

# THE EVALUATION OF BOOK-KEEPING AND BASIC ACCOUNTING PROCEDURES IMPLEMENTED AND APPLIED IN SSEs

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**Abstract:** The aim of this research is to find out the need for proper bookkeeping and basic accounting procedures in small scale enterprises. The study also looked at the problems faced by Small Scale Enterprises and the way forward. One of the key forces in the process of helping an organization to become more competitive is how its human resource management functions are played out. This means that this function will have to serve more and more as a strategic organizational development. The researcher used qualitative method, supplemented by statistical analysis of the survey data. The findings confirmed an apparent non-existence of proper bookkeeping and basic accounting procedures in small scale enterprises and recommends that owners should be educated to keep away their personal transactions from their business entities. The study further revealed that small scale enterprises face moribund problems such as finance, technical skills, entrepreneurial skills and human resources among others and recommended that National Board for Small Scale Industries should be strengthened and resourced to solve these numerous problems of the small scale enterprises.

## BACKGROUND TO THE STUDY

Accounting standards are needed so that financial statements will be fairly and consistently describe as a financial performance. Without standards, users of financial statements would need to learn the accounting rules of each company, and comparisons between companies would be difficult. While keeping track of your business's finances may seem overwhelming, it's not that hard when you know the bases of accounting and bookkeeping. Bookkeeping and accounting share two basic goals:

1. To keep track of your income and expenses this would improve your chances of making profit.
2. To collect financial information necessary for filling your various tax returns.

This sound pretty simple, it can be, especially if you remind yourself of these two goals whenever you feel overwhelmed by the details of keeping your financial records Wang, Hartmann, Gibbs & Cauley, There is no requirement that your records be kept in any particular way. As long as your records accurately reflect your business's income and expenses, the IRS will find them acceptable. The actual process of keeping accounting books is easy to understand when broken down into three steps.

- i. Keep receipts or other acceptable records of every payment to and every expenditure by your business.
- ii. Summarize your income and expenditure records on some periodic basis (daily, weekly, or Monthly)
- iii. Use summaries to create financial reports that will tell you specific information about your business, such as how much monthly profit you are making or how much your business is worth at a specific point in time.

Whether these are done by hand on ledger sheets or use accounting software, these principles are exactly the same.

## PROBLEM STATEMENT

It has been ascertained that most small-scale enterprises fail to keep proper books of account and also fail to observe basic accounting procedures. As a result, they are not able to portray the exact financial position of their businesses. This tends to impede the ability of the enterprise to obtain the much needed

loans from the financial institutions and other sources for expansion and diversification. The financial statements, such as the profit and loss accounts, the balance sheet and the cash flow statement of small-scale enterprises cannot easily be prepared. Under such circumstances, annual profits cannot readily be determined. The main research problem in this work is to account for the reason behind their inability to keep proper accounting records. It is important to state that the absence of proper records does not only impair the growth of the small-scale enterprise but also, as stated earlier, reduces their chances of obtaining credit facilities from the financial institutions and other fund lenders. It is obvious that a cash starved small-scale enterprise is bound to encounter difficulties in its attempt to expand and/or diversify its operation

### **THE OBJECTIVES OF THE STUDY**

The objectives of this research were to consider the following:

1. To examine the importance of proper bookkeeping and basic accounting procedures in small-scale enterprises
2. To determine the extent to which bookkeeping and basic accounting procedures have been implemented and applied in SSEs.

### **SIGNIFICANCE OF THE STUDY**

The significance of this study was to create through documentation, an awareness of the importance of bookkeeping and basic accounting procedures to small-scale enterprises. In addition it will be a source of knowledge to small-scale enterprises (SSE) on how to maintain proper accounting records. The result will greatly facilitate the work of the Internal Revenue Services and the Value Added Tax officials in developing strategies to extend the tax net to cover such enterprises which form significant proportion of the Ghanaian business community. This study will also be of great significance to policy analysts since it will assist in analyzing the effectiveness and success of the work of the National Board for Small-Scale Industries (NBSSI). The National Board for Small-Scale Industries was established with the prime objective of providing an umbrella institution that would address SSEs their financial operation/technical and documentary problems so as to enhance their opportunities to grow.

### **LITERATURE REVIEW**

Small-scale enterprises differ from other enterprises. It is independently owned and operated and does not therefore form part of any larger enterprise. It is usually managed by its owner(s) in a personalized way without the need for a formalized management structure (Broom et al; 1993).

There are a few things one needs to understand in order to make setting up your accounting system easier. They are basic and they will probably clear up any confusion you may have had in the past when talking with your Certified Public Accountant (CPA) Irwin; (1993) described proper bookkeeping procedure as one of the ways through which an organization can keep track of its financial activities in order to ensure proper financial discipline. There is no proper definition of small-scale enterprise; however, it may be defined as one that is independently owned and operated and it is non-dominant in its field of operation ((Meggenso et al; 2018). There are also certain peculiarities that differentiate them from other technical accounting type.

### **HISTORY OF BOOKKEEPING**

The long history and early origins of accounting, whether as a generic activity or a specific practice such as double-entry bookkeeping, have served a number of purposes. Bookkeeping has certainly been practiced many years ago: for we read of it amongst the Ancient Romans in J. Caesar’ time; but should not be supposed, that it ever arrived to the perfection, as now it is. The Italians were the first merchants, we read of in Europe, and first invented this exact way of keeping accounts, now in use amongst all. Amsterdam has been a great nursery of this science, since it was brought there (Yamey et al; 1963).

### **RESEARCH METHODOLOGY**

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The research was designed to cover the activities of two hundred (200) Small-Scale Enterprises (SSE’s) and key personnel from National Board for Small-Scale Industries were interviewed. They were; the director of research, public relation officer, the director of education, two field officers at the head office, district coordinators of Kanashie, Accra central, Madina, North Industrial Area and Tema. The survey method was used in gathering information from respondents. This included direct visits, observations, interviews and administration of questionnaires. The field data were edited, coded and punched. Frequencies, percentages and tabulations were used to score the data. Each research problem is in some form unique and thus requires a custom-made research procedure. In this chapter, the research method that was used to collect, manage and analyze the data is presented. In other words, the chapter discusses the methodology of the study including the source of data, sample and sampling technique, data instrument, pilot testing of instrument, data distribution and collection as well as data management and analysis tool are described in this section.

To be able to accomplish the task at hand, there is the need to gather adequate and comprehensive data on Small-Scale Enterprises and National Board for Small-Scale Industries (NBSSI). This chapter seeks to explain the research instruments used in collecting data, the population of the research, sampling procedure, the type of data collected and the difficulties encountered during the survey.

## **RESEARCH DESIGN**

The field data Questionnaires and personal interviews were the methods employed in gathering data.

## **POPULATION AND SAMPLE SIZE**

For the purpose of this study, the author was able to identify a population of three fifty (350) small-scale enterprises (SSE’s) from which two hundred (200) was selected for the research. Key personnel’s from NBSSI were also interviewed to determine the extent t which they help SSEs in recording their financial transaction.

## **SOURCES OF DATA**

The collection of data represents a pre-requisite for carrying out a research and can be derived from a number of sources. These sources are classified into secondary and primary data (Clarke and Dawson, 1999).

## **TYPES OF DATA COLLECTED**

The primary source of data is the field survey conducted by the author.

The source of primary data is from the personnel of the Headquarters of National Board for Small Scale Industries (NBSSI) and SSEs through the use of questionnaires.

## **PILOT TESTING**

A pilot study was conducted to test the validity and reliability of the questionnaire.

First, the expert views, suggestions and correction of the researcher’s supervisor were taken into consideration in restructuring of almost all the statement that was found to be ambiguous and irrelevant. Therefore, 10 SMEs were selected to test the questionnaire. The test was aimed to reveal problems in understanding the questions as well as other problems which have to be solved before sending the questionnaire out to respondents.

An item by item scrutiny of the remaining responses did not show any evidence of respondents’ misunderstanding of any item. Therefore the instrument was deemed to offer a guarantee of readability and usability.

## **DATA MANAGEMENT ANALYSIS TOOL**

Collected questionnaires have to be managed properly if any use has to be made of it. It is important that raw data is handled properly and processed in order to transform it for the purpose of extracting

conclusive information. Data collected for this research was analyzed qualitatively and quantitatively. A very good care was taken through the answered questionnaire to verify clarity of expressions, legibility, unanswered questions and other discrepancies. This was done to facilitate consistency of thought as well as to make coding and analysis easier.

Each questionnaire item was vetted and numbered serially according to sequence in which they were received. The field data was presented in the form of tables, charts and frequency tables.

### **ETHICAL ISSUES**

Generally, business people are hospitable and will easily give any relevant information to interested people provided their time and confidentiality were upheld. In this case for instance, many of small-scale businesses did not like to answer questions that tried to probe into their incomes, earnings from their businesses, family life and expenditure. I tried throughout my interactions with them to avoid asking respondents such questions.

### **PROBLEMS ENCOUNTERED DURING THE STUDY**

The major problems the researcher encountered were in the area of data collection. Most of the respondents were skeptical and thought that the research was made to make them pay more taxes and was done to increase their tax liability.

## **DATA PRESENTATION AND ANALYSIS**

### **INTRODUCTION**

NBSSI on basic booking and accounting procedures and the form(s) of such assistance;

- Major problems facing SMEs in this chapter seeks to analyze data collected from small-scale enterprises and National Board of Small-Scale Industries on their activities. As stated earlier, a sample of 200 small-scale enterprises and personnel of NBSSI were interviewed. The information was analyzed both qualitatively and quantitatively in this chapter.

In order to get a comprehensive and orderly analysis of the data collected from the Small-Scale Enterprises (SSE's). The following parameters were use:

- Characteristics of owners and their businesses; Types of accounting and basic bookkeeping uses; Initial problems faced in running their businesses using basic bookkeeping and accounting procedure; Whether assistance is received from securing the services of accounting personnel's and/or services. Activities of NBSSI in relation to Small-Scale Enterprises in the country as a whole were also analyzed on the following parameters; Whether NBSSI offer assistance to SSE's and the form(s) of such assistance;

### **CHARACTERISTICS OF OWNERS AND BUSINESSES**

Information gathered from the study indicates that Small-Scale businesses had been in existence for a long time. Responding to a question on date of formation, 105 of the businesses representing 70% of the 200 businesses contacted indicated that they had been operating for not less than 15 years. Only activities such as cloth making and hairdressing appeared to be new and emerging.

Sole proprietorship was the predominant feature of Small – Scale Enterprises. It is only in the areas of Carpentry and Auto Mechanics that men numbering about 8 to 10 come together in most cases to form co-operatives as indicated in the study. The reasons why co-operatives are formed in these two (2) areas of activities include the fact that they involve tedious work and also require huge capital outlay.

The survey 200 Small With the -Scale Enterprises covered in the study area, it was found that majority of owners of businesses were women within the ages of 30 and 45. 125 of the businesses covered, representing 62.5% were owned by women and about 50% of these women were in the 30-45 age group. Only businesses such as wood processing and carpentry were owned by men as obtained from the study.

Information of the 200 businesses covered indicated that 50 and 40 engage in Auto Mechanics and textile/cloth making respectively. Hair dressing businesses covered in the study numbered 25, representing 16.67%. Food processing and soap making businesses were 20 or 13.33%. The result shows that, wood processing and metal works are the activities least engaged in, as indicated in the table that

follows

### **BUSINESS AREA**

Business Area	Frequency	Percentage
Clothing	125	22.5
Food Processing	25	12.5
Wood Processing	15	7.5
Metal Works	15	7.5
Hair DRessing	35	17.5
Auto MEchanics	40	20
Soap MAKing	25	12.5
Total	200	100

Table 1: Distribution Of Businesses By Activities Undertaken

**SOURCE: FIELD SURVEY, 2018**

The table 1 above and figure below show that textile/clothing industry representing 22.5% was the dominant area among the respondents, followed by auto mechanics being 20%. Hair dressing was next with 17.5%. Next important field was the food and soap making scoring 12.5%. Wood processing and Metal works/blacksmithing representing 7.5% were captured.

### **OWNERS’ REASONS FOR ENGAGING IN BUSINESS**

An examination of the factors, which led to the establishment of various businesses, revealed a variety of reasons. Most of the respondents indicated that they have been engaged in self-employment to generate income to cater for their families. Some also did that to diversify their resources into other areas to supplement the sources of income they have already. The former category represented 55% with the latter representing 25%, while the remaining stated other varying reasons as indicate below

REASON	No. of Respondent	Percentage
Self Employment	110	55
Diversification	50	25
Other Reasons	40	20
Total	200	100

Table 2: Reasons for entering into business

Source: field survey, 2019

From the table 2 above and figure 2 below it is clear that majority set up these businesses for the desire to be self-employed, they accounted for fifty-five percent of the respondent. This is followed by diversification which represents twenty-five percent and other reasons had twenty percent. This shows us that majority of owners of SMEs set up their businesses because of the desire to be one’s own boss.

### **INITIAL PROBLEMS IN RUNNING BUSINESSES**

Varied problems were given by most of the 200 businesses covered in the study. Apart from 10 businesses that indicated that they did not face any significant problems, 85 indicated they faced either 3 or 4 types of problems. The remaining 55 faced 1 or 2 problems during their initial stages. Problems indicated include lack of capital, marketing problems, lack of technical knowledge among others.



**HOW DO YOU DETERMINE YOUR PROFIT MARGIN?**

If Books are Kept	NUMBER	PERCENTAGE
Myself	134	75
Employee Account Clerk	66	25
Total	200	100

Table 3

source: field survey, 2019

From the table 3 above 75% of the respondents do the recording by themselves, which shows that majority of the respondents do the recording of their financial transactions themselves even though they do not have enough knowledge in basic accounting procedures and bookkeeping principles.

**PREPARATION OF THEIR ACCOUNT AT THE END OF THE PERIOD**

All the respondents indicated that they do not prepare periodical accounts; they do these on ad hoc bases, that is, when the need arises. For example, when they were seeking finance assistance from financial institutions.

**ON THE QUESTION OF RECEIVING ANY TRAINING IN BOOKKEEPING**

Most of the 200 Small-Scale Enterprises (SSE’s) contacted stated that; they had little or no training in basic bookkeeping and accounting procedure. 60 of the 200 businesses had some form of training. 140 which form the majority had no training in the subject matter.

Another major problems most of them mentioned is the lack of technical skills in going about their work. 145 out of the 200 businesses said they lack technical training in business and accounting management among other problems.

**ON THE ISSUE OF HOW FINANCIAL RECORD KEEPING HELPED THEIR BUSINESS**

To the question of how financial record keeping helped their businesses, 75% of those who kept some sort of financial record stated that it helped them to determine their profitability and improved their business dealings. However none could indicate this helped them determined their tax obligations since majority of them do not pay tax. Few that pay tax subscribe to the flat rate regime.

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**PERSON RESPONSIBLE FOR THE PREPARATION OF THE ACCOUNT**

To the question of who prepares the account all the respondents indicated that they employed the services of professional accountants to do these for them since they do not have the competence to handle it.

**REASONS FOR PREPARING ACCOUNTS**

The reasons for preparing accounts, 100 representing (50%) indicated that they use the accounts to determine their profitability. Another 10 representing (50%) does that as a condition for obtaining loans from financial institutions. None of them indicated that they do it to determine their tax obligation or as a statutory obligation.

REASONS FOR PREPARING ACCOUNTS	NUMBER	PERCENTAGE
To determine Profitability	100	50
For tax Purpose	0	0
For loan Requirement	100	50
Statuary Obligation	0	0
Total	200	100

Table 4: Account preparation

Source: field survey, 2019

From the table 5 above, the reasons stated by the respondents on why they prepare their accounts were to determine profitability and for loan requirement shared these fifty percent. The respondents claimed tax purposes and statutory obligation were not the reasons why they prepare their accounts.

### SUMMARY OF FINDINGS

The contribution of the small-scale enterprises have been recognized by both governmental and non-government agencies. The research, aimed at finding out the need for proper bookkeeping and basic accounting procedures in SSEs. The research covered 200 SSEs and an interview conducted at NBSSI headquarters.

The study found out that there was lack of managerial skills especially in basic accounting principles and bookkeeping procedure among SSEs in the country. The study shows the illiteracy rate in financial recording is generally high and NBSSI is doing everything possible to correct this anomaly.

The study further found out that SMEs do not attach any importance to proper bookkeeping and basic accounting principles. The study also revealed that there is an apparent non-existence of proper bookkeeping and basic accounting procedures in SMEs. Principal among these functions were the training of business owners on various topics. But it seems their effort of educating these business owners on the need of proper bookkeeping is not enough. Finally, SSEs do not employ account clerks not to talk of qualified accountant to prepare their financial books for the enterprise.

### CONCLUSION

Drawn from the research indicated that the major problem of management of business was how to attract and maintain middle level accounting personnel to manage their accounting records and this affects the growth of enterprises and in most cases a major cause of business failure. The research further revealed the illiteracy on the use of basic accounting and bookkeeping procedures is generally high and it therefore suggested that NBSSI and other agencies responsible for the growth of SSEs should step up their training activities especially in basic bookkeeping procedures and accounting principles. Though, it was identified that there exist managerial problems among owners of businesses on bookkeeping in the country, the study cannot be said to be conclusive. For instance, the study could not identify the extent to which each managerial problem identified; affected the growth of the small-scale enterprises in the country. It is hope therefore that, further research will be conduction on the topic to determine the level of accounting principles and bookkeeping needs of businesses in the country and to determine the extent of damaging effects of poor financial records in the growth of businesses.

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