

Adoption of Accounting Practices and Its Effects on SMEs: Financial Perspective of Sachet Water Producers in Northern Region of Ghana

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Abstract

The position of water and its accompanying business enterprises in an economy like Ghana cannot be exaggerated. It is in this light, that over the years, Small and Medium Enterprises (SMEs) and other organisations have been set up to enable both rural and urban people to access this scarce resource for productive, consumptive and social purposes. One of such small-scale enterprises is the sachet water producing enterprise. Albeit the sachet water enterprises play important role in the area, the development of their business is largely affected by poor accounting practices. Accounting has been seen as the best route to a successful business career as it is considered as the language and basic tool of business. It has always concerned itself with determining how a business is doing and what the bottom is. The growth of the small-scale enterprises can be determined through maintenance of proper records of accounts, which provides the basis for safeguarding, and controlling the business properties. As sachet water producing sector is increasingly taking center-stage in the private sector of the Northern Region of Ghana, it will be interesting to know their adoption of accounting practices, challenges they encounter, factors that influence their adoption and recommend some measures in that regard. This was the prime drive for this study. A qualitative research design was employed and for this study a non-probability sampling design in the form of a convenience sampling method was employed to gather the data. Data were drawn from both primary and secondary sources. Primary data was drawn from 30 registered small-scale sachet water producers (5 each in North, South, East and Central constituencies of Tamale Metropolis) of the Northern Sachet Water Producing Association by administering semi-structured questionnaires through personal interviews. We found that there are many perceived factors affecting their adoption of accounting practices and their effects on their business operations in the area. Among such factors include; lack of adequate training, willful misconduct, and negligence. It was also revealed that that, illiteracy was the root cause making it often difficult if not impossible for them to separate personal expenditure from business expenditure. Non-documentation of cash sales, error of principle, and incomplete entry, etc. were found to be higher because almost all the operators have no accounting background. It was further identified that enterprises whose accounting records are beset with challenges, lack the credit worthiness of accessing loans and funding for further investments and growth. It was concluded that the lack of accounting knowledge and skills may in future threaten the financial steadiness of the water producing sector. In sustaining the sector, the findings recommends operators to undergo basic accounting training to acquire relevant knowledge and skills, employ qualified accounting personnel and providing them with good motivational packages to ensure that their efficiency and morale is enhanced and, maintain strong internal control to check the practice of misappropriating funds in the business.

Keywords: Small-scale enterprises, Sachet Water Producers, Adoption, Accounting Practices, Challenges, Effects, Ghana

1. Introduction

Quality water consumption is of great significance in the health of people. This is because poor water consumption is noted to have contributed to the spreading of water related diseases. World Health Organization (WHO, 2012) in their research put it that, diarrhea occurs worldwide and causes 4% of all deaths and 5% of health loss to disability. The use of water in hygiene is an important preventive measure but contaminated water

is also an important cause of diarrhea. To meet the growing demand for quality water of the people resulted in the introduction of sachet water in the Ghanaian market. Ghana has small and large-scale industries that pack and machine-seal sachet water. The sachet water does not only serve as a source of income to producers but it also provides quality and portable water to the people (Okioga, 2007). Sachet water production provides business opportunities to entrepreneurs and the sachet water products help in meeting the water needs of many. A significant number of Ghanaians use sachet water as source of drinking. This is confirmed by Okioga in a research in the Tamale metropolis that, for 37% of the populace, sachet water formed the sole supply of drinking water, about 10% of the participants drink sachet water when they are at home while 70% drink sachet water when they are away from home. Therefore, sachet water is necessary and formed the main source of drinking water for human kind. Against the backdrop, maintenance of proper records is a pre-requisite for the success of every business or enterprise with sachet water production not an exception. Maintenance of accounting records involves documenting all transactions of business entities includes assets, liabilities and capital (liquidity). In order to solve limitations such as lack of finance, weak institutional capacity, lack of managerial skills and training of small-scale enterprises, there is need for relevant business and management expertise to manage properly the finance, purchasing, selling, production, and human resources aspect of the business. According to Jones (2012), accounting is important in that, it allows businesses or organizations to understand their financial perspective. In order to develop the sachet water enterprises properly, there is the need for them to adopt proper accounting practices. Consumers in the Tamale Metropolis appreciate the presence of sachet water enterprises and the successes of their businesses have been traced to their ability to maintain proper records of their produce. According to Goltz (2011), poor accounting is one of the top ten reasons why small-scale businesses fail. He put it that, you cannot be in control of a business if you do not know what is going on. With bad numbers, or no numbers, a company is flying blind, and it happens all of the time. Discussion with some producers shows that some amounts of records are kept but as to whether such records are properly documented and well kept. Jones (2012) put it that, effective record keeping helps a business survive efficiently all the while keeping track of the operations of the company. Notwithstanding the recognition of the important roles sachet water companies' play in the Tamale Metropolis, the development of their business is largely affected by poor record keeping. Their inability to keep proper records of accounts affects the growth of the industry. Many studies have been conducted on small-scale enterprise such as sachet water and accounting practices but none of them has looked at the accounting practices on sachet water producers. It is for this reason that our study seeks to look into the adoption of accounting practices by sachet water enterprises and its effects on their businesses in Tamale Metropolis. The study focuses on the day-to-day implementation of the accounting practices of the small-scale businesses with particular emphasis on accounting staff, bookkeeping, and adherence to basic accounting standards. The main objective was to assess the adoption of accounting practices on small-scale enterprise with focus on sachet water producers. The specific objectives of the study were to identify the accounting practices used by sachet water producers, evaluate challenges of accounting practices among sachet water producers, find out the factors that contribute to these challenges in the adoption of accounting practices, assess effects of the challenges on the operation of sachet water producers and, suggest positive ways to solve these challenges. Many perceived factors such as lack of adequate training, willful misconduct, and negligence were found to affect their adoption of accounting practices. Non-documentation of cash sales, error of principle, and incomplete entry, etc. were found to be higher because almost all the operators have no accounting background. It was further identified that enterprises whose accounting records are beset with challenges, lack the credit worthiness of accessing loans and funding for further investments and growth.

1.1 Definition of Small Scale Business

There is no single, uniformly acceptable, definition of a small firm (Storey, 1994). Firms differ in their levels of capitalization, sales, and employment. Hence, definitions which employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result.

The first attempt to overcome this definition problem was by the Bolton Committee (1971) when they formulated an "economic" and a "statistical" definition. Under the economic definition, a firm is regarded as small if it meets the following three criteria:

- i. It has a relatively small share of their market place;
- ii. It is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure;
- iii. It is independent, in the sense of not forming part of a large enterprise.

Small Scale enterprises have been variously defined, but the most commonly used criterion is the number of employees of the enterprise. In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. As contained in its Industrial Statistics, The Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts

with more than 10 employees as Medium and Large-Sized Enterprises. Ironically, The GSS in its national accounts considered companies with up to 9 employees as Small and Medium Enterprises.

An alternate criteria used in defining small and medium enterprises is the value of fixed assets in the organization. However, the National Board of Small Scale Industries (NBSSI) in Ghana applies both the 'fixed asset and number of employees' criteria. It defines a Small Scale Enterprise as one with not more than nine workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedis (US\$ 9506, using 1994 exchange rate). The Ghana Enterprise Development Commission (GEDC) on the other hand uses a 10 million Cedis upper limit definition for plant and machinery. A point of caution is that the process of valuing fixed assets in it poses a problem. Secondly, the continuous depreciation in the exchange rate often makes such definitions out-dated. Steel and Webster (1990), Osei et al (1993) in defining Small Scale Enterprises in Ghana used an employment cut off point of 30 employees to indicate Small Scale Enterprises. The latter however disaggregated small-scale enterprises into three categories: (i) micro -employing less than 6 people; (ii) very small, those employing 6-9 people; (iii) small -between 10 and 29 employees.

It is clear from the above that, the definition of small-scale businesses differ from one country to the other and form one person to the other. This indicates the subjectivity of the definition of small-scale businesses.

1.2 Definition of Sachet Water Production

Michael Wilson, a professor in the UK, watched the way that a sultana expands as it absorbs water through tiny pores in its skin. Inspired by this, he decided to invent a method of purifying water by osmosis using a cellulose membrane. He soon realized that by combining the technologies of cellulose, osmotic and dehydrated foods, he could design a product that would save millions of lives in disaster areas.

A company called UCB based in Switzerland set about developing the product. It put together a team of specialists in cellulose membranes and coating and production engineering, along with advisers from nutrition networks, humanitarian organizations, supplier and distribution groups, and government aid organizations. They decided that the best solution would be to develop a sachet that, when put in contaminated water, absorbed only clean water and left all impurities outside. Water used for production or packaged is treated with chemicals and filtered through sand and carbon purifiers. The treated water passed through water filters of 5 Micron and 1 Micron before being subjected to the Ultra-violet light that destroys micro-organisms.

A prototype sachet was sent to the International Centre for Diarrhea Disease in Bangladesh, one of the best-regarded hospitals for waterborne diseases in the world. They tested the product and recommended it for field trials. Sachet as defined by Cambridge advance learners dictionary "is a small closed container made of paper or plastic, containing a small amount something, usually enough for only one occasion" and "water a clear liquid, without color or taste, which falls from the sky as a rain and it is necessary for animal and plant life.

From the above sachet water production can be define as the process of purifying water from any source to be supply to the populace in a relatively proportionate that can be use within a limited time.

1.3 Definition of Accounting

The American Institute of Certified Public Accountants (AICPA) defines accounting as "the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions, and events which are, in part at least, of financial character, and interpreting the results thereof. The American Accounting Association defines accounting as follows: "the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information!

This definition is a good place to start. Let us look at the key words in the above definition: It suggests that accounting is about providing **information** to others. Accounting information is **economic information** - it relates to the financial or economic activities of the business or organization.

Accounting information needs to be **identified and measured**. This is done by way of a "**set of accounts**", based on a system of accounting known as **double entry bookkeeping**. The accounting system identifies and records "**accounting transactions**".

The "**measurement**" of accounting information is not a straightforward process. It involves making judgments about the value of **assets** owned by a business or **liabilities** owed by a business. It is also about accurately measuring how much profit or loss has been made by a business in a particular period

The definition identifies the need for accounting information to be **communicated**. The way in which this communication is achieved may vary. There are several forms of accounting communication (e.g. annual report and accounts, management accounting reports) each of which serve a slightly different purpose. The communication need is about understanding **that** needs the accounting information, and **what** they need to know!

Accounting information is communicated using "financial statements. There are two main purposes of financial statements:

- To report on the financial position of an entity (e.g. a business, an organization);

- To show how the entity has performed (financially) over a particularly period of time (an "accounting period").

Also accounting according to Kwame, Botsec, Appiah, Mansah (1987) is an art because accounting events may be recorded in several ways according to how it pleases the recorder in transmitting economic information. Also according to Warren and Fees accounting is an information system that communicates economic information for the use by group and individuals in making an inform decision and judgments. For example, investors using firms accounting information or status in determining the firm with great potentials to enable them invest effectively, creditors seek information useful in appraising the financial soundness of the businesses organization and assessing the risk involve before granting credits. Accounting has also been define by Larson Wild Chippetta as an information and measurements system that identifies, record, and communicates relevant, reliable, and comparable information about an organizations businesses activities.

According to Harrison and Horngreen (1992) accounting is an information system; it is a combination of personnel, records, and procedures that businesses use to meet its routine needs for financial data, because business information demands each user's different accounting information system. Before looking at the challenges small scale businesses faces in carrying out accounting practices it is important to examine the accounting practices adopted by these small-scale businesses.

1.4 Importance of Accounting Practices on Small Scale Businesses

Small businesses remain an important part of the business environment ((Holmes & Nicholls, 1988; Norwell, 1998; Mitchell, Reid & Smith, 1998). Mitchell, Reid & Smith (1998), underscoring the strategic importance of accounting to firms, noted that the use of management accounting information could be linked to the success or failure of an SME.

In order to survive, SME owners and managers need updated, accurate, and timely accounting information (Lohman, 2000; Amidu and Abor, 2005). Accounting systems are responsible for analyzing and monitoring the financial condition of firms, preparation of documents necessary for tax purposes, providing information to support the many other organizational functions such as production, marketing, human resource management, and strategic planning. Without such a system, it will be very difficult for SMEs to determine performance, identify customer and supplier account balances and forecast future performance of the organization. The primary purpose of an accounting information system (AIS) is the collection and recording of data and information regarding events that have an economic impact upon organizations and the maintenance, processing and communication of such information to internal and external stakeholders (Stefanou, 2006). When organizations adopt e-accounting, they usually discover that even though computerized accounting systems handle financial data efficiently, their true value is that they are able to generate immediate reports regarding the organization (Hotch, 1992). According to ehow (2012), no business can succeed in the long term without knowing exactly where its profits come from, what its expenses are and how much it is making and spending each month-it needs accounting. However, some small-business or home-based-business entrepreneurs neglect any sort of accounting, believing that their businesses are too small to need it. Without at least some basic accounting, though, decisions and daily activities are based on guesses - not facts. A small business's accounting provides an instant snapshot of the business's current financial condition, identifying whether it has any cash on hand and whether its debts and liabilities exceed its current cash and receivables. Small business accounting provides the critical financial information necessary for making sound business decisions, from determining how much product to buy to guiding what wages the business can afford to pay. Accurate accounting allows small businesses to budget for the upcoming month, quarter or year. The planning that creating a budget requires also serves to warn the business owner of upcoming cash-flow problems and periods of especially weak or heavy demand. Accounting generates the small business's financial reports, which provide essential information about the business's performance to interest outside parties such as investors, creditors, lenders or government departments involved in tax collection. Small business accounting inherently creates a record of historical transactions, which enables the business owner or an outside financial professional to audit the books for errors or signs of fraud. The small business's accounting provides the means for the business owner to determine his tax liability in regard to sales taxes and personal or corporate income taxes (Amidu et. al, 2011).

1.5 Common Accounting Practices Adopted By Small Scale Businesses

1.5.1 The Trading Profit and Loss Accounts

According to Gupta (2012), it is the summary of such accounts, which affect the profit, or loss of the concern. These are prepared by transferring from the trial balance all nominal accounts and accounts relating to goods by means of journal entries called 'closing entries'. All remaining accounts i.e. real and personal, relating to properties, assets, debtors, and creditors are shown in the balance sheet. In order to know the overall picture of the effect of these accounts they are grouped at one place. Items increasing profit (revenue) are put on one side (credit) and those decreasing profits (losses and expenses) and the other side (debit). The balance is either net profit or net loss. This income statement is normally divided into two parts - first part is called trading account.

1.5.2 Trading Accounts

Gupta added that, the first section of trading and profit and loss accounts is called trading account. The aim of preparing trading account is to find out gross profit or gross loss while that of second section is to find out net profit or net loss.

1.5.3 Preparation of Trading Account

Trading account is prepared mainly to know the profitability of the goods bought (or manufactured) sold by the businessman. The difference between selling price and cost of goods sold is the, 5 earning of the businessman. Thus in order to calculate the gross earning, it is necessary to know: cost of goods sold and sales. Total sales can be ascertained from the sales ledger. The cost of goods sold is, however, calculated in order to calculate the cost of sales it is necessary to know its meaning. The 'cost of goods' includes the purchase price of the goods plus expenses relating to purchase of goods and bringing the goods to the place of business. In order to calculate the cost of goods " we should deduct from the total cost of goods purchased the cost of goods in hand. We can study this phenomenon with the help of following formula: Opening stock + cost of purchases - closing stock = cost of sales. As already discussed, the purpose of preparing trading account is to calculate the gross profit of the business. It can be described as excess of amount of 'Sales' over 'Cost of Sales'. This definition can be explained in terms of the equation: Gross Profit = Sales-Cost of goods sold or (Sales + Closing Stock) - (Stock in the beginning + Purchases + Direct Expenses). The opening stock and purchases along with buying and bringing expenses (direct exp.) are recorded the debit side whereas sales and closing stock is recorded on the credit side. If credit side is greater than the debit, side the difference is written on the debit side as gross profit, which is ultimately recorded on the credit side of profit and loss account. When the debit side exceeds the credit side, the difference is gross loss, which is recorded at credit side and ultimately shown on the debit side of profit & loss account.

Usual Items in a Trading Account:

A) Debit Side

Opening Stock, purchases, buying expenses, manufacturing expenses,

(B) Credit Side

Sales, Closing Stock,

1.5.4 Profit and Loss Account

The profit and loss account is opened by recording the gross profit (on credit side) or gross loss (debit side). For earning net profit, a businessman has to incur many more expenses in addition to the direct expenses. Those expenses are deducted from profit (or added to gross loss); the resultant figure will be net profit or net loss. The expenses, which are recorded in Profit and loss account, are called indirect expenses.

1.5.5 Journals

According to Larson Wild Chiappetta the process of journalizing transactions, require an understanding of a journal. While a company can use various journals, every company use general journal, which shows the debit and credit of each transactions. It can record any transaction. A general journal entry include the following

- i. Date of action
- ii. Title of effects
- iii. Dollar (Cedis) amount of each debit and credit
- iv. Explanation of the transaction as can be seen below.

1.5.6 Ledger Accounts

The next step of processing transaction is to post journal entries to ledger accounts. To ensure that the ledger accounts are up to date entries are posted as soon as possible. This might be daily, weekly, monthly or when time permits. All entries must be posted to the ledger by the end of the reporting period. This is necessary so accounts balances are current when financial statements are prepared. When entries are posted to the ledger, the debit in journal entries occupy into the ledger accounts as debit, and credit are occupy into the ledger accounts as credits as can be seen in the above. The following shows 4 steps to post a journal entry

- Identify debit account ledger, enter date, journal page amount and balance
- Enter the debit accounts number from the in the Page Reference(PR) column of the journal
- Identify credit accounts in ledger, enter date, journal page, amount and balance
- Enter the credit accounts number from the ledger in the PR column of the journal.

The posting process creates a link between the ledger and the journal entry. This link is a useful cross reference for tracing an amount from one record to another

1.5.7 The Trial Balance

The preparation of trial balance involve three steps

- list each account title and its amount (from ledger) in the trial balance
- compute the total of debit balance and the total of credit balance

- Verify (prove) the total debit balance equal total credit balances.

The total of debit balance equals the total credit balance for the trial balance as in above. If these totals were not equal, then one or more errors exist. However, the equality of these two totals does not guarantee that no errors were occurred. These errors post many difficulties on the small scale businesses in which we refer to in our studies as challenges.

These errors can be put into two; those that affect the agreement of the trial balance totals and those that do not affect the agreement of the trial balance totals.

1.5.8 Balance Sheet

The purpose of balance sheet is to show the financial position of a given business entity at a specific date. Every business prepares a balance sheet at the end of the months and most companies prepare one at the end of each month. A balance sheet consists of listing of assets, liabilities and owners' equity of a business. The balance sheet date is important as the financial position of a business may change quickly. A balance sheet is most useful if it is relatively recent.

A **Balance Sheet** is a statement of the financial position of a business which states the assets, liabilities, and owners' equity at a particular point in time. In other words, the Balance Sheet illustrates your business's net worth. (Ward, 2012)

Assets are economic resources that are owned by a business and are expected to benefits future operations. Assets may have definite physical form such as building, machinery or an inventory of merchandise. On the other hand, some asset exists not in physical or tangibly forms but in the form of valuable legal claims or rights; examples are amount due from customers, investment in government bonds and patent rights.

Liabilities; the person or organizations to which the debt is owed is called creditor. All businesses have liabilities; even the largest companies often purchase merchandise, supplies and service on accounts. The liabilities arising from such purchases are called accounts payables.

Owners' Equity; the owners' equity in a corporation is called stockholders equity. In this discussion, we will use the broader term "owner's equity" because the concepts being presented are equally applicable to the ownership equity in corporations, partnerships, and sole proprietorships. Owners' equity represents the owners' claims to the assets of the business. Because creditors' claims have legal priority over those of the owners, owner's equity is a residual amount. Owners are entitled to what is left after the claims of creditors have been satisfy in full. Therefore owners' equity is always equal to total assets minus total liabilities

1.6 Challenges of Accounting Practices in Small Scale Businesses

Challenges have been defined by Cambridge advance learners dictionary as (the situation of being faced with something needing great mental or physical effort in other to be done successfully and which therefore test a person's ability or a questioning of whether something is true or false.

For our purpose, we define challenges as the lapses, hindrances, or setbacks face by small-scale businesses in carrying out accounting practices. It can also be said to be the violation of the accounting conventions and rules in the recording and posting of accounting transaction. This can affect or not affect the agreements of the trial balance; hence, it may affect or not affect the preparation of the final accounts. Mukhaerjee (2003) put it that, a trial balance only checks the sum of debits against the sum of credits. That is why it does not guarantee that there are no errors. The following are the main classes of error that are not detected by the trial balance:

1.6.1 Challenges That Do Not Affect the Trial Balance

Mukherjee (2003) mention the following as the errors that do not affect the trial balance agreement

- An error of original entry: This is when both sides of a transaction include the wrong amount. For example, if a purchase invoice for \$21 is entered as \$12, this will result in an incorrect debit entry (to purchases), and an incorrect credit entry (to the relevant creditor account), both for \$9 less, so the total of both columns will be \$9 less, and will thus balance.
- An error of omission: This is when a transaction is completely omitted from the accounting records. As the debits and credits for the transaction would balance, omitting it would still leave the totals balanced. A variation of this error is omitting one of the ledger account totals from the trial balance.
- An error of reversal: This is when entries are made to the correct amount, but with debits instead of credits, and vice versa. For example, if a cash sale for \$100 is debited to the Sales account, and credited to the Cash account. Such an error will not affect the totals.
- An error of commission is when the entries are made at the correct amount, and the appropriate side (debit or credit), but one or more entries are made to the wrong account of the correct type. For example, if fuel costs are incorrectly debited to the postage account (both expense accounts). This will not affect the totals.
- An error of principle is when the entries are made to the correct amount, and the appropriate side (debit or credit), as with an error of commission, but the *wrong* type of account is used. For example, if fuel costs (an expense account), are debited to stock (an asset account). This will not affect the totals.

- Compensating errors are multiple unrelated errors that would individually lead to an imbalance, but together cancel each other out.
- A transposition error is an error caused by switching the position of two adjacent digits. Since the resulting error is always divisible by 9, accountants use this fact to locate the miss entered number. For example, a total is off by 72, dividing it by 9 gives 8, which indicates that one of the switched digits, is either more, or less, by 8 than the other digit. Hence, the error was caused by switching the digits 8 and 0 or 1 and 9. This will also not affect the totals.

1.6.2 Challenges That Affect the Trial Balance (Type 1 Error)

Mtewa (2011) states that, a group of errors that affect the balancing of the trial balance are known as type one errors. The trial balance can be used as an internal control tool as it helps in ensuring that the total debit balances and the total credit balances in the general ledger or nominal ledger are equal. However, there are instances when there are disparities between the debit balances and the credit balances, and this is due to errors made in the accounting process. The main reasons why type 1 errors occur are:

- The debit entry entered on the ledger is not equal to credit entry for the corresponding entry. For example, in a transaction involving a credit purchase of stock of £550; stock is debited by £550 but creditors are credited by £55 instead of £550.
- When two debit entries or two credit entries are simultaneously made for the same transaction. The imbalance will be caused because double entry rules will not have been applied correctly. A double entry system dictates that every transaction creates both a debit entry and a credit entry and not two debit or credit entries simultaneously.
- When a single-sided transaction is posted in the ledger. The double entry rules require two entries to be posted or be made for each transaction. Therefore, there will be an imbalance on the ledger, because one leg of the double entry has been posted instead of both legs; a debit and credit entry must be posted for each transaction.
- Under casting or over casting of individual general ledger or nominal ledger accounts.

It is important to note that over casting or under casting errors, two simultaneous posted debit or credit entries and one-sided transactions occur mostly in manual accounting systems. Most computerized accounting systems have internal controls that are embedded in the accounting system that make it impossible to post transactions with these errors. A computerized system will decline or refuse to post journals with the above errors. In a manual accounting system, it usually takes time to identify type 1 errors because bookkeepers and accountants use trial and error to identify the ledger accounts that contain the error or errors. To ensure that the error identification and correction process does not hold back or undermine the ability to prepare management accounts or annual accounts a temporary holding account is created. This temporary holding account is known as the "Suspense" account, it is created to artificially allow the debit balances, and the credit balances on a trial balance to agree or to balance.

If the balance on the suspense is a debit balance it can be treated as either an asset or expense, however prudent companies usually treat them as expenses. If the balance on the suspense account is a credit balance, it is recommendable that the business treats the error as a liability rather than as income. Treatment as income may lead to write-offs of future income if it turns out the reason of the disparity between the debit and credit balances was because of errors in accounting of liabilities in the nominal ledger accounts.

1.7 The Impact of Accounting Practices Challenges on the Operations of Small Scale Businesses

The following have been identified by researchers;

- failure to meet profit motive
- hinders the acquisition of loan facility
- wrong reflection of its operations
- loss of potential investors
- un able to separate business from own properties

1.8 Measures Adopted to Solve accounting practice Challenges

Addressing the challenges of accounting practices and how they influence small-scale enterprise depend on the type of error committed. However, the specific tool or measure adopted by most businesses is the system of internal control, which covers almost all aspect of their businesses operations. Internal control is a laid down procedures through which every transaction must pass in the protection of the business resources. Walter B. Meigs and Robert F (1987) defined internal control system as all measures taken by organizations for the purpose of: protecting its resources against waste, fraud and inefficiencies, ensuring accuracy and reliability in accounting and operating data, securing compliance with firm policy, and evaluating the performance in all division of the economy. *Henderson on "Components of Internal Control Structure"*, an internal control

structure or system is an amalgamation of the policies and procedures that a small business implements to ensure that each of its goals is achieved. It ensures that each employee follows directives implemented by the senior management team. It also ensures that every financial statement is accurate. In addition, an internal control structure ensures that the organization remains compliant with any laws or other legal regulations that police the industry. The Committee of Sponsoring Organizations of the Tread way Commission recognizes five essential components to this system: the control environment, risk assessment, control activities, information, and communication and monitoring.

- *Control Environment*: The control environment, also called the internal control environment, referred to value that the senior management team of a small business attaches to the importance of the audit and risk management function to the firm. In addition, this component addresses the methods and style in which internal control initiatives are implemented. Some organizations, for example, maintain an incredibly lax control environment in which few policies are put into practice and employees are given free reign. This is often the case in unregulated industries. In heavily regulated industries, such as financial services, the control environment is often incredibly formal. Various departments, including legal, compliance, and human resources, enforce many guidelines to minimize legal and financial risk to the firm.
- *Risk Assessment*: The component of risk assessment is the actions taken by a small business to determine any situations that may pose legal or financial risk to the firm. For example, a team of legal professionals may audit a business' employment records to ensure that all files are compliant with the policies of the United States Equal Employment Opportunities Commission. Likewise, an accountant may audit the financial records of the business to ensure that all accounting practices are sound.
- *Control Activities*: The control activities component describes every policy, procedure and best practice a small business put in place to minimize risk. For example, the firm's senior management may mandate that an external accountant review the organization's books on an annual basis to ensure that the internal accounting team is performing effectively. Likewise, a business may create a policy stating that the legal department before delivery must review all outgoing correspondence.
- *Information and Communication*: Information and communication are the methods used to train the employee population of the control activities. A small business may implement this component in a variety of ways. Some control activities may be spelled out in an employee handbook. Alternatively, the human resources department may deliver classroom training to the workers, educating them on all risk management policies.
- *Monitoring*: The monitoring component of the internal control structure describes a small business' practices of self-auditing its risk management systems, ensuring that all employees are compliant with the internal policies. This may be carried out through a few ways. An internal compliance department may be created specifically to audit the organization. Alternatively, the company may engage the services of an external auditing firm, to provide an independent assessment of the organization's internal control success.

2. MATERIALS AND METHODS

2.1 Research Design

A qualitative research design was employed. For the purpose of the study a non-probability sampling design in the form of a convenience sampling method was adopted and considered to be appropriate to gather primary data. The rationale for using this sampling method was on the basis of easy accessible and availability of respondents, as well as it being less time consuming and inexpensive to gather the research information. Welman and Kruger (2001) asserted that, "the advantage of non-probability samples is that they are less complicated and more economical than probability samples." The authors further postulate that convenience sampling involves collecting information of members of the population that are near and readily available for research purposes. However, a limitation highlighted by Leedy (1993) in terms of utilizing convenience sampling is that it is not necessarily representative of the population and therefore the results are not generalization to other entities. Hence, taking cognizance of the afore-mentioned and that a non-probability sample was used, the external validity of the study was compromised.

2.2 Type and Data Source

Both primary and secondary data sources were used in the entire study. Secondary data are information that has already been collected by other researchers including both published and unpublished relevant literature such as textbooks, journals, newspapers, internet documentaries among others and other institutions such as National Board for small-scale Industries (NBSSI) and Northern Region Sachet Water Producers Association (NRSWPA). For the primary data, we employed the appropriate tools and techniques to gather the data for analysis.

2.3 Data Collection Procedure

Since most of the respondents did not have finance background, the researchers explained most of the technical terms to help in obtaining the appropriate responses. To prevent a situation whereby some of the respondents will try to hide information the researchers visited each business to examine some of the documents requested for. Documents like profit and loss accounts, balance sheets, and trial balance were examined. During the visits to the respondent business offices, opportunity was taken to observe how things were done in the various shops. Telephone conversations and interviews were done with officials from the NBSSI and bank officials to collaborate the responses. These interviews ensured the establishment of rapport and permitted greater depth and probing of some personal views. This helped in obtaining a more complete data.

2.4 Type of Data and Data Collection Tools

Qualitative data was mainly collected. Descriptive information such as information on challenges of accounting practice and its effects are few of the qualitative data collected. Descriptive summary statistical were used to describe the demographic profiles of the study population. The instruments used to gather the data was the administration of semi-structured questionnaires.

2.5 Target Population

The sampling frame is the list of respondents from which the samples were drawn. It provides a complete listing of the whole population (Naoum, 2007). The target population for this study was small-scale sachet water producers of Tamale Metropolis in the Northern Region of Ghana.

2.6 Sampling Procedure

Chilipunde (2010) quoted Fellows and Liu (1997), and Naoum (2007), sampling is necessary, it is almost impossible to examine the entire population. In order to obtain a good representation of the respondents, it is possible to use a sample of the population, which is much smaller than the total population, but sized and structured to be statistically representative. Clearly, the results from such sampling will not be the same as if the whole population had been consulted, but the result is adequate for the purpose for which the information is required. Fellows and Liu (1997) assert that population parameters and sampling procedures are vital in the success of a study.

2.7 Sampling Type

Chilipunde (2010) added that, Naoum (2007), and Fellows and Liu (2007) define Random sampling – as a sampling procedure where the sample is derived by randomization process from a homogeneous or homogeneous conglomerate texture population. Fellows and Liu (1997), argue that if there is no evidence of variation in the population structure, or if there is no reason to ignore the structure then random sampling procedure is appropriate. Random sampling procedure was used for this study because there is no evidence of variation in the constraints and challenges facing sachet water producers.

2.8 Sampling Size

A sample size of 30 small-scale sachet water producers made up of 5 producers each in North, South, East and Central constituencies of Tamale Metropolis which are members of the Northern Region Sachet Water Producing Association, were examined.

2.9 Data Presentation and Analysis

Data processing tools like the Statistical Package for Social Scientists (SPSS) 16.0 and Microsoft Excel were used to analyze data and presented using frequency tables, percentages and, charts.

3. Results

3.1 Demographic characteristics

Out of 30 sample size, 83.3% were males and 6.7% were females. Also, 19 (63.3%) fell between the ages of 18 to 35 years followed by those who fall between 36 to 45 years (20%) and then 46 to 59 years (13.4%). The findings revealed that 16 (53.3%) have basic (primary) and secondary educational background with 40.0% in tertiary level.

3.2 Accounting Record Keeping

Out of the 30 respondents interviewed 20 (66.7%) keep accounting records while the remaining 33.3% do not keep any records.

3.3 Types of Records Kept By Respondents

The table below shows the various types records kept by the 20 respondents who keep accounting records.

Table 3: Types of records kept by respondents

Types of records	Frequency	Percentages
Cash book	18	90.0
Journals	-	-
Ledgers	-	-
Balance sheet	-	-
Trading profit and loss account	2	10.0
Others	-	-
Total	20	100.0

Source: Field survey, July 2012

Of the thirty (30) respondents, 20 keep records representing 66.7% out of which 18 (90%) keep cashbook, and 2 (10.0%) maintain trading profit and loss account. None of the respondents keep journal, ledgers, and balance sheet. From the statistics above, a small percentage, prepare trading profit and loss accounts while a higher percentage kept cashbook and this is prone to errors as knowledge of accounting is absent. We found out that of the 10 respondents who do not keep records, majority 8(80%) rely on their memory without documentation and the remaining 2 respondents could not pin to no specific order of keeping record for their operations. A cross tabulation revealed that, out of those who kept records, majority (70%) have obtained basic education with the rest (30%) being those in tertiary education. Despite their size for this research, females seem to have taken record keeping serious in their venture as three out of the five selected were among those who kept records.

3.4 Accounting Record Keeping Adoption Time

Out of the 20 respondent who keep records, 15 (75%) adopts accounting practices at the commencement of their business while 5 (25%) adopt accounting practices between 1 to 2 years after commencements.

The chart below depict when sachet water producers who keep accounting records adopt it.

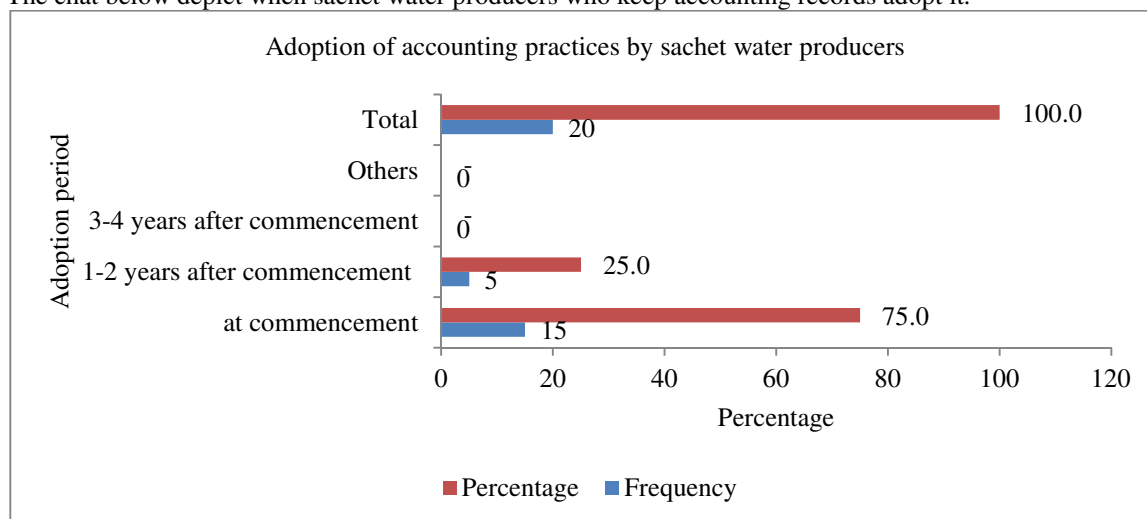


Figure 16: Periods accounting practices were adopted by 20 respondents

3.5 Challenges in Accounting Practice

Majority (75%) of the respondents out of the 20 who keep accounting records testified that they do encounter challenges in accounting practices during the operation of their business while the remaining 5 (25%) do not encounter any challenges. This higher percentage of challenges testify that great number of sachet water producer have no knowledge in accounting practices. Some challenges encountered by the 15 respondents in accounting practices are presented in the table below;

Table 4: Various challenges encountered by respondents in keeping accounting records

Challenges	Frequency	Percentages (%)
Unable to separate business from private issues	4	26.7
Unable to identify all expenses incurred by the business	1	6.7
Unable to state actual revenue	8	53.3
Unable to complete accounting records	2	13.3
Others	-	-
Total	15	100.0

Source: Field survey, July 2012

Of the 15 who encounter challenges in accounting practices during the operation of their business, 4 (26.7%) are unable to separate their business from private issues, 1 (6.7%) is unable to identify all expenses incurred by the business, while 8(53.3%) cannot state the actual revenue accrue by the business and 2(13.3%) are unable to complete their accounting records. The five respondents who asserted they do not encounter challenges in accounting practices gave factors such as quality personnel, adequate training, effective internal control and good conducts. On the causes of challenges in accounting practices among the 15 respondents, 11 (73.0%) gave lack of training as the causes of challenges in accounting of their business, negligence (13.3%), willful misconduct (6.9%) and others like time constraints (6.9%) as the reason for challenges in accounting practices. In finding out whether these challenges in accounting practices affects their businesses, out of the 15 respondents, 90% indicated it affect their business while the remaining 10% claim the challenges have no effects on their operations.

The table below indicates the effects of challenges in accounting practices on sachet water production.

Table 5: Effects of challenges on business

Effects of challenges on business	Number	Percentage
Financial loss	10	71.4
Poor record management	1	7.1
Less credit worthiness	3	21.4
Others	-	0.0
Total	14	100.0

Source: Field survey, July 2012

Of the 14 respondent who agree that the challenges in practicing accounting, negatively affect their business, majority (71.4%) mentioned that it leads to financial loss followed by less credit worthiness (21.4%) and poor record management (7.1%). On the field, we asked producers whether there has been is a change in the challenges they face after they adopt accounting practices. It was revealed that, of the 5 respondents who adopt accounting practices 1-2 years after commencement, 4 (80%) agree that they had been a positive difference between the time they were not keeping account records and the time they adopted accounting practices, while only one producer admitted that there is no difference.

3.6 Positive ways to solve these challenges

On efforts put in place to address challenges in accounting practices faced by sachet water producers, out of the 14 producers who asserted that challenges in accounting have negatively affected them, half (50.0%) and 5 (35.7%) said effort of management and employees and, continual workshop can remedy the challenges. However, the remaining 2 (14.3%) producers have not been able to unravel these challenges. In finding reasons why despite efforts put in place the mentioned challenges still exist, it was revealed that of the 14 producers, 10 (71.4%) said professional bodies in the sector have not attach seriousness to accounting in the business and 2 (14.3%) attributed it to lack of interest by managers and employees. The remaining 2 (14.3%) producers have stated that no serious punishment have been executed out on those who have violate the accounting standards due to negligence or willful misconduct. Largely, we sought the opinion of the 15 who encounter challenges in accounting practices on ways to solve these challenges. The table below depicts the result.

Table 6: Ways to solve challenges in accounting practice

Responses	Frequency	Percentage (%)
Adequate professional training	3	20.0
Organizations goal should precede individual goal	2	13.3
Effective internal control	8	53.4
Motivation of employees	2	13.3
Others	-	-
Total	15	100.0

Source: Field Survey, July 2012

From the table above, plurality of producers have the views that effective internal control (53.4%) followed by adequate professional training on accounting in the small-scale business (20.0%) can promote accounting practices. The remaining 26.6% think organizations goal should precede individual goal and motivation of employees will work out the challenges of accounting practices in the sachet water enterprise.

4. Discussion

4.1 Demographic characteristics

Males were found to dominate the sachet water producing business than their female counterparts. More females can therefore take advantage of this production sector especially those acquiring accounting skills and knowledge can become part-time or full-time staff in this sector. It was also obvious that as majority of sachet water producers are within the active group and have attained the level of basic and secondary education showing that almost all are inadequately qualified in the accounting field leading to inefficiency in accounting practices. They can therefore utilize opportunities to acquire accounting profession.

4.2 Accounting Record Keeping

The revelation that majority (66.7%) keep accounting records became interesting to assess their accounting practices. This also implies that efforts are being made by this small-scale enterprise to gather some accounting information despite their low level of education. On the other hand, while the 33.3% who do not keep any records points that they face negative effects of accounting practices and therefore calls for urgent attention in providing them with basic accounting training as they were found to have attained primary education.

4.3 Types of Records Kept By Respondents

For those who keep accounting records, a small percentage, prepare trading profit and loss accounts while a higher percentage kept cashbook and this is prone to errors as knowledge of accounting is absent. Other forms of records kept by respondents who do not keep accounting records were that majority get their business transaction from their memory while others have no specific order of keeping records. This is a serious challenge that affects the success of most sachet water producers.

4.4 Accounting Record Keeping Adoption Time

In ascertaining when sachet water producers who keep accounting records adopt the accounting practices, majority adopts accounting practices at the commencement of their business while minority adopt accounting practices between 1 to 2 years after commencements. With this information, one can conclude here that despite their background they ensure that accounting is being practiced and there is therefore hope that one could trace their financial status.

4.5 Challenges in accounting practices

This higher percentage (75%) out of the 20 who keep accounting records who testified that they encounter challenges in accounting practices indicates that great number of sachet water producer have no knowledge in accounting practices. Majority (53.3%) testified that they cannot state the actual revenue accrued by the business followed by their inability to separate their business from private issues. Other challenges identified were inability to identify all expenses incurred by the business and their inability to complete their accounting records. This reveals that that mismanagement, loss of business assets and, uncertainties in business operations, were challenges encountered by sachet water producers in the area of their business when they were not keeping accounting records. Those who asserted they do not encounter challenges in accounting practices gave factors such as quality personnel (mainly those who had basic accounting in secondary and training colleges), adequate training, effective internal control and good conducts.

4.6 Causes of challenges in accounting practices

On causes of challenges in accounting practices, the main finding of this study was that most sachet water producers admitted that lack of adequate training is the major cause of challenges in accounting practices. This is as a result of the fact that sachet water production business within this part of the country is less creative and hence, employing well qualified personnel will mean paying more for such employees who in actual fact may not generate enough revenue to meet their pay. On the other hand, such qualified personnel have set their eyes on well-paying jobs and consider work with sachet water enterprise as not deserving their level of qualification. The study also brought to light the fact that, willful misconduct is another major cause of the challenges in accounting practices. This is manifested in the fact that accounting officials in their bid to satisfy their selfish interest misrepresent facts in accounting records leading to undesirable consequences of challenges. Another predominant cause of challenges in accounting practices which generated as a result of the study had to do with

negligence. This is so because some accounting staff does not attach seriousness to their work hence they neglect their duty of ensuring good and sound accounting practices. The study has proved beyond all reasonable doubt that challenges in accounting practices have affected negatively on the life and growth of sachet water production in Tamale Metropolis. Among these challenges have resulted in poor record management and have extensively cause financial loss to sachet water enterprises, as they are not able to separate business from private issues, under casting or over casting of revenue etc.

4.7 Effects of challenges in accounting practices

The findings revealed that out of 15 respondents who testified to encounter challenges, 14 of them indicated that these challenges affect them. It was brought to light the fact that majority of the sachet water enterprises whose accounting records are beset with challenges face financial loss, lack the credit worthiness of accessing loan and funding for further investment hence their ability to grow. We also found out that persistent challenges in accounting practices within a firm will cause it to lose its goodwill, the level at which the public would wish to do business with the enterprise will dwindle as a result of the challenges in accounting practices of that enterprise.

4.8 Possible solutions to the challenges in accounting practice

In their attempts to address the challenges in accounting practices, the respondents claimed that one way to find solution to these challenges is to encourage both management and employees to put much effort in ensuring effective accounting practices. They also mention job training through continual workshop can upgrade their skills and afford them the opportunity to learn new principles introduced in the accounting profession. This they believe when properly handled will benefit many people including those who did not previously have knowledge in accounting as they learn the basics of book keeping techniques for the small-scale businesses. Additionally, the respondents were of the view that accounting bodies that set standards for the profession should consider it a duty to make available text and guidelines on sound accounting practices from time to time. This will go a long way to give assistance to those who have the self-esteem ego of not consulting others for guidance where they fall short to teach themselves to understand and put into practices good accounting techniques to avoid challenges in accounting practices. In pursuing this research, it became known that one way of addressing the challenges lies in the fact that people who want to pursue accounting as a profession should in fact go in for the necessary professional training to equip themselves with all the skills needed to function effectively as accountants or account officers. The study also identified the fact that when staff learn to prioritize, thus to let organizational goal precede individual goal, it will in a way reduce drastically the issues of accounting challenges. Majority suggested effective internal control as one of the major ways of finding solution to the issue of challenges in accounting practices.

Conclusions and Recommendations

The main objective of the study was to assess the adoption of accounting practices and its effects on sachet water producers. It is evident from these findings that majority of the sachet water producers adopt accounting practices. However, challenges in accounting practice have been a common feature associated with most sachet water producers and those in Tamale Metropolis are not exception. Among the factors that were identified include lack of training, willful misconduct, negligence etc. It was also revealed that there low level of education and ignorance affects producer's adoption of accounting practice, hence a great number of sachet water producers in the area operate without accounting knowledge despite their successes. These challenges affect negatively on the growth of these enterprises as they cause cash drainage, financial lost and low profitability. Financial loss, limited access to credit and dented image are other effects of these challenges. Serious measures therefore need to be adopted to minimize if not eliminate these challenges in accounting practices among the sachet water producing firms. Knowing the fact that lack of professional training is the major cause of the challenges in accounting practices, account officers in the sachet water producing sector should be encouraged to go in training to acquired knowledge and skills needed to perform accurate accounting procedures. Since our focus is on sachet water production, it will be a step in the right direction, if government, non-government organizations take it upon themselves to provide accounting in-service or on-the-job training for financial managers or owner-managers in this sector to improve their knowledge.

Most of the challenges that are recorded are because of lack of knowledge in accounting by financial managers who are the key financial planners and managers of the enterprise. Their inefficiency will affect the whole accounting system in the enterprise. Sachet water enterprises should learn how to maintain strong internal control system to check the practice of misappropriation of funds in the enterprise. Internal control system is a very important tool in accounting system in which every transaction is needed to pass through in an accounting cycle. This is to check the accuracy and reliability of every transaction in the business. With this, if businesses maintain a strong internal control system those challenges will not be recorded in the sachet water production

business. Qualified personnel should always be employed and placed appropriately to enhance efficiency in accounting practice. If these personnel are not employed rather than unqualified accounting practitioners, this will result in challenges in accounting practices and waste of funds of the enterprise involve. Good motivational packages should be given to the employees to ensure their accuracy and reliability in their recording of financial transactions of the business. When employees are given adequate motivational packages it will discourage them from using non-approved methods in recording the business financial transactions. Motivational packages also enhance employee's efficiency and morale, as they are aware of packages to be received.

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