

Accounting practices and control systems of small and medium size entities: A case study of Techiman municipality

Adjei Luther Ntim^{1,*}, Oteng Evans², Fianu Anthony¹

¹Department of Accounting. Valley View University, Techiman, Ghana

²Department of Banking and Finance. Valley View University, Techiman, Ghana

Email address:

luther.adjei@vvu.edu.gh (A. L. Ntim), evans.oteng@vvu.edu.gh (O. Evans), kwame.tony@gmail.com (F. Anthony)

To cite this article:

Adjei Luther Ntim, Oteng Evans, Fianu Anthony. Accounting Practices and Control Systems of Small and Medium Size Entities: A Case Study of Techiman Municipality. *Journal of Finance and Accounting*. Vol. 2, No. 3, 2014, pp. 30-40. doi: 10.11648/j.jfa.20140203.11

Abstract: It is recognized that appropriate accounting information is important for a successful management of a business whether it is large or small. Currently, at the European Union (EU) level, accounting regulation is in place for large and small enterprises with the coming into being differential accounting reporting standard. However, in Ghana, There is no obligation for the sole trader or small business owner to disclose any information about the financial performance of his business, to prepare financial statements or to have the accounts of the business audited. Because of the importance of appropriate accounting information for owners and managers of small enterprises and their different stakeholders, it was considered important to study the various accounting and control systems applied in the Small and Medium Scale Enterprises (SMEs) in Ghana, taking Techiman Municipality as a case study. To meet the objective of this study, the researchers sampled 50 firms operating in various sectors of economic activity. A structured questionnaire was used to collect primary data from the respondents which were analyzed to generate frequencies and percentages. The study revealed that SMEs kept at least one book of account to record business transactions. The results obtained on the control system of SMEs revealed that SMEs set up various accounting controls in their operations. The results also revealed that, the need to prepare a complete set of financial statements is determined by the size of the firm, age of business and engagement of accounting personnel. It is recommended that national regulators must develop specific accounting guidelines for SMEs and develop accounting training programmes for entrepreneurs in small businesses.

Keywords: Accounting Controls, Enterprise, Accounting Practices, Small and Medium Size Enterprises

1. Introduction

There is growing recognition of the important role Micro, Small and Medium Scale Enterprises (SMEs) play in the economic development of most countries. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. [1] argues that SMEs are particularly important in supporting economic growth and livelihoods in developing countries. Even in the developed industrial economies, the SME sector is the largest employer of workers [2]. In Ghana, available data from the Registrar General indicates that 90% of companies registered are micro, small and medium enterprises. This target group has been identified as the catalyst for the economic growth of the country as they are a major source of income and employment[3].

Taking cognizance of the crucial role of SMEs in the economic development of Ghana, they are increasingly attracting both governmental and non-governmental attention. Following the above, the Government of Ghana has intervened with various micro-financing schemes, such as the Micro Finance and Small Loans Centre (MASLOC), Venture Capital Trust Fund and Export Development and Investment Fund (EDIF). Policy makers, investors, financial institutions, regulatory bodies and other stakeholders are also progressively becoming interested in the financial performance of SMEs. The above attention has placed a demand on SMEs to show more accountability for the stewardship of resources allocated to them; that is, a call for proper accounting practices and financial reporting.

Previous researches have indicated that small firms are a group of businesses driven by the attitude and motivation of one person, tend to control all functional areas of the

business and accord less time to the accounting and finance function. This is often viewed as unimportant and thus received less attention on the part of the owner manager. [4], also reported evidence that micro-firms lack signs of any systematic accounting practices. Various studies have found similar results for small firms and the key reasons include lack of time, resources and skills of small business managers.

Accounting systems provide a source of information to owners and managers of SMEs operating in any industry for use in the measurement of financial performance. The importance of financial performance measurement to any business entity, big or small, cannot be over-emphasized. In any sense, profit can analogously be viewed as the life-blood of a business and hence the accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement.

It is recognized that appropriate accounting information is important for a successful management of a business whether it is large or small. Currently, at the EU level, accounting regulation is in place for large and small enterprises with the coming into being differential accounting reporting standard. However, in Ghana, there is no obligation for the sole proprietor or small business owner to disclose any information about the financial performance of his business, to prepare financial statements or to have the accounts of the business audited. It is however recommended that a sole proprietor (as with any SME) keeps proper and accurate records of his business dealings to make for easier and more responsible management. This paper therefore sought to provide empirical evidence on the current accounting and control systems of SMEs operating in Techiman municipality of Ghana.

In recent years, accounting issues have become more and more important in the business world. Despite the increasing importance attached to small-scale economic activities across the globe, there appears to have little reported improvement in the financial management skills of small business owners. This area has not received the same consideration as many other areas; ranging from start-ups to schemes promoting the growth of the sector. Similarly, some studies have focused on the financial management problem facing small businesses, they have been exclusively undertaken in the US, UK, Australia, Belgium, Sweden and India. The context is obviously different and the findings would most probably not be applicable to the local context where institutional set up and economic frameworks are different.

To date, limited research has been carried out into the accounting systems in use within small firms in Ghana [5]. This paper therefore attempts to fill the gap and contributes to the growing literature on the accounting practices and control systems of small firms. This paper therefore focuses on investigating the types of accounting records being kept and maintained by SMEs, their completeness and the control systems practiced in Ghana.

The general objective of this study was to examine the accounting practices and control systems in small and medium size enterprises in Techiman specifically by identifying the types of books and records kept by SMEs in Techiman and to ascertain the various accounting controls practiced by SMEs in Techiman.

2. Definition of SMEs

Evidence from literature reveals that there is no universally agreed definition of an SME across the academic disciplines. Definitions of Small and Medium Enterprises (SMEs) vary from country to country, depending on one or more of thresholds lay down in respect of investment, employment, turnover etc, [2]. Different authors have usually given different definitions to this category of business. This section of the study examines the debate concerning the definition of Small and Medium size entities, considering the one put forward by the Bolton Committee Report (1971), the European Commission, National Board for Small Scale Industry as well as the academic community.

3. The Bolton Committee Report (1971)

The Bolton Committee's Report on Small Business (1971) is one of the more widely quoted sources of definitions and understandings of the small and business sector. The report attempted to overcome the problem of small firm definition by formulating what it called an 'economic' definition and 'statistical' definition. The economic definition regarded firms as being small if they satisfied three criteria:

- They had a relatively small share of their market place
- They were managed by owners or part-owners in a personalized way, and not through the medium of a formalized management structure
- They were independent, in the sense of not forming part of a larger enterprise.
- Under the 'statistical' definition, the Committee proposed the following criteria:
- The size of the small firm sector and its contribution to GDP, employment, exports, etc.;
- The extent to which the small firm sector's economic contribution has changed over time;
- Applying the statistical definition in a cross – country comparison of the small firms' economic contribution.

The report also propounded different definitions of small firm according to different sectors. Firms in manufacturing, construction and mining were defined in terms of number of employees (in which case, 200 or less qualified the firm to be a small firm), those in the retail, services, wholesale, etc. were defined in terms of monetary turnover (in which case the range is 50,000-200,000 British Pounds to be classified as small firm). Firms in the road transport industry were classified as small if they have 5 or fewer vehicles. There have been criticisms of the Bolton definitions. These centre mainly on the apparent inconsistencies between defining

characteristics based on number of employees and those based on managerial approach. Thus, in two groups of sectors; manufacturing and construction, mining and quarrying, the criterion was employment. In the three services sectors, the criterion was sales turnover, and in one sector; catering, it was based upon ownership. Finally, in road transport, it was based on the physical assets of the business, in terms of the number of vehicles.

4. Definition of SMEs by the European Commission

To overcome a number of criticisms outlined above, the term 'small and medium enterprise' (SME) was coined by the European Commission (EC). The European Commission (2003) defines SMEs as enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and /or an annual balance sheet total not exceeding EUR 43 million. The major advantage of the EC definition is that, unlike Bolton, it does not use any criteria other than employment, turnover and balance sheet total and it does not vary its definition according to the sector of the enterprise. According to the European Commission, the SME sector is made up of three components, which are; micro, small, and medium.

In effect, the EC definitions are based solely on employment rather than a multiplicity of criteria. Finally, the EC definition did not assume the SME group is homogenous, that is, the definition makes a distinction between micro, small and medium-sized enterprises.

5. Definition of SMEs in different Countries

European Union (EU) Member States traditionally have their own definition of what constitutes an SME, for example the traditional definition in Germany had a limit of 250 employees, while for example, and in Belgium it could have been 100. But now the EU has standardized the concept. Its current definition categorizes companies with fewer than 10 employees as "micro", those with fewer than 50 employees as "small", and those with fewer than 250 as "medium".

In Japan, small-scale industry is defined according to the type of industry, paid-up capital and number of paid employees. Consequently, small and medium-scale enterprises are defined as: those in manufacturing with 100 million yen paid-up capital and 300 employees, those in the wholesale trade with 30 million yen paid-up capital and 100 employees, and those in the retail and service trades with 10 million yen paid-up capital and 50 employees. In the United States, small business is defined by the number of employees; it often refers to those with fewer than 500 employees. Canada also defines small business as one that has fewer than 100 employees (if the business is a goods-producing business) or fewer than 50 employees (if the

business is a service-based business), and medium-sized business as fewer than 500 [6].

In Ghana various definitions have been given for micro, small and medium scale enterprises but the most commonly used criterion is the number of employees of the enterprise [7]. They further stressed that in using this definition, confusion often arises in respect of the unpredictability and cut off points used by various official sources.

According to the National Board for Small Scale Industries (NBSSI, 1990) SMEs are defined in Ghana by applying both the "fixed asset and number of employees" criteria. It defines a small-scale enterprise as a firm with not more than 9 workers, and has plant and machinery (excluding land, building and vehicles) not exceeding 10 million Ghana cedis and micro with employees less than five.

The Ghana Statistical Service (GSS) considers firms with less than 10 employees 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. The value of fixed assets in the firm has also been used as an alternative criterion for defining SMEs.

Similarly, [8], used an employment cut-off point of 30 employees and however, classified small – scale enterprises into three categories. These are:

Micro –employing less than 6 people;

Very Small - employing 6-9 people;

Small – between 10 and 29 employees;

The International Accounting Standard Board (IASB, 2007), defines small and Medium size enterprise as an entity that does not have public accountability and publishes general-purpose financial statements for external users. Public accountability is further defined as an entity that has debt or equity instruments traded in a public market (or it is in the process of issuing such instruments) or holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

6. Operational Definition

It can be concluded that Micro and Small Scale Enterprises (SMEs) has different definitions. As a result, an operational definition is important for the study. However, the most commonly used criterion is the number of employees of the enterprise as identified from the various definitions above. The idea behind this employee base principle is due to the fact that firms can easily be identified by their number of employees and in part because the process of valuing fixed assets, will pose a problem since mode of accounting system used by one enterprise will vary from one to the other as well as continuous depreciation in the exchange rate often makes such definitions obsolete. For the purposes of this study, the operational definition of SMEs by [8] is adopted. In their definition, SMEs were classified into four main categories;

Micro enterprises are those that employ less than 6 people;

Very small enterprises constitute those employing 6-9 workers;

Small enterprises are business units that employ between 10 and 29 people.

This study therefore defines SMEs as enterprises that employ not more than 30 people.

7. Accounting Practices and Book-Keeping in SMEs

It is reiterated that accounting is paramount in any business. Accounting is basically defined as the process of recording economic information in a significant manner in order to measure the performance of a firm. Basic accounting is needed to “keep the score” so that the entrepreneur knows what is happening in the business, how much has been sold, what the costs are, what activities are profitable, whether selling prices leave a suitable margin against cost and so on. Accounting practices consist of the methods and records established by management to identify, assemble, analyze, classify, record and report a company's transactions and to provide assurance that the objectives of internal control are being met. This is sometimes called the accounting system. It analyze, record and measures business transactions to ascertain the performance of an entity.

A good accounting system is not only judged by how well records are kept but by how well is able to meet the information needs of both internal and external decision-makers. [11], suggested that for a small or micro business, accounting practices will involve the maintenance of adequate Cash Book (if possible with analysis), Bank Accounts (with policies on deposits and withdrawals), Petty Cash system, irregular or regular preparation of Bank Reconciliation statement, Credit Policies with creditors for Purchase s and with customers on Sales, Stock-keeping policy, Fixed Asset register and Budgeting for the entire business.

The accounting transactions of an enterprise need to be recorded in the accounting books. The process of recording and maintaining these books is known as book-keeping. Efficient financial managers dwell on the past and present in order to predict the future and for proper evaluation and comparison of financial activities. To achieve this aim, proper book-keeping remains integral. UNCTAD (2000), observed the need for promoting transparency with adequate records-keeping early on in the business development phase of SMEs as paramount. Some form of recording will be essential to all business for the day-to-day management of their operations and the fulfillment of unavoidable governmental obligations (e.g. taxation). It is well known that inadequate record keeping is frequently associated with failures in small businesses even if it is not actually the direct cause of failure. For record keeping purposes the enterprise can use different methods. A report submitted by

the European Commission Enterprise and Industry Directorate-General on the accounting systems for small enterprises (2008), suggested the following as the main books to be kept by an SME owner: Purchase day book, Sales day book, Cash book, Petty cash book, Expenditure book, Payroll records, Assets register etc.

8. Accounting Controls in SMEs

With regards to accounting controls; [9], defines accounting controls as the measures that relate to protection of assets and to the reliability of accounting and financial reports. Regarding accounting control procedures for small and micro business enterprises, [10], observed that it is important to have a system of control over all business activities, as a well-designed and properly implemented control system can ensure: protection of resources against waste and fraud; accuracy and reliability in accounting data; and success in the evaluation of the performance of the business. The following are the major accounting controls set up in SMEs as identified by the European Commission (2008).

8.1. Stock Control

Stock is often an integral and major component of a firm's working capital. To SMEs, these are in the form of materials bought to be processed for manufacture, finished goods for resale and component parts to be used as parts or to be assembled for a complete system. Control over stock should be of prime interest to the SMEs. Depending on the quantities, specific types and nature of stock items, they can easily be stolen, burnt, become obsolete, evaporated, result in stock-out/or over-stocked. The first control measure to be introduced would be maintaining a detailed stock register with the following columns: item code; date of purchase; quantity received with specifications; items issued; and balance at the end of a certain period. Such a stock register he cautioned must be handled by responsible employee who should not be in any way connected with the settlement of accounts with the suppliers. Small firms are required to develop a system for stocktaking that will ensure that all items in stock are systematically counted, preferably, by responsible employee or in the presence of the owner. Stock control includes; the recording and monitoring of stock levels, forecasting future demand and deciding when and how many to order.

8.2. Labour Control

Labor is human effort engaged in production, service or business. It involves both the physical and mental efforts in a business. They may be classified as either direct or indirect to a cost object. The nature of their existence in a business may be permanent or temporal as well as being either full-time or casual. Primarily, reward systems are tied to output or time and it is either the norm that they are paid salaries or wages. In the dynamic business, control

mechanisms exist to evaluate both the labour efforts expended and the associated reward. A realistic accounting procedure would be to use a time sheet, attendance book, wage-sheet, payroll or better-still, wage-book for all categories of employees, their status, rates of pay and the exact labour cost for the entire business for any given period, a specified job or department.

8.3. Cash Control

Cash is the basic unit needed to keep business running on a continuous basis; it is also the ultimate output expected to be realized by selling the products of a firm. Marfo-Yiadom noted that cash shortages disrupt a firm's operations, while excessive cash simply remain idle without contributing anything towards the firm's profitability. Cash transactions constitute a major part of business transactions in a small and micro business enterprise. It therefore seems sensible for the small business owner to exercise reasonable control over cash transactions so that cash is not misappropriated by employees. Moreover, by introducing a fair system for recording business cash transactions, the owner is able to exercise control on his behalf regarding withdrawals of funds for his personal use which would otherwise have been available for business expansion. [10]. Commenting on the need for records on cash transactions, [12] maintained that it is pre-requisite of accounting for solvency that cash records are impeccable and that cash controls are proof against fraudulent manipulation.

8.4. Non-Current Asset Control

Non-current assets include Land and Buildings, Plant and Machinery, Furniture, Fixtures and Fittings, Motor Van and so on. They are acquired by satisfying the future benefit test of businesses. In order for a given firm's accounting to be complete, proper records on this class of assets should be kept so as to ascertain their entry costs or book values, estimation of their expected useful years so that their replacements would be planned in-line with the firm's going-concern concept. In his view, [10], suggested a suitable accounting system would require the maintenance of assets register for each type of asset and this should contain: Date of purchase of the asset; Description of the asset; Quantity in use; Leasehold or freehold; cost of price of the asset; Depreciation; Date of disposal; and Balance of asset left and its cost and book values.

8.5. Control of Cash Sales Receipts

Cash receipts for sales of goods and services can be reserved by mail or over the counter in the form of cheques or currency. Whatever the source, cash should be recorded immediately on receipt. This is generally done by making an entry in cash receipts journal. This step establishes a written record of cash receipts and makes theft more difficult. There are two common means of controlling cash sales and receipts; which are cash registers and pre-numbered sales tickets. All cash sales and receipts

should be banked at the end of the day. In addition, regardless of the profit levels of a business, persistent cash shortages may result in its liquidation. This means that cost control is very essential to the survival of and growth of any business-micro, small, medium or large. [13], observed that cash shortages will disrupt the firm's operations, while excessive cash will simply remain idle without contributing anything towards the firm's profitability.

9. Empirical Studies

The accounting and control practices of SMEs has been a topic of research in the small and medium enterprises literature. An early study of users of financial statements in SMEs revealed that owners, managers, tax authorities and lenders are the main users. According to [14], contemporary studies are discovering that the number of users of accounting information in SMEs is increasing to include venture capitalists and customers in supply-chains. Indeed, prior research has asserted that the quality of accounting information utilized within the SME sector has a positive relationship with an entity's performance. Similarly, it has been emphasized that there is the need for financial information for small and micro business units due to the volatility normally associated with their situation such as unstable cash and profit positions, and reliance on short-term debt.

[15], reviewed financial records in small firms and concluded that financial records of SMEs should include; sales day book, purchase day book, cash receipt book, cheque payment book, petty cash book, general journal, nominal ledger, debtors' ledger and creditors' ledger. Accounting and marketing pose major challenges to management of SMEs and recommends that managers or owners in SMEs must learn about accounting or hire experts. Conventional accounting reports play a significant role in SMEs but argues that the reports must be adjusted in order for them to be understood, proposing the use of the cash basis rather than the accruals basis.

[16], concluded that the volume of accounting practices in SMEs is dependent on a number of operating environmental factors that include size of the business, business age and industrial grouping. They further argue that most owners and managers of SMEs engage public accountants to prepare required information and that owners and managers search for additional information, but only to a limited extent. [17], concludes that the development of a sound accounting information system (AIS) in SMEs depends on the owners' level of accounting knowledge. A study conducted by [11], confirmed that SMEs do keep subsidiary books of accounts, especially to capture on operating expenses as evidenced by a few number of SMEs keeping books to record expenses. The study revealed that SMEs in the retail shops business are keeping sales day books for controlling inventory and those in the manufacturing sector keep records for non-current assets as owners try to safeguard their assets. Record keeping in SMEs is therefore not being done for the purpose

of capturing accounting information for performance measurement but for security and control.

[15], argues that financial reporting practices in SMEs seem to fall short of what is dictated by various external financial reporting imperatives that exist for them, further arguing that owner-managers appear particularly reluctant to produce financial reports which might become accessible to outside parties either directly or through the offices of regulatory authorities.

In Ghana however, studies done in the field of small-scale enterprise suggest that, it contributes greatly to the development of the economy. The contributions are in the form of creating employment, income, skills development, management training, capacity for self-sustaining growth and market development [18]. However, [19], concluded that small scale enterprises in the country do not offer much scope for substantial permanent wage employment; but they play crucial role in training future entrepreneurs and in providing opportunities for employment, in almost all sectors of the Ghanaian economy. Recently, [20], in his study of the methods of accounting practices by small business owners within the Cape Coast Metropolitan area of Ghana, concluded that, 34% of his respondents studied did not practice any form of accounting in addition to a seeming problem with specific types of accounts frequently kept by the SMEs.

This study however looks at the accounting and control systems practiced by micro, small and medium enterprises. Specific types of accounts, control procedures and systems kept by these SMEs have been highlighted.

The research employed a descriptive approach which helped to describe the basic features of data for the study and also helped to achieve all the objectives of the research. The study was conducted on SMEs within the Techiman Municipal Area of Ghana. Therefore the population for the study comprised all SMEs in Techiman. SMEs in this area operate across various sectors of activity including; manufacturing, transportation, retailing, wholesale, and among others. The population consist of all the stakeholders in small and medium enterprise especially, management or owners of SMEs, Accountants and employees of SMEs in the Techiman Municipality. Since the population for the study was very large, making a census or a complete enumeration of all the values in the population was impractical or impossible because of time, ease of data collection and other constraints which were considered relevant for the problem of study. Hence a sample, which was considered a section of the population, was selected.

The sample size was determined based on the formulae given below:

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

Where n = sample size, N = total population and α = the confidence level. N = 240 which is the total population, and significant level of 5 % (α) = 0.05.

$$n = \frac{240}{1 + 240(0.05)^2} = 50$$

Therefore, the sample for the study was 50. In view of this, 50 owners or managers of SMEs were selected from the following sectors of economic activity; wholesaling, Retailing, Catering Services, Construction, Agro-Processing, Shoe Making and Transportation. The firms were selected based on the criteria below:

1. Employ less than thirty (30) employees,
2. Not Owner managed,
3. Has been in business for more than six months

The study employed a combination of the stratified sampling technique and the purposive sampling technique. Stratified sampling was employed to divide the population into various sectors of economic activities and to sample from each sector. After allocating all the SMEs in the Municipality to each sector, purposive sampling was used to choose respondents who were thought to be relevant to the data needed. The combination of the two methods helped the results obtained to reflect the nature of accounting practices and control system in SMEs under all sectors of the economy and also help in effective data collection

The study adopted both qualitative and quantitative data. This was done in order to assess the accounting and control practices of the selected enterprises and make comparison. It also revealed the level that the selected organizations had applied accounting controls in their operations. Data for the study were collected from two main sources, which are; primary and secondary sources.

The tools used for collecting primary data were interview schedule and questionnaires which were designed exclusively to solicit the views of the respondents on the research topic. In order to achieve the objective of the research, questionnaires were designed based on recommended accounting practices framework for small and medium -sized entities as identified by the European Commission and presented to the respondents for answers. Informal interviews were also conducted to gather data from entrepreneurs and management of SMEs to ascertain empirical data on their accounting controls which were not captured in the questionnaires. The individuals targeted for the interview are those who have the most involvement in the financial activities of SMEs. The questionnaires included both open-ended and close-ended questions.

To test the reliability of the study, the questionnaires were initially pre-tested by administering them to some individuals and institutions conveniently chosen from the sample frame.

10. Types of Accounting Books and Records kept by SMEs

This part of the questionnaire was designed to gather data on the current accounting books and records kept by the selected firms. The kinds of book-keeping system used by

the firms were also identified. Again, the researcher ascertained the procedures used by the various firms in keeping books and records. The results are as follows:

Table 1. Accounting books kept by the selected firms.

Type of Book	Frequency		Total
	Keep	Do not keep	
Sales day book	35	15	50
Purchases day book	32	18	50
Cash book	37	13	50
Petty cash book	20	30	50
Fixed Asset Register	42	8	50
Expenditure book	21	29	50

Source: field survey (2013)

As shown in the table above, all the 50 firms selected kept at least one book of accounting. Most of the firms kept sales day book for recording credit sales transactions, which tallied 35 of the firms sampled. 32 of them also selected purchases day book as another accounting book kept. Out of the 50 respondents, 37 maintained cash book to record cash transactions, the rest (18) did not. Again, 20 respondents kept petty cash book, and the rest (30) did not. Most of the firms (42) were using fixed asset register to capture all relevant information on plant and equipments. Expenditure books were kept by 21 firms out of the 50 respondents.

11. Principle of Book-Keeping Used by SMEs

Under this section, the respondents from the various firms were asked to specify whether they were using double entry principle of book/keeping or single entry book keeping in the recording of transactions into the various listed above. The outcome is as follows:

Table 2. Principle of book-keeping used by SMEs.

Principle of book-keeping	Frequency	Percentage
Double Entry	23	46%
Single Entry	27	54%
Total	50	100%

Source: Field Survey (2013)

As shown in table 4.2.2 above, it revealed that 23 firms out of the 50 firms sampled were using double entry principle of book-keeping, which constitute 46% of the valid respondents. 27 of them were using single entry principle of book-keeping, representing 54% of the total valid respondents.

12. Size of Firm and Book-Keeping Practices

A number of variables are expected to give insight into the

book-keeping practices of SMEs as suggested by previous researches. These variables affect the firm's approach to book-keeping practices, in particular the types of books maintained to provide relevant financial information. One major variable affecting the types of books kept by SMEs is the size of the firm. The size of the firm is determined by the number of employees in the firm.

From the study, it was revealed that firms with employees between 1 and 6 (micro firms), mostly keep one to three books for recording transactions. Firms employing between 7 and 10 employees mostly keep 3 to five books of prime entry. Small firms (employing 11 to 30 employees) mostly keep 3 to 6 books of original entry. Whereas, firms employing 31 to 50 employees (medium firms) mostly keep 5 to 6 books of prime entry.

13. Accounting Control Systems of SMEs

According to [9], accounting controls are measures that relate to the protection of assets and the reliability of accounting and financial reports. Under this section, questions were drafted to seek the actual accounting control systems set up by the sample firms and the extent of their compliance. The questionnaire covered the following business activities; Stock control, labour control, cash control, fixed asset control, cash disbursement control and credit policies.

13.1. Stock Control

As noted earlier, stock forms an integral part of control systems in most organizations. Depending on the quantities, specific types and nature of stock items, they can easily be stolen, burnt, become obsolete, evaporated, result in stock-out and over-stocked. This calls for a comprehensive control of stock in SMEs. In this study, the researcher attempted to gather data on whether the sampled firms control stock to safeguard the investor's interest.

Table 3. Stock Control in SMEs.

Response	Frequency	Percentage
Yes	39	78%
No	11	22%
Total	50	100

Source: Field Survey (2013)

Table 4.3.2 revealed that, out of the 50 respondent sampled, 39 of them were controlling stock in their business operations, representation 78% of the valid respondents. The rest (11) of them said, they don't have in depth knowledge in stock control, this constituted 22% of the total respondents sampled. The result above revealed that 39 firms out of the 50 sampled, kept formal standard stock registers. The remaining (22) only relied on physical stock count and supplier (purchase) invoices. The result on stock taking revealed that, 17 of them (34%) count stock daily, whereas

24 of them count stock weekly or monthly. The remaining 9(18%) count the items in stock as and when needed. This result confirmed that those using computerized system in operation usually check stock daily, whereas those using manual system prolong the days for stock taking.

13.2. Labour Control

Labour cost covers a significant percentage of business expenses; this therefore calls for adequate control mechanisms to be adopted by all businesses to control the labour efforts expended and the associated reward. A practical accounting procedure would be to use an attendance sheet, payroll or better-still, wage-book for all categories of employees, their status, rates of pay and the exact labour cost for the entire business for any given period [5]. The table below summarizes the result obtained from respondents regarding the maintenance of attendance book to control labour in SMEs.

Table 4. Labour Control in SMEs.

Response	Frequency	Percentage
Yes	32	64%
No	18	36%
Total	50	100%

Source: Field Survey (2013)

From the table above, it revealed that 32 of the sampled firms kept attendance books in their organization to record the reporting time of every employee of the firm. It also keeps the time of close from official duties in the organization. This represented 64% of the total respondents. The remaining 18 firms do not keep attendance book, representing 36% of the total respondents. The study further revealed that, most firms used the number of hours worked by labour in determining the basic salary due for a specific period.

13.3. Procedure for Purchasing

In this art of the questionnaire, respondents were asked to answer “yes” or “no” to whether there is a laid down procedure for purchase of goods and other equipment in their various organizations. The table below summarizes the result obtained:

Table 5. Procedure for Purchasing in SMEs.

Response	Frequency	Percentage
Yes	39	78%
No	11	22%
Total	50	100%

Source: Field Survey (2013)

From table 4.3.3 above, 78% of the respondents responded “yes” to the question above. This means that, most firms out of the sampled had laid down procedure for the purchase of goods and equipment in their organizations. The rest of them (22%) responded that, there is no procedure laid down for purchase of goods and other equipment in their

organization. As a follow-up question, respondents who responded “no” to the question above were required to give reasons for their answers. Most of the respondents said their activities or operations did not require frequent purchasing and bulk purchase. Others asserted that owners are those in charge of purchasing and so not require any formal procedure.

13.4. Credit Policy in SMEs

It is a common practice in real business that goods and services are either purchased or sold on credit basis. However, this is expected to be handled very carefully in order not to either over-stretch liberties with suppliers or import the problems with bad debts. This study also sought to identify if the sampled firms had policies in place to regulate credit sales and purchases. The respondents were asked to answer “yes” if there is credit policy in their organization and “no” if not. The result is as follows:

Table 6. Credit Policy in SMEs.

Response	Frequency	Percentage
Yes	42	84%
No	8	16%
Total	50	100%

Source: Field Survey (2013)

From table 4.3.4 above, it revealed that, out of the 50 respondents interviewed, 42 of them responded “yes”, which implies that 84% of the firms sampled had credit policies in place to control credit sales and purchases. 8 of them responded “no”, which implies that 16% of the firms sampled did not have credit policies in place to control credit transactions.

13.5. Cash Control

Cash is the ultimate output to be realized by selling the products of a firm. Cash transactions constitute a major part of business transactions in a small and micro business enterprise. It therefore seems sensible for the small businesses to exercise reasonable control over cash transactions so that cash is not misappropriated by employees and other outside parties. Under this section, the researcher sought how cash receipt is controlled in the sampled firms. With cash receipt control, the respondents were asked to identify how cash generated in their organizations is kept. The result is as follows:

Table 7. Control of Cash Receipt in SMEs.

Control procedure	Frequency	Percentage
Banked Instantly (Daily)	23	46%
Keep in Cash Vault	12	30%
Owner Personal safe keeping	12	24%
Total	50	100%

Source: Field Survey (2013)

From table 4.3.5 above, the study revealed that 23 firms out of the 50 sampled banked cash instantly after the day's activities, representing 46% of the valid respondents. 15 of them said, they kept cash in the organization's vault after each day's activity, representing 30% of the respondents. 12 of them also asserted that, cash generated in the organization for the day's activity is given to owners for personal safe keeping, representing 24% of the sampled firms.

14. Completeness of Financial Records

[15], argues that financial reporting practices in SMEs seem to fall short of what is dictated by various external financial reporting imperatives that exist for them, further arguing that, owner-managers appear particularly reluctant to produce financial reports which might become accessible to outside parties either directly or through the offices of regulatory authorities. This study also sought to identify the extent to which accounting and control systems of the sampled firms generate relevant information for financial statements.

15. Discussion of Research Findings

15.1. Books and Records Kept by SMEs

The data gathered and presented in table 4.2.1, revealed that SMEs do keep accounting books in recording of business transactions. Table 4.2.1 further revealed that SMEs do not maintained all the required books of original entry as evident in most firms keeping one to three books. The study also found out that; most SMEs maintained fixed asset register than all other books of original entry. Cash tallied the next book kept by most SMEs whereas petty cash book was identified as the rare book maintained by SMEs. Again the study identified that, there is a direct relationship between the firm's size and the types of books kept as depicted in figure 2. Micro firms (1 to 6 employees) usually kept 1 to 3 books, whereas medium sized enterprise (31 to 50 employees) kept 5 and 6 books. This goes to confirmed assertions made by previous researches that the size of a firm influences the types of books to be kept.

15.2. Control System Practices in SMEs

This objective was to identify the control systems set up by SMEs. These control activities included; stock, labour, cash, credit policies, procedure for purchasing and other control activities. Under stock control, the study revealed that 39 of the sampled firms had adopted various techniques in controlling stock which constituted 78% of the sampled firms, whereas 32 firms had adopted procedures to control labour, representing 64% of the respondents. Regarding the formulation of credit policies in SMEs, 42 of the respondents indicated that they had formulated credit policies which regulate sales and purchasing of goods in their various firms.

The data gathered on the existence of procedure for

purchasing in SMEs revealed that 78% of the firms (39 firms) had laid down procedure for purchasing in their firms. The study also revealed that cash control activity in SMEs involve the control of cash received from operational activities of the firm. 23 of the firms banked cash instantly after a day's activity whereas 15 of them kept cash received from the day's activities in cash vault of the organization and the remaining 12 firms hand over daily cash receipt to owners of the firms for safe keeping.

It can therefore be concluded that about 70% of the firms had set up control systems in various activities of the firms. Only few of them do not have control system in their organization.

16. Conclusion

The study sought to examine the accounting practices and control systems of SMEs in the Techiman Municipality of Ghana. The research forms part of the effort of unearth the reasons behind the difficulties faced by SMEs in keeping proper books of accounts and maintaining formal accounting controls in Ghana. To accomplish this task, questionnaires comprising the types of books kept by SMEs, control system of SMEs and completeness of accounting records in SMEs were administered to SME Owners, Managers and Accounting Officers in the Techiman Municipality. A total of 50 questionnaires were distributed and received from the respondents.

The study revealed that most SMEs in Ghana are micro entities (employing 1 to 6 employees). The study further revealed that majority of SMEs are in the wholesale and retail trade industry. Again, the result presented in chapter four depicted that majority of the SMEs have been in business for 3 to 5 years and few firms had been established in past year.

The study also revealed that 72% of the sampled firms had engaged the services of full-time accounting personnel in their organizations, and the difference did not. 39% of the accounting personnel engaged by SMEs were diploma holders, with 25% holding HND certificate, none of them was a professional qualified accountant (Chartered Accountant).

The results of this study confirm that SMEs do keep books of accounts especially, to capture information of fixed assets, sales and cash transactions. There is however, little accounting information captured on the operating expenses as evident by a few number of SMEs. It was also identified that SMEs mostly used single entry system of book-keeping in recording business transactions, as evidenced by majority of the sampled firms using this system.

The study again, gathered data on the accounting control systems of SMEs. It was discovered that 78% of the sampled firms had adopted techniques in controlling stock of their activities, 64% of the valid respondents indicated that they have establish a control procedure on labour in their business. 78% of sampled firms had established laid down procedure for purchasing of goods and other equipment.

Regarding the establishment of credit policy in SMEs, 84% of the sampled firms had credit policy in their business to control credit sales and purchases. Cash control practices in SMEs were also studied. The results suggest that most SMEs banked cash generated in their business daily. Few of them kept cash in the organization's vault or owner's personal safe keeping.

The research also gathered data on the completeness of financial records and accounts of SMEs. The results of the study revealed that most SMEs prepare financial statements of their activity especially, income statement and statement of financial position. However, few firms used full time Accounting Officers in preparing financial statements for financial reporting and tax purposes. 72% of the sampled firms also indicated that they use IFRS as standard in preparing financial statements. The main users of SMEs' financial statements are tax authorities.

The above study has given an insight into the conditions which influences the adoption of accounting and control systems among the small and medium sized entities. The research findings have consistently showed the direct relationship between firm's size and the adoption of accounting and control systems. Also, the age of the business have direct influence on a firm's adoption of formal accounting and control systems.

The study revealed that almost all the SMEs sampled kept at least one book of account to record business transactions. This is done by employing Accounting Officers to handle their accounting information. Most of these Accounting Officers employed by SMEs are Diploma and HND holders, with only few of them who are degree holders and senior high school graduates. The results of the study revealed that majority of SMEs kept fixed asset register and cash book whereas, few of them kept expenditure and petty cash book. The study also revealed that, the size of the firm influences the types of books kept by SMEs. The study therefore confirms the findings of [15] that the volume of accounting records kept in SMEs is dependent on number of operating factors that include size of the business, business age and industrial grouping. It can therefore be concluded that SMEs do keep books to record business transaction but, the sufficiency of such books kept by SMEs depend on other variables such as; the size of firm, age of business and other variables.

The results obtained on the control system of SMEs revealed that SMEs set up various accounting controls in their operations especially; to control stock, labour, credit sales and purchases, cash receipt and laid down procedure for purchasing. Proper control practices in SMEs are also determined by size of the firm, age of business and the engagement of skilled accounting personnel. The results of this study disagree with the findings of [5], which asserted that SMEs do not set up control systems in their activities.

The results on the completeness of financial information by SMEs confirm the findings of [16] that most SMEs do not prepare complete set of financial statements with some not preparing any financial statement at all. Majority of the

sampled firms prepared only income statement and statement of financial position, with few firms preparing statement of cash flow and changes in equity. The results also revealed that, the need to prepare a complete set of financial statements is determined by the size of the firm, age of business and engagement of an Accounting Personnel. The study also revealed that, tax authorities are the main users of SMEs' financial statements, which implies that in the absence of statutory requirement to prepare financial statements, SMEs could do without financial reporting of their business activities.

References

- [1] Luetkenhorst, W. (2004) „Corporate Social Responsibility and the Development Agenda: The case for actively involving small and medium enterprises“, *Intereconomics*, May/June.
- [2] Adjei, D. (2012). Micro, Small and Medium Scale Enterprises in Ghana: Challenges and Prospects. A case study of Sekondi-Takoradi Metropolis.
- [3] Mensah S. (2004) „A Review of SME Financing Schemes in Ghana“, Presented at the UNIDO Regional Workshop of Financing Small and Medium Scale Enterprises, Accra, Ghana, 15-16 March 2004.
- [4] Nayak A, and Greenfield S, 1994. The use of management accounting information for managing micro businesses. In: Hughes A, Storey D (Eds.), *Finance and the Small Firm*. London: Routledge, pp. 182–231.
- [5] Mbroh, J. and Attom, B. (2011), Accounting and control systems practiced by small and micro enterprise owners within the Cape Coast metropolitan area of Ghana, *Asian journal of business and management sciences*, vol. 1 no. 9 (28-47)
- [6] Carsamer, E. (2009). Access To Credit by SMEs in Ghana: Does the type of business matter? *Social Science Today*. Winneba: Jim Waler Light and Salt Publishers.
- [7] Kayanula D. and Quartey, P. (2000). The Policy Environment for Promoting Small and Medium Sized Enterprise in Ghana and Malawi. Finance and Development Research Programme Working Paper .Series No.15.
- [8] Osei B, Baah-Nuakoh A, Tutu K.A, & Sowa N.K (1993), 'Impact of Structural Adjustment on Small-Scale Enterprises in Ghana.
- [9] Meigs, T., Johnson, F. and Meigs, C. (1977). *Accounting, The Basis for Business Decisions*, McGraw Hill Limited.
- [10] Sathyamoorthi, C.R. (2001). Accounting and Control Systems in Selected Small and Micro Enterprises in Botswana, *African Journal of Finance and Management*, Vol.10 No.1, pp.96-109.
- [11] Maseko, D. and Manyani, O. (2011), Accounting practices of SMEs in Zimbabwe: an investigative study of record keeping for performance measurement: *Journal of accounting and taxation* vol. 3(8), pp. 171-181, December 2011.
- [12] Kilvington, K.W. (1976). *Accounting for Solvency, Financial Management* (September), p.303

- [13] Marfo-Yiadom, E.(2002). A Survey of Cash Management Practices of Selected Firms in Accra-Tema Metropolitan area of Ghana, *The Oguua Journal of Social Studies*, Vol.3,(June), pp.165-182.
- [14] Olson O, Blomskvisk M, Dergard J, Jonsson C (2004). Accounting and Entrepreneurship: A Review and Discussion of the Scientific Literature. Paper Presented at the 4th Asia-Pacific Interdisciplinary Research in Accounting Conference. 4-6 July. Singapore.
- [15] McChlery, S., Godfrey, A.D. and Meechan, L.(2005), Barriers and Catalysts to sound Financial management Systems in Small-Sized Enterprises, *The Journal of Applied Accounting Research*, Vol.7(iii), pp1-26.
- [16] Dewhurst J, Burns P, 1989. *Business Planning Finance and Control*. 2nd Edition. London: MacMillan.
- [17] Holmes, S. and Nicholls, D. (1989), Modeling the Accounting Information Requirement of Small Businesses, *Accounting and Business Research*, 19 (74) 143-150.
- [18] Boachie-Mensah, F.O. and Marfo-Yiadom, E.(2005). *Entrepreneurship and Small Business Management*, Ghana Universities Press, Accra, p.2
- [19] Thormi, W.H. and Yankson, P.W.K. (1985), *Small-Scale Industries Decentralisation in Ghana*, Preliminary Report on Small-Scale Industries in Small and Medium-Sized Towns in Ghana, Frankfurt/Accra.
- [20] Mbroh, J.K. (2011), Methods of Accounting Practices by Small Business Owners in the Cape Coast Metropolitan Area of Ghana, *Journal of Polytechnics in Ghana*, Vol.5, No.1, pp-129-151.
- [21] European Commission (2003, May) Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC). *Official Journal of the European Union*, 5(20), p.36
- [22] IASB (2006) "Draft International Financial Reporting Standard for Small and Medium Sized Entities" November.