeeping. The unusual observation from the study was that, despite the high positive perception of bookkeeping among SME operators, only few of them really practiced bookkeeping. The reasons given were lack of personal knowledge in bookkeeping, lack of bookkeeper or accountant, time constraint and financial or logistical constraints. Another conclusion that can be drawn from the study is that bookkeeping can have a positive effect on the growth of businesses. The study can also conclude that preparation of financial statements was a problem among the SMEs surveyed. Finally, the study can conclude that majority of the SMEs did not have the basic books of accounts in place for the purpose of record keeping. Simple day books such as sales day book, purchases day book, receivables ledger, payables ledger, asset register, cash receipt book, cheque payments book and a petty cash voucher should at least be maintained in any business establishment. But this finding was not surprising because majority of the SME operators confirmed that they lacked personal knowledge in bookkeeping. In general, it can be concluded that this study has effectively answered the research questions and can establish that there is still a mixed perception about bookkeeping among SME operators in the Cape Coast Metropolis and that bookkeeping is likely to have an impact on the growth of SMEs. There is also a positive relationship between bookkeeping and level of owner education. This study was limited to only SMEs in trading, service providers and manufacturing, hence a further research can be extended to cover SMEs in agriculture and construction industries.

The study recommended that the National Board for Small Scale Industries (NBSSI) in Ghana should initiate policies that will intensify education of SMEs operators on bookkeeping since many of them lacked personal knowledge in bookkeeping. Business operators were also recommended to go for seminars and training that will improve their record keeping skills.

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APPENDIX 1

**Test Statistics**

	Qualification	Bookkeeping_importance
Chi-Square	260.667 <sup>a</sup>	77.893 <sup>b</sup>
Df	6	3
Asymp. Sig.	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 21.4.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 37.5.

**Test Statistics**

	Have_bookkeeper	Postive_impact_growth
Chi-Square	84.507 <sup>a</sup>	34.160 <sup>a</sup>
Df	3	3
Asymp. Sig.	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 37.5.