

# Perceptions of Financial Records Keeping and Reporting Practices Among Micro and Small Enterprises'

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## Abstract

Today, most of developing country economy is changed through MSE business operation were Ethiopia is a part. In this regard the financial record keeping and reporting practice of MSE has got much attention. This study aims to look at perception of financial record keeping and reporting practice of MSE in case of four Wollega zonal administrations. The target population of this study was 5,145 MSEs found in the selected four towns that are engaged in different sectors. A simple random sampling technique was adopted. A sample of 194 was taken by using Slovin's Sampling formula. The required data is collected from 178 sample (around 91%) respondents using self-administered five point-likert scale questionnaires. Data collected is processed by using SPSS version 16 software and STATA 10 and analyzed by using different descriptive statistics. Multinomial regression model was also adopted. The study reveals that, even though there is willingness of financial record and report makes to understand what is going on in their businesses, MSE have perceived that, they have not initiated by them-selves rather it is by the external push and they consider record keeping is a tedious activity. In regard with Knowledge, MSE owner and employees have no basic knowledge of bookkeeping and accounting. They also face difficulty to easily understand and control what is going on in their business. In addition study result indicates MSE are perceived that their business will proceed and successful even if they have no financial record promptly. This cause Micro and Small Enterprise financial record and reporting practice, to be odd till right now in four Nekemte zonal administrations. The result indicates that MSE do not hire a professional considering that it is waste of money and MSE do not require the use of consultants for financial record and preparation of legal financial reporting of their business. Concerning preparations of proper accounts the result indicates that Micro and Small Enterprises consider no need to have separate account for different financial information and uses of one account for all purpose, which makes ineffective record keeping and reporting of their business financial operation.

**Keywords:** Record Keeping, Financial Report, Micro and Small Enterprises

## 1.1. Introduction

One major area that could be investigated is the extent to which the MSE's owners and managers keep records of their business operations. Bookkeeping is the first essential step of accounting which as a system provides a source of information to owners and managers of MSE's operating in any industry for use in the measurement of financial performance. The importance of financial performance measurement to any business entity cannot be over-emphasized. In this sense, the accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement.

Cooley and Edwards, (1983) argue that MSEs must devise strategies of solving internal problems of managerial challenges that immensely retard their success. The internal factors are managerial skills, workforce, accounting systems and financial management practices. However, since the accounting department is perceived as a service unit to support the firm's operations by making available information on costs and performance indicators, a large number of business failures have been attributed to inability of financial managers to account properly the current assets and the current liabilities of their respective firms (Dodge & Robbins, 1992 and Ooghe, 1998).

Poor finance management has been posted as the main cause of failure on the MSE's (Longeneter et al 2006). Bowen (2009) observes that there is a strong relationship between business performance and the level of training in the business management especially in business finance record keeping. Business management entails keeping proper records of the business transactions. Knowledge and skills in bookkeeping is especially one major factor that impacts positively on sustainability and growth of MSEs. Failure to record business financial transactions (bookkeeping) leads to collapsing of the business within few month of its establishment (Germain 2009). In essence, recordkeeping is one thing an entrepreneur cannot afford to ignore.

Maseko and Manyani (2011) stipulate that MSEs business recordkeeping is the backbone of one's business. As much as it seems to be a laborious task for many, it will make or break one's business. Keeping accurate records is actually what creates a profitable business. In essence, one should not take MSEs recordkeeping lightly. Germain (2010) observes that most business operators especially those in MSEs perceive recordkeeping as a chore that must be done to simply get back some much needed cash at the end of a particular period of time for example after an year. However, actually, accurate recordkeeping is not as important to many business operators. With this perspective, it is no wonder so many of these businesses fail from the beginning (Wanjohi

(2012).

Furthermore research has also confirmed that poor or lack of recordkeeping in a business and especially the Small enterprises lead to their collapsing (Germain 2010). The effort made by the Government and the banks in Ethiopia is vital for not only the growth of MSE's sector but also for the overall economic growth of the country. Research in the area of MSE's would therefore be important if the country's economy and hence poverty reduction is to be realized. In essence, the cause for collapsing of majority of the MSE's few months of their operation should be investigated for the purpose of coming up with fruitful intervention measures.

Research has shown that in any business, recordkeeping is the first step of the accounting process, which also includes classifying, reporting and analyzing the business financial data. It involves organizing and tracking receipts, cancelled checks and other records generated by financial transactions. Bookkeepers chronologically record all transactions: cash disbursements, cash receipts, sales and purchases, and others in a journal and post the journal entries to a general ledger of accounts, which is essential for preparation of monthly financial statements. This is imperative for a profitable business. Further, research has in the past shown that in business management, proper keeping of records of all business transactions is vital for the success of the business (King and McGrath 1998). In addition, Butler (2009) asserts that without accurate and complete records of business transactions the business is doomed to fail at its onset.

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

Profit and wealth maximization is most often the priority of every business entities with no exception of MSE's. Attitude towards financial record keeping and reporting is inferred to be the factors affecting a MSE's business operations. This going to assured through a good accounting bases, concepts and principles adopted, that ought to capture and report all the relevant accounting or financial information to ensure reliability in its measurement (Haryani, 2012). For example, reported profits reflect changes in wealth of owners and this can explain why major economic decisions in business are centered on financial performance as measured by profitability, (Cooley and Edwards, 2004).

The poor performance of small and medium scale business can be attributed to hosts of factors of poor accounting record keeping. Thus, the accounting department is perceived as a service unit to support the MSE's operations by making available financial information on costs and performance indicators. However, a large number of MSE's business weakness and failures have been attributed to inability of financial managers to account properly the current assets and the current liabilities of their respective firms (Dodge & Robbins, 2012). The study by Cooley and Edwards, (2005) argue that MSEs must devise strategies of solving internal problems of managerial challenges that immensely retard their success. The internal factors are managerial skills, workforce, accounting systems and financial management practices.

In effective adoption of basic accounting procedures and financial reporting that have been implemented and applied in MSEs is also pointed as a challenge to have good financial record keeping practices and financial report. A study by Victor, (2012), state that "The four main qualitative characteristics of financial statements", states objective of financial statements is to satisfy the information needs of a range of its users were it is not properly addressed by MSEs. The researcher further stated that for financial statements and reports to achieve this objective they must possess specific characteristics; the four primary attributes are understandability, relevance, reliability and comparability must be kept. However, there are other qualitative characteristics of financial statements like consistency and fair presentation. These characteristics define what makes financial statements useful to the users that will be hand in hand with basic accounting procedures and financial reporting used.

It is also imperative to state that the absence of financial reports impair the growth of the MSE which is prevailed in the selected four towns. It is therefore in the wake of finding out the reasons behind small scale enterprises' inability to keep proper accounting records and failure to give financial reports, the researchers deemed it appropriate to undertake this research work. This study therefore explores the perceptions of financial record keeping and financial report practices of MSEs in selected four towns.

## **1.3. Objective of the Study**

### **1.3.1. General objective**

The main objective of the study was to assess the perception of accounting records keeping and financial reporting practices of MSE's in selected four towns.

### **1.3.2. Specific Objective**

In addition to the above general objective the following specific objective will be:

1. To assess MSE willingness of having financial records keeping and reporting
2. To assess the MSE knowledge toward financial records keeping and reporting
3. To analyze the preparations of proper accounts financial records keeping and reporting
4. To assess the need for professional and consultancy in financial records keeping and reporting

5. To assess the perceived Benefits financial records keeping and reporting

#### 1.4. Research Question

The study will point on the following research questions:

1. How does MSE willingness of having financial records keeping and reporting?
2. What is the MSE knowledge toward financial records keeping and reporting?
3. What is the practice of MSE in having proper accounts for financial records keeping and reporting?
4. How does the need for professional and consultancy for financial records keeping and reporting?
5. How does perceived benefits from financial records keeping and reporting?

#### 1.5. Significant of the study

The study investigates the perception of MSE's owners or managers/employees in keeping records of their business operations. The findings of this study likely provide a more comprehensive picture of the current status of MSE's perceptions of recordkeeping, that lead to a better understanding of this phenomenon and thereby the development of more effective strategies to aid effective record keeping of the MSE's. Additionally, the findings contribute to bridging of the wide gap that exists between having and not having financial record, since it would suggest of ensuring MSE's toward recordkeeping and reporting practice. The information generated also helps for MSE promoters, research and development organizations, policy makers, government and MSE support institutions for their activities in designing of policies and strategies that facilitate the loan delivery for the MSE firms. Finally, the findings of the study may add theoretical and empirical literature to the body of knowledge in areas of financial record keeping by the MSE that practitioners and other researcher may use in their research work.

#### 1.6. Scope and limitation of the study

This study was conducted based on data collected from the perception of the study participants or MSE owner, manger and employee which was subjective in responding about financial record keeping by the MSE firms which may lack objectivity on the data gathered. This study focused on perceptions of financial record keeping and reporting by the MSE's in selected four towns. According to, Germain, (2010) one major factor that has been blamed for the failure of the MSE's is poor or lack of knowledge in the financial record keeping and business financial management. Very few researches have been conducted in this area were this study will indeed undertake to fill the gap considering the selected four towns. For the purpose of investigation, the study has not determined other factors that may lead to weak financial record keeping MSE's.

#### 1.7. Empirical Literature

In the 21st century, the critical roles Small and medium-sized enterprises (MSEs) play in economic growth and sustainable development of every nation cannot be over-emphasized especially for the rural economy (Maseko and Manyani, 2011; Tambunan, 2009). A major indicator of a booming economy is a vibrant Small and Medium Enterprises (MSEs) sub-economy and how efficient they contribute to GDP.

Cooley and Edwards, (1983) argue that MSEs must devise strategies of solving internal problems of managerial challenges that immensely retard their success. The internal factors are managerial skills, workforce, accounting systems and financial management practices. However, since the accounting department is perceived as a service unit to support the firm's operations by making available information on costs and performance indicators, a large number of business failures have been attributed to inability of financial managers to account properly the current assets and the current liabilities of their respective firms (Dodge & Robbins, 1992 and Ooghe, 1998).

Enterprises are categorized by size, sector and the motivations of their owners. There cannot be a universal means to the provision of services and policy formulation. As such it is argued that management techniques which are critical for large firms may not be appropriate for the small ones, yet some basic record-keeping and financial awareness are essential for their survival (Chittenden, Poutziouris, and Michaela, 1998).

Jarvis, Kitching, Curran, and Lightfoot (1996) also reported that the financial management skills of small business are not same as those of large ones. They found that personal and business goals of owner /mangers owner have diverse directions. These are forms an integral part in the strategies which they adopt and are, therefore, prominent in their firms' information systems. These personal business goals when not well tailored can render less time to the accounting and finance function. Nayak and Greenfield (1994) also empirically support the argument that micro firms lack signs of any systematic accounting practices.

A core function of accounting systems is to avail accurate information to owners and managers of MSEs operating in any industry for use in the measurement of financial performance. Consequently, the importance of financial performance measurement to any enterprise, big or small, cannot be over-emphasized (Padachi, 2012; Amoako et al, 2013). In other words, since profit maximization is most often the priority of business entities, the

accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement (Haryani, 2012; Amidu and Abor, 2005; Mbroh and Atom, 2012).

Reported profits reflect changes in wealth of owners and this can explain why major economic decisions in business are centered on financial performance as measured by profitability, (Cooley and Edwards, 1983). It therefore doesn't come as a surprise when the European Commission (EC), (2008) established that appropriate accounting information is important for a successful management of any business entity, irrespective of the size.

Son et al. (2006) in conformity to previous studies found out that socioeconomic and domestic factors, such as the level of economic development, the legal and regulatory system, educational and professional infrastructure, colonial heritage, and history and culture, are likely to influence the relevance of small companies' financial information (UNCTAD, 2000; Saudagaran & Diga, 2003; Kosmala-MacLulich, Sikorska, & Gierusz, 2004; Sevic, 2004).

Staubus (1961, 1977) also promote the notion that a critical factor behind the identification of users and the uses of corporate financial information is "decision-usefulness" theory which states that accounting is described as a process of providing relevant information to the relevant decision makers (Gary, Owen, & Adams, 1996). Therefore Son et al., (2006) strongly suggest that the usefulness of financial information is ascertained by how it aids the users in making rational decisions, and the users' perspectives of the objective of the financial reporting also make it easier to choose accounting treatments.

Another finding is in support of the fact that daily decision making by owner/directors is most often based on accounting information. Furthermore taxation authorities also form part of users of the financial statements of small and medium size entities. However, accounting standard setting bodies also consider it on the general purpose of financial statements and exclude the specific needs of these two users (Son et al., 2006).

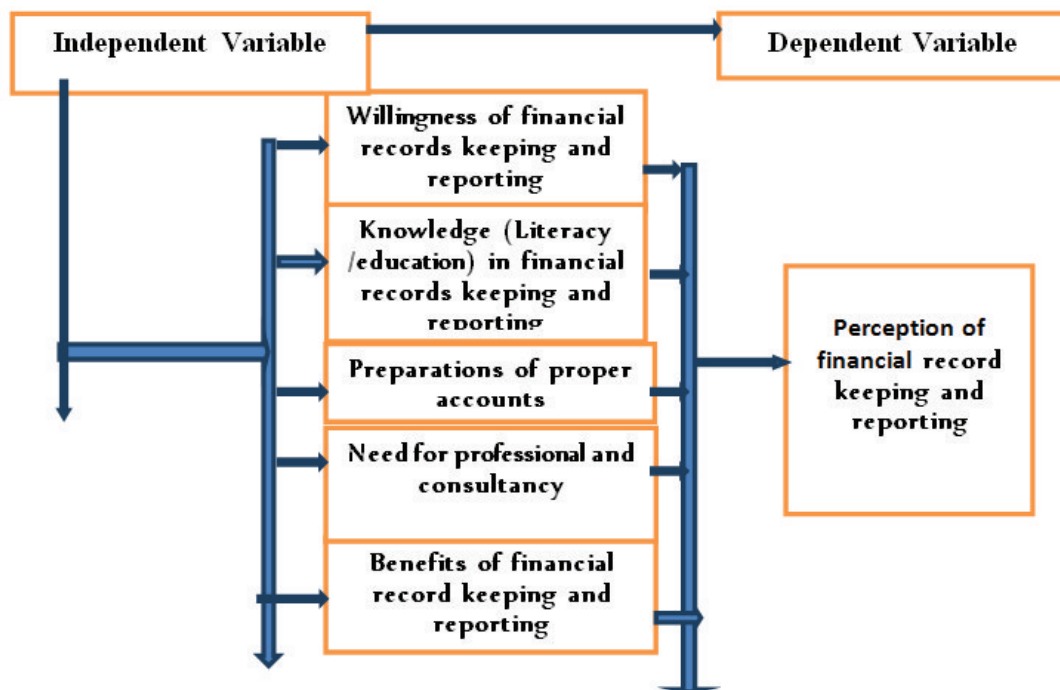
Carsberg, Page, Sindall, and Waring (1985) and Deakins & Husain (1994) indicated that financial statements of MSEs play important role in lending decisions of banks, in which banks are the main source of external finance to them. In Ghana, since there is no statutory requirement for the MSEs' financial information to be publicly disclosed, the numbers of users of the MSEs' financial reports are perceived to be limited.

On the issue of user needs, the use of profitability information according to Page (1984) is the core for MSEs externally reported information. Furthermore, the author realized that beside the profitability most of the respondents believed that the turnover of a company should be disclosed. In another study, the directors rated the disclosure of directors' emolument as the most insignificant disclosure requirement.

### 1.8. Conceptual Framework

The following conceptual frame work is developed for the study.

Fig, 1.1 Conceptual frames works



### 1.9. Research Design

The study design was a descriptive and explanatory research type. A descriptive survey attempts to describe



characteristics of subjects or phenomena, opinions, attitudes, preferences and perceptions of persons of interest to the researcher (Bel, 2001). Moreover, a descriptive type aims at obtaining information from a representative selection of the population and from that sample the researcher is able to present the findings as being representative of the population as a whole (Mugenda and Mugenda, 1999). The study was also guided by both qualitative and quantitative research approach.

### 1.10. Target Population

The target population of this study was MSEs found in the selected four towns. The owners and managers MSE was used as the respondent for this study to offer information majorly about the role accounting record keeping and financial reporting practices has played in their enterprises. Since enterprises can be managed by managers employed and by the owners (act as managers of their business) of the enterprise, were seen as most appropriate to give out the required information by this study. The total target population of this study is presented below:

Table 3.1.: Target population

No	Description	Nekemte town	Gimbii Town	Shambu town	Dembi Dolo Town	Total
1	Manufacturing	317	84	22	41	464
2	Construction	406	305	43	31	785
3	Agriculture	17	23	14	8	62
4	Dairy	118	85	68	60	331
5	Mineral	3	6	4	7	20
6	Service	797	406	295	325	1823
7	Trading	637	341	326	368	1672
	Total	2,295	1,250	760	840	5,145

Source: Nekemte MSE office, 2017

### 1.11. Sampling method and sample size selection

Sampling is the process of selecting individuals for a study (McMillan and Schumacher, 1999). For the purpose of this study probability sampling techniques by using simple random sampling technique was used to sample the respondents. The total sample size was calculated using Slovin's sampling formula:

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

Where  $e$  is the level of precision, i.e.,  $e = 0.075$   $N =$  Population size; and  $n =$  sample size

$$n = [5,145 / (1 + 5,145 * (0.07)^2)]$$

=195 respondents

### 1.12. Data Type, Source and Method of Data Collection

#### 1.12.1. Data Type and Source

The necessary data required for this study was both primary and secondary data. Primary data was acquired through a questionnaire which is designed in linkert scale forms of structured type questioners. Secondary data was collected via books, articles, journals, publications, audited annual reports of the company under this study and internet sources of related materials.

#### 1.12.2. Method of Data Collection

The primary data was collected through self-administrative structure. The questioners was accessed to MSE's owners and manager through self-administration and data collector, since the entire respondents are found in selected four towns.

### 1.13. Model Specification

Different researcher uses different model in their analysis of the effect of explanatory variables on the dependent variables under investigation. In this study, for determining the severity and specificity of the independent variables over the dependent variable (financial record keeping and reporting) in the study, the following regression model is applied.

$$FRKR = \beta_0 + \beta_1 Will + \beta_2 Knw + \beta_3 PrAct + \beta_4 ProfCon + \beta_5 PerBen + e$$

Where: FRKR = Financial record keeping and reporting which is a dependent variable in the study

The explanatory or independent variable of the study used in the regression analysis includes:

Will = Willingness of financial record keeping and reporting

Knw = Knowledge of financial record keeping and reporting

PrAct = Proper account for financial record keeping and reporting

ProfCon = Need for professional and consultancy for financial record keeping and reporting

PerBen = perceived benefit for financial record keeping and reporting

$e$  = is the stochastic random term

According to Greene (2012), Homser and Lemeshow (2000), and Treiman (2009) multinomial (polytomous) logistic regression fits maximum likelihood models with discrete dependent variables when the dependent variable takes on more than two outcomes and the outcomes have no natural ordering. If the dependent variable takes on only two outcomes, estimates are identical to those produced by the logistic regression model which calculate the OR as a measure of the strengthens of the association between the outcome and a covariate.

To understand what means the perception of financial record keeping and reporting let as consider the dependant variable  $y$  coded into three outcomes:

- 1= 'I have not yet started to use record keeping',
- 2= 'I have started but face difficult to use record keeping',
- 3= 'I have started to use record keeping', and
- $x$  = the explanatory variable

In the multinomial model, the study estimates a set of coefficients:  $\beta^{(1)}, \beta^{(2)}, \beta^{(3)} \dots$  corresponding to each outcome as follow:

$$P(y=1) = \frac{e^{x\beta^{(1)}}}{e^{x\beta^{(1)}} + e^{x\beta^{(2)}} + e^{x\beta^{(3)}}$$

$$P(y=2) = \frac{e^{x\beta^{(2)}}}{e^{x\beta^{(1)}} + e^{x\beta^{(2)}} + e^{x\beta^{(3)}}$$

$$P(y=3) = \frac{e^{x\beta^{(3)2}}}{e^{x\beta^{(1)}} + e^{x\beta^{(2)}} + e^{x\beta^{(3)}}$$

Setting  $\beta^{(1)} = 0$  to allow for the identifiability of the model, the equations become:

$$P(y=1) = \frac{1}{1 + e^{x\beta^{(2)}} + e^{x\beta^{(3)}}$$

$$P(y=2) = \frac{e^{x\beta^{(2)}}}{1 + e^{x\beta^{(2)}} + e^{x\beta^{(3)}}$$

$$P(y=3) = \frac{e^{x\beta^{(3)2}}}{1 + e^{x\beta^{(2)}} + e^{x\beta^{(3)}}$$

#### 1.14. Method of Data Process, Presentation and Analysis

The qualitative data was organized and arranged according to the objectives of the study. The data collected was again coded, and organized into categories and labeled. The data collected was checked for completeness and consistency of the responses, edited and then entered in Statistical Package for Social Science (SPSS) version 20 software and STATA 10.0. Descriptive analysis and multinomial logistic regression model was employed for the data analysis. The descriptive parts analyzed the result of the study using frequency, percentages. The multinomial logistic regression and correlation between each explanatory variable is explained. Finally, interpretation of the data will be made. The data will be then to be presented in form of graphs and tables.

#### 1.15. Demographic information

This section presents the study demographic information concerning MSEs in Four Wollega zonal administrations.

**Table 4.1: Respondents Demographic information**

No	Demographic information	Demographic information	Frequency	Percentage
		Construction	27	15%
		Trading	2	1%
		Agriculture	11	6%
		Dairy	2	1%
		Service	63	35%
		Manufacturing	57	32%
		Mineral	16	9%
		Total	178	100%
2	Age of your business	1 to 5 years	26	15%
		6 years to 10 years	112	63%
		11 years to 15 years	34	19%
		More than 16 years	6	3%
3	Number of employees	One to five	32	18.0
		Five to twenty	102	57.3
		Twenty one to fifty	39	21.9
		Above fifty	5	2.8
4	Manager of your business	The owner	122	69%
		Employed /salary manager	48	27%
		Someone else	8	4%
5	Academic background	Under 12 Grade	86	48%
		Twelve complete	52	29%
		TVET/Diploma	28	16%
		BA/BSC and above	12	7%

Source: Researchers own computation from survey result (2017).

Table 4.1 shows that 32% of the MSEs are Manufacturing, 15% of the MSEs are Construction, 1% of the MSEs are Trading, 6% of the MSEs are Agriculture, 1% of the MSEs are Dairy, 63% of the MSEs are Service and 9% of the MSEs are Mineral. This result indicates majority of the respondents are engaged in service and manufacturing.

Table 4.1 shows that 15% of the MSEs are owned by persons that are from 1 to 5 years old, 63% of the MSEs are owned and operated by young people from 6 years to 10 years old and 19% of the respondents are 11 years to 15 years and 3% are more than 16 years. Majority of MSE are below the age of 15 which means majority of the MSE owners are of the young generation, and of them 1.2% are in their teen age.

Table 4.1 shows that 15% of the MSEs have one to five employees, 63% of the MSEs have Five to twenty employees, 19% of the MSEs have Twenty one to fifty employees and 3% of the MSEs have above fifty employees. This result indicates majority of MSE have employee more than five.

Table 4.1 shows that 69% of the MSEs are owner manager, 27% are employed manager/salary manager and 4% of the MSEs are someone else. This result indicates majority of MSE are managed by the owners.

Table 4.1 shows that 48% of the MSEs are under 12 grade, 29% of the MSEs are twelve complete, 16% of the MSEs are TVET/Diploma and 7% of the MSEs are BA/BSC and above. This result indicates majority of MSE are under 12 grades were they lack of having financial records keeping.

#### 1.16. Perception of financial records keeping and reporting

This section presents the perception of financial records keeping and reporting in reference to their willingness, owners' literacy (education), preparations of proper accounts, hired professional and consultancy and benefits of recordkeeping by the MSE sample taken from four Wollega zonal administrations.

#### 1.17. Willingness of FRKR

The study result and analysis concerning willingness of financial records keeping and reporting by MSEs is presented in the following table 4.2 below.

**Table 4.2: Participants' Response to Willingness of financial records keeping and reporting**

No	Description	Level of agreement	Descriptive statistics		
			F	%	Mean
1	Willing to have financial record keeping that make one more aware of what is going on in a business.	Strongly Disagree(1)	7	3.9	4.17
		Disagree(2)	14	7.9	
		Undecided (3)	1	.6	
		Agree (4)	76	42.7	
		Strongly Agree (5)	80	44.9	
			178	100.0	
2	I believe that MSE business such as mine should keep accounting records being kept and maintained.	Strongly Disagree(1)	107	60.1	1.97
		Disagree(2)	29	16.3	
		Undecided (3)	2	1.1	
		Agree (4)	20	11.2	
		Strongly Agree (5)	20	11.2	
			178	100.0	
3	Other concerned body like tax authority forces me rather than my own interest to have financial records keeping and reporting.	Strongly Disagree(1)	8	4.5	3.78
		Disagree(2)	32	18.0	
		Undecided (3)	5	2.8	
		Agree (4)	80	44.9	
		Strongly Agree (5)	53	29.8	
			178	100.0	
4	I always recognize that financial records keeping and reporting is a tedious activity.	Strongly Disagree(1)	25	14.0	3.29
		Disagree(2)	40	22.5	
		Undecided (3)	0	0	
		Agree (4)	84	47.2	
		Strongly Agree (5)	29	16.3	
			178	100.0	

**Source:** Researchers own computation from survey result (2017).

**NB :** Strongly Disagree refers to (1), Disagree refers to (2), Undecided refers to (3), Agree refers to (4), Strongly Agree refers to (5), F- refers to frequency, % - refers to percentage

As it can be observed from the table above, majority of the respondents 156 (87.6%) did say agree, saying that they have the willingness of having financial record keeping that makes Micro and Small Enterprises more aware of what is going on in their businesses. The mean score of 4.17 also evidenced Micro and Small Enterprises have an interest towards having financial records and report. Hence, the result indicates that Micro and Small Enterprises have an interest to understand what is going on in the businesses by having record keeping and producing financial that reflect their financial operation.

Majority of respondent 136 (in percent 76.4%) are disagree, saying that I do not believe MSE business such as mine should keep financial records being kept and maintained. The mean of 1.97 also supports that they are disagreed with the statement. This result indicates MSE are in perception not having financial record and report practice at their current level of financial performance.

Again majority of respondent 133 (in percent 74.7%) are agree saying that other concerned body like tax authority forces me rather than my own interest to have financial records and reporting. The mean of 3.78 also supports that they are agreed with the statement. This result indicates that MSE are not initiated by them-selves to have financial record and reporting practice. This shows they were rarely considered financial record and report practice is for their business concern, rather it is by the external push.

In addition, majority of respondent 113 (in percent 63.5%) are agree that they recognize financial record keeping and reporting is a tedious activity. The mean of 3.29 also supports that they are agreed with the statement. This result indicates that MSE are perceived financial record and reporting is a tedious activity.

### 1.18. Knowledge (education) in FRKR

The study result concerning MSE owners' or employee knowledge (education) in financial records keeping is presented in the following table 4.3 and analyzed below.



**Table 4.3 : Business owners' literacy(education) in financial records keeping**

No	Description	Level of agreement	Descriptive statistics		
			F	%	Mean
1	I have some basic knowledge of bookkeeping and accounting that helps me to have records keeping and reporting of my business transaction.	Strongly Disagree(1)	110	61.8	1.57
		Disagree(2)	54	30.3	
		Undecided (3)	2	1.1	
		Agree (4)	5	2.8	
		Strongly Agree (5)	7	3.9	
2	I did not know what I'm doing and easily understand what is going on in my business.	Strongly Disagree(1)	17	9.6	3.69
		Disagree(2)	13	7.3	
		Undecided (3)	19	10.7	
		Agree (4)	111	62.4	
		Strongly Agree (5)	18	10.1	
3	I confirm that my business has been very successful even if I don't practice record keeping and reporting of my business.	Strongly Disagree(1)	20	11.2	3.80
		Disagree(2)	11	6.2	
		Undecided (3)	0	0	
		Agree (4)	101	56.7	
		Strongly Agree (5)	46	25.8	
			178	100.0	
4	I look for knowledge at how the business operates and identify how financial transactions are processed.	Strongly Disagree(1)	16	9.0	3.62
		Disagree(2)	24	13.5	
		Undecided (3)	12	6.7	
		Agree (4)	86	48.3	
		Strongly Agree (5)	40	22.5	
			178	100.0	

Source: Researchers own computation from survey result (2017).

NB : Strongly Disagree refers to (1), Disagree refers to (2), Undecided refers to (3), Agree refers to (4), Strongly Agree refers to (5), F- refers to frequency, % - refers to percentage.

As indicated in table 4.3, concerning their level of knowledge of bookkeeping and accounting majority of respondent 164 (in percent 92.1%) did say disagree. The mean score of 1.57 also shows the same. This result indicates majority MSE owner and employees have no basic knowledge of bookkeeping and accounting that helps them to have records keeping and reporting of their business.

In regards to understand and control what is going on in their business, majority of the respondent 129 (in percent 72.5%) did agree saying that, I face difficulty to easily understand and control what is going on in their business which causes to unable to have financial record and reporting.

Majority of the respondent 147 (in percent 82.2%) confirm that they agree saying my business has been very successful even if I don't practice record keeping and reporting of my business. The mean score of 3.80 also shows they agreed with the statement. This result indicates MSE are perceived that their business will proceed and successful even if they have no financial record promptly. This cause Micro and Small Enterprise financial record and reporting practice, to be odd till right now in four Nekemte zonal administrations.

Regarding knowledge, majority of the respondent 126 (in percent 70.8 %) are agree saying I look for knowledge at how the business operates and identify how financial transactions are processed. The mean score of 3.62 also shows they agreed with the statement. This result indicates that, MSE are looking for the knowledge at which the business operates and identify how financial transactions are processed.

### 1.19. Preparations of proper accounts

The study result concerning preparation of proper accounting financial records keeping is presented in the following table 4.4 and analyzed below.

**Table 4.4. : Preparations of proper accounts**

No	Description	Level of agreement	Descriptive statistics		
			F	%	Mean
1	My business keep accounting records, such as; purchase book, sales (receipt) book, expenditure (bills) book, payroll records and asset register.	Strongly Disagree(1)	64	36.0	2.02
		Disagree(2)	61	34.3	
		Undecided (3)	8	4.5	
		Agree (4)	20	11.2	
		Strongly Agree (5)	25	14.0	
2	My businesses consider no need to have separate account for different financial information in financial record keeping and reporting.	Strongly Disagree(1)	18	10.1	3.69
		Disagree(2)	26	14.6	
		Undecided (3)	3	1.7	
		Agree (4)	78	43.8	
		Strongly Agree (5)	53	29.8	
3	My business uses one account for all purpose to have practice of record keeping and reporting of my business.	Strongly Disagree(1)	29	16.3	3.39
		Disagree(2)	16	9.0	
		Undecided (3)	8	4.5	
		Agree (4)	106	59.6	
		Strongly Agree (5)	19	10.7	
			178	100.0	

Source: Researchers own computation from survey result (2017).

NB : Strongly Disagree refers to (1), Disagree refers to (2), Undecided refers to (3), Agree refers to (4), Strongly Agree refers to (5), F- refers to frequency, % - refers to percentage

As it can be observed from the table above, majority of the respondents 125 (70.3%) did say disagree, saying that they do not keep accounting records, such as; purchase book, sales (receipt) book, expenditure (bills) book, payroll records and asset register. The mean score of 2.02 also evidenced Micro and Small Enterprises not have different books of financial records. Hence, the result indicates Micro and Small Enterprises do not practiced keeping accounting records, such as; purchase book, sales (receipt) book, expenditure (bills) book, payroll records and asset register.

Majority of the respondents 131 (73.6%) did say agree that they consider no need to have separate account for different financial information in financial record keeping and reporting. The mean score of 3.69 also evidenced the same. Hence, the result indicates that Micro and Small Enterprises consider no need to have separate account for different financial information, were it must to keep a record of financial information accordingly in financial record keeping and reporting.

In addition, Majority of the respondents 125 (70.3%) did say agree that they uses one account for all purpose to have practice of record keeping and reporting of my business. The mean score of 3.39 also evidenced Micro and Small Enterprises do not need a separate account to have financial record keeping and reporting. Hence, the result indicates that Micro and Small Enterprises uses of one account for all purpose makes ineffective record keeping and reporting of their business financial operation.

#### **1.20. Need for professional and consultancy in FRKR**

The study result concerning hired professional and consultancy in financial records keeping is presented in the following table 4.5 and analyzed below.

**Table 4.5: Hired professional and consultancy**

No	Description	Level of agreement	Descriptive statistics		
			F	%	Mean
1	My business considers that It is waste of money to employ an accountant to help me to have financial record and reporting.	Strongly Disagree(1)	17	9.6	3.76
		Disagree(2)	10	5.6	
		Undecided (3)	21	11.8	
		Agree (4)	80	44.9	
		Strongly Agree (5)	50	28.1	
2	The use of consultants helps me to have practice of financial record and reporting of my business.	Strongly Disagree(1)	38	21.3	2.49
		Disagree(2)	85	47.8	
		Undecided (3)	8	4.5	
		Agree (4)	23	12.9	
		Strongly Agree (5)	24	13.5	
3	My business needs a periodic training to learn more about record keeping and reporting.	Strongly Disagree(1)	14	7.9	3.75
		Disagree(2)	18	10.1	
		Undecided (3)	8	4.5	
		Agree (4)	96	53.9	
		Strongly Agree (5)	42	23.6	
4	My business have not yet got concerned body that is responsible in providing a basic input how to practice financial record keeping and reporting.	Strongly Disagree(1)	53	29.8	2.50
		Disagree(2)	64	36.0	
		Undecided (3)	13	7.3	
		Agree (4)	15	8.4	
		Strongly Agree (5)	33	18.5	

Source: Researchers own computation from survey result (2017).

NB : Strongly Disagree refers to (1), Disagree refers to (2), Undecided refers to (3), Agree refers to (4), Strongly Agree refers to (5), F- refers to frequency, % - refers to percentage

As it can be observed from the table above, majority of the respondents 130 (73%) did say agree that, they consider as a waste of money to employ an accountant to help them to have financial record and reporting. The mean score of 3.76 also evidenced Micro and Small Enterprises not need an accountant to have financial records. Hence, the result indicates that Micro and Small Enterprises do not hired a professional considers that it is waste of money to employ an accountant to help me to have financial record and reporting.

Again as it can be observed from the table above, majority of the respondents 123 (68.1%) did say that they do not need to use of consultants to have financial record and reporting of their business. The mean score of 2.49 also evidenced the same. Hence, the result indicates that Micro and Small Enterprises do not require the use of consultants for financial record and preparation of legal financial reporting of their business.

Majority of the respondents 138 (77.5%) did say that my business needs a periodic training to learn more about record keeping and reporting. The mean score of 3.75 also evidenced the same. Hence, the result indicates that Micro and Small Enterprises needs a periodic training to learn more about record keeping and preparation of legal financial reporting of their business.

As it can be observed from the table above, majority of the respondents 117 (65.8%) did say that My business have not yet got concerned body that is responsible in providing a basic input how to practice financial record keeping and reporting. The mean score of 2.50 also evidenced Micro and Small Enterprises have not yet got concerned body that is responsible in providing a basic input how to practice financial record keeping and reporting. Hence, the result indicates that Micro and Small Enterprises have not yet got concerned body that is responsible in providing a basic input how to practice financial record keeping and reporting.

### 1.21. Perceived Benefits from FRKR

The study result concerning Benefits of recordkeeping in financial records keeping is presented in the following table 4.6 and analyzed below.

**Table 4.6: Perceived Benefits of recordkeeping**

No	Description	Level of agreement	Descriptive statistics		
			F	%	Mean
1	Financial record keeping and reporting helps to understand and analyses the spending and revenue and in calculating my business profit.	Strongly Disagree(1)	13	7.3	3.52
		Disagree(2)	45	25.3	
		Undecided (3)	0	0	
		Agree (4)	75	42.1	
		Strongly Agree (5)	45	25.3	
2	Financial record keeping and reporting assists to know and back up a tax deductions to be paid to tax authority.	Strongly Disagree(1)	1	.6	4.06
		Disagree(2)	30	16.9	
		Undecided (3)	10	5.6	
		Agree (4)	53	29.8	
		Strongly Agree (5)	84	47.2	
3	Financial record keeping and reporting ensures accuracy of each payroll period and amount, to make sure that each employee receives the proper amount.	Strongly Disagree(1)	11	6.2	4.12
		Disagree(2)	20	11.2	
		Undecided (3)	0	0	
		Agree (4)	82	46.1	
		Strongly Agree (5)	65	36.5	
			178	100.0	
4	Having financial record keeping and reporting assist in making accurate report of current spending and revenue to help compare actual results with projections in the business budget.	Strongly Disagree(1)	26	14.6	3.67
		Disagree(2)	18	10.1	
		Undecided (3)	0	0	
		Agree (4)	77	43.3	
		Strongly Agree (5)	57	32.0	
			178	100.0	

Source: Researchers own computation from survey result (2017).

NB : Strongly Disagree refers to (1), Disagree refers to (2), Undecided refers to (3), Agree refers to (4), Strongly Agree refers to (5), F- refers to frequency, % - refers to percentage

As indicated in table 4.6 , the respondents were asked financial record keeping and reporting helps to understand and analyses the spending and revenue and in calculating my business profit Majority of the respondent (in percent %) did say agree. The mean score of 3.52also evidences the same. The result indicates that, MSE are aware of the benefit of financial record keeping and reporting that helps to understand and analyses the spending and revenue and in calculating their business profit.

As indicated in table 4.6 , the respondents were agree with financial record keeping and reporting assists to know and back up a tax deductions. The mean scoreof 4.06 also evidences the same.The result indicates that, MSE are financial record keeping and reporting assists to know and back up a tax deduction to be paid to tax authority.

As indicated in table 4.6 , the respondents were agree with financial record keeping and reporting ensures accuracy of each payroll period and amount to make sure that each employee receives the proper amount. The mean score of 4.12also evidences the same. The result indicates that, MSE are financial record keeping and reporting ensures accuracy of each payroll period and amount to make sure that each employee receives the proper amount.

As indicated in table 4.6 , the respondents were agree with having financial record keeping and reporting assist in making accurate report of current spending and revenue to help compare actual results with projections in the business budget. The mean score of 3.67also evidences the same. The result indicates that, MSE are having financial record keeping and reporting assist in making accurate report of current spending and revenue to help compare actual results with projections in the business budget.

## 1.22. Multinomial logistic Regression result

The multinomial logistic regression result is shown below:

Multinomial logistic regression	Number of obs =	178
	LR chi2(38) =	129.57
	Prob > chi2 =	0.0000
Log likelihood = -83.309855	Pseudo R2 =	0.4375

pfrkp	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
<b>2</b>						
w1	-.709973	.2932559	-2.42	0.015	-1.284744	-.1352021
w2	.3895574	.1938779	2.01	0.045	.0095638	.7695511
w3	.6711217	.3643352	1.84	0.065	-.0429621	1.385206
w4	.2862615	.2990725	0.96	0.338	-.2999098	.8724327
l1	-1.785827	.9357942	-1.91	0.056	-3.61995	.048296
l2	-.0018027	.2539423	-0.01	0.994	-.4995204	.4959151
l3	.2827183	.3420306	0.83	0.408	-.3876494	.953086
l4	-.0432676	.251696	-0.17	0.864	-.5365827	.4500474
pa1	-.1563346	.2630563	-0.59	0.552	-.6719155	.3592463
pa2	-.3290497	.2713962	-1.21	0.225	-.8609764	.202877
pa3	-.2223584	.2759995	-0.81	0.420	-.7633075	.3185908
pc1	.4649913	.4161414	1.12	0.264	-.3506309	1.280613
pc2	.2103695	.2321985	0.91	0.365	-.2447313	.6654702
pc3	.0473682	.2890587	0.16	0.870	-.5191764	.6139129
pc4	-.3142526	.2228367	-1.41	0.158	-.7510044	.1224993
pb1	.139412	.2744681	0.51	0.611	-.3985357	.6773597
pb2	-.0681835	.4173413	-0.16	0.870	-.8861575	.7497904
pb3	-.3089824	.4500565	-0.69	0.492	-1.191077	.573112
pb4	.3740594	.3378478	1.11	0.268	-.28811	1.036229
_cons	-1.768118	3.666613	-0.48	0.630	-8.954548	5.418313
<b>3</b>						
w1	-.9180454	.3397132	-2.70	0.007	-1.583871	-.2522198
w2	.388813	.2658288	1.46	0.144	-.1322019	.909828
w3	-.1853513	.3193039	-0.58	0.562	-.8111754	.4404728
w4	.4569218	.3342703	1.37	0.172	-.1982359	1.11208
l1	-1.303451	.8333721	-1.56	0.118	-2.93683	.3299288
l2	.7683354	.565698	1.36	0.174	-.3404123	1.877083
l3	1.682115	.5459052	3.08	0.002	.6121608	2.75207
l4	.8989161	.4935511	1.82	0.069	-.0684262	1.866258
pa1	-.3158776	.3784157	-0.83	0.404	-1.057559	.4258035
pa2	-.2364627	.3683406	-0.64	0.521	-.958397	.4854716
pa3	-.08121	.3091608	-0.26	0.793	-.687154	.5247341
pc1	2.113441	.5875667	3.60	0.000	.9618316	3.265051
pc2	-.2996611	.4647535	-0.64	0.519	-1.210561	.611239
pc3	.1301825	.3384698	0.38	0.701	-.5332061	.793571
pc4	-.3839061	.3329284	-1.15	0.249	-1.036434	.2686215
pb1	.238556	.4511179	0.53	0.597	-.6456188	1.122731
pb2	-2.59416	.6499883	-3.99	0.000	-3.868113	-1.320206
pb3	-.2576668	.5806552	-0.44	0.657	-1.39573	.8803965
pb4	-.4976779	.3778663	-1.32	0.188	-1.238282	.2429265
_cons	-4.868554	3.969955	-1.23	0.220	-12.64952	2.912415

(pfrkp=1 is the base outcome)

Researchers own computation, (2017)

From the above result, the Likelihood Ratio Chi-Square test ( $LR \chi^2 = 129.57$ ) that for both equations (I have not yet started to use record keeping to I have started but face difficult to use record keeping and I have not yet started to use record keeping) that at least one of the predictors' regression coefficient is not equal to zero.

The small p-value from the LR test,  $< 0.00001$ , would lead us to conclude that at least one of the regression coefficients in the model is not equal to zero. Thus the model  $prob > \chi^2 = 0.0000$  which proofs p-value from the LR test is  $< 0.0000$ .

Logistic regression does not have an equivalent to the R-squared that is found in OLS regression; rather pseudo-R-square statistics. Because this statistic does not mean what R-square means in OLS regression (the proportion of variance of the response variable explained by the predictors), we suggest interpreting this statistic with great caution.

Financial record keeping and reporting is the response variable in the multinomial logistic regression. Underneath financial record keeping and reporting are two replicates of the predictor variables, representing the two models that are estimated: I have started but face difficult to use record keeping relative to I have not yet started to use record keeping and I have started to use record keeping relative to I have not yet started to use record keeping.



In this instance, Stata, by default, set I have not yet started to use record keeping as the referent group, and therefore estimated a model for *I have started but face difficult to use record keeping relative to I have not yet started to use record keeping* and a model for *I have started to use record keeping relative to I have not yet started to use record keeping*. Since the parameter estimates are relative to the referent group, the standard interpretation of the multinomial logit is that for a unit change in the predictor variable, the logit of outcome  $m$  relative to the referent group is expected to change by its respective parameter estimate (which is in log-odds units) given the variables in the model are held constant.

☞ **I have started but face difficult to use record keeping relative to I have not yet started to use record keeping :**

The multinomial logit estimate for a one unit increase in the score for I have started but face difficult to use record keeping relative to I have not yet started to use record keeping, given the other variables in the model are held constant.

- ❖ An increase in willing to have record keeping that makes to aware what is going on in my business score by one point, the multinomial log-odds for preferring I have started but face difficult to use record keeping relative to I have not yet started to use record keeping would be expected to decrease the perception of having financial record keeping by 0.389 unit while holding all other variables in the model constant.
- ❖ An increase to believe MSE business like me should keeping record score by one point, the multinomial log-odds for preferring I have started but face difficult to use record keeping relative to I have not yet started to use record keeping would be expected to increase the perception of financial record keeping and reporting by 0.7099 unit while holding all other variables in the model constant.
- ❖ The remaining explanatory variables are insignificant and checked whether the result is in line with the descriptive result analysis.

### 1.23. Conclusion

- In regard with willingness of FRKR the study result indicates that Micro and Small Enterprises have an interest to understand what is going on in their businesses by having record keeping and producing financial that reflect their financial operation. Result also indicates MSE are in perception of unforeseen financial record and report practice at their current level financial performance. In addition, result indicates that MSE are not initiated by them-selves rather it is by the external push to have financial record and reporting practice. Finally study result indicates that MSE are perceived financial record and reporting is a tedious activity.
- The study result indicates MSE owner and employees have no basic knowledge of bookkeeping and accounting that helps them to have records keeping and reporting of their business. They also face difficulty to easily understand and control what is going on in their business which causes to unable to have financial record and reporting. In addition study result indicates MSE are perceived that their business will proceed and successful even if they have no financial record promptly. This cause Micro and Small Enterprise financial record and reporting practice, to be odd till right now in four Nekemte zonal administrations. The study result also indicates MSE are looking for the knowledge at which the business operates and identify how financial transactions are processed.
- Concerning preparations of proper accounts the study result indicates Micro and Small Enterprises do not practiced keeping accounting records, such as; purchase book, sales (receipt) book, expenditure (bills) book, payroll records and asset register. In addition the result indicates that Micro and Small Enterprises consider no need to have separate account for different financial information and uses of one account for all purpose, makes ineffective record keeping and reporting of their business financial operation.
- The result indicates that Micro and Small Enterprises do not hired a professional considering that it is waste of money to employ an accountant to help them to have financial record and reporting. The result also indicates that Micro and Small Enterprises do not require the use of consultants for financial record and preparation of legal financial reporting of their business. The result indicates that Micro and Small Enterprises needs a periodic training even though they have not yet got concerned body that is responsible in providing a basic input how to practice financial record keeping and reporting.
- In regard to perceived benefits, the result indicates that, MSE are aware of the benefit of financial record keeping and reporting that helps to understand and analyses the spending and revenue and in calculating their business profit. The result indicates that, financial record keeping and reporting assists to know and back up a tax deduction to be paid to tax authority. The result indicates that, MSE financial record keeping and reporting ensures accuracy of each payroll period and amount to make sure that each employee receives the proper amount. The result indicates that, MSE are having financial record keeping and reporting assist in making accurate report of current spending and revenue to help compare

actual results with projections in the business budget.

#### 1.24. Recommendation

The study forewords the following recommendation:

- The governments have to provide an understanding of the need for financial record keeping in order make Micro and Small Enterprise to keep financial record by the will of them-selves than external push. Having this understanding also makes Micro and Small Enterprise to consider record keeping is simple task than tedious activity.
- Micro and Small Enterprise owners have to learn how to have record keeping through short term training as one part of its operational activity. The government, especially MSE office, tax authority and academic institution have to work in providing the knowledge of financial record keeping through minimum training means.
- Micro and Small Enterprise owners need to hire a professional in order to have a full flagged financial record keeping. In addition, if this makes in effective record keeping MSE need to use of consultants for financial record and preparation of legal financial reporting.
- The governments have to develop the suitable record keeping guidance which will be easier and simple to understand with such sector. This guidance system may goes together by establishing a record keeping be legal mandatory to all MSEs business.
- Micro and Small Enterprise have to make a separate record keeping for proper account as per the type of business transaction occurred rather than oneaccount for all records.

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