THE INTERNATIONAL JOURNAL OF SCIENCE & TECHNOLEDGE

Assessing the impacts of Proper Book-Keeping on the performance of Small and Medium Scale Enterprises (SMEs) in Kwaebibirem district of Ghana

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Abstract:
Small and Medium Enterprises (SMEs) form a very large number of Ghana's economy and this sector also has been recognized as a significant sector in employment creation, income generation, poverty alleviation and a base for industrial development. In spite of the enormous potential of SMEs, poor record keeping is identified as a constraint hampering its performance and growth in Ghana.   The general objective of this study was to assess the impacts of proper bookkeeping on the performance of SMEs in Ghana.
This was done by a survey carried out in Kwaebibirem district in the Eastern Region of Ghana through personal interviews and questionnaire and analysed using the F-Statistic (ANOVA).
The study considered a total population of 175 comprising SMEs, Banks officials as well as National Board Small Scale Industries (NBSSI) office in the District. Out of this figure, a simple random sampling technique was used to select a sample size of 120 for the study.
The research revealed that the Small and Medium scale Enterprises (SMEs) although form the larger sector of the economy and constitute important component of the industrial life of Ghana, there are various factors that account for lack of bookkeeping or improper bookkeeping in businesses and these must be taken into consideration if an organization desire to progress. Results also showed that keeping proper books of account enhances performance of small and medium scale businesses.
Some recommendations which will go a long way to improve records keeping and financial management of SMEs have been made.

Keywords: Impact, Small and Medium Enterprises (SMEs), Kwaebibirem, Bookkeeping, Performance

1. Introduction

Small and Medium Scale businesses collectively form the larger sector of the economy and constitute an important component of the industrial life of Ghana. In Ghana, the number of small scale business ranges from grocery trading, mineral water production, dressmaking, hairdressing, provision shops, small loan companies and many others which dominates the Ghanaian economy.

According to Glantier and Underdown (1997), SMEs are required to keep proper records of financial data concerning all receipts and payment, all sales and purchases of goods and services and all assets and liabilities from which financial statements are prepared. The financial transaction recorded must be objective, sufficient, relevant and reliable to make informed decisions and judgments' by interest groups (Attwood and Stein, 1986).   Proper records keeping has enormous benefits which include helping an organization in framing future business plans and policies; helping to ascertain and fix the price of business to be sold or disposed off and serving as references to traders. (Williams et al, 2008). A number of Small and Medium Scale Enterprises have not given much attention to book-keeping in relation to their business transaction, despite its importance in the success of businesses. This could be lack of sound knowledge in book-keeping practices by owners or respective managers.

A research conducted by the National Board for Small Scale Industries in Ghana in 2012 revealed that most of the SMEs in the country practiced inaccurate, inadequate and below standard book-keeping and internal control systems as a tool for monitoring and checking fraud.   Furthermore, reports from the Business Advisory Centre's (BAC) of the NBSSI have shown that, record keeping is a major problem facing the country's SMEs. The report went further to state that the manner in which those who practice basic bookkeeping are done could not support any effective financial management of these businesses (2004 NBSSI/ BAC, annual report). There is therefore the need to do a thorough study to discover some of the reasons for lack of proper or no record keeping in Ghana

taking a district as a case study. This study, therefore sought to do an in-depth research and analysis of various known and unknown reasons for lack of proper record keeping and the advantages of proper bookkeeping practices on financial performance of SMEs in Kwaebibirem district.

2. Literature Review

Bookkeeping is defined as the systematic recording of the financial transactions and the maintenance of the correct and up-to-date financial records of the organization by an accounting clerk. Effective management of bookkeeping makes the business owners aware of the losses and the profits. To be precise, bookkeeping brings the result of the economic activities to the surface (Bhattacharya, 2009). Book-keeping is a mechanical process that records the routine economic activities of a business (Rogers et al., 1995). It refers to the recording of financial transactions and events either manually or electronically (Larson et al, 1999). From the literature of Saleemi (2008), book-keeping is seen as the analysis, classification and recording of the business transactions in the books of accounts.

According to Favell, bookkeeping's objective is simply to record and summarize financial transactions into a usable form that provides financial information about a business or an individual. According to him, the primary value of any record is that it is available for ready reference when required.

There are two methods of bookkeeping namely the Single-entry bookkeeping system and the Double entry bookkeeping system (Pinson et al, 1993). The single entry system is an "informal" accounting/bookkeeping system where a user of this system makes only one entry to enter a business financial transaction. It generally includes a daily summary of cash receipts and a monthly record of receipts and disbursements (worksheets).

According to Williams et al (2008), the double entry system is the standard system used by businesses and other organizations to record financial transactions. In its simplest form requires two (2) books for its operation – the journal and the ledger. Since all business transactions consist of an exchange of one thing for another, double entry bookkeeping using debits and credits, is used to show this two-fold effect. Debits and credits are the device that provides the ability to record the entries twice.

2.1. Empirical Studies

Peacock (1987) in one of his studies of company failures in South Australia, reviewed the bankruptcy reports of 418 unincorporated businesses for four years (from 1981 to 1985) and found that 50.5 percent of this used single entry system of bookkeeping, 32.8 percent used bank and taxation records whereas only 2.1 percent utilized double entry systems. The writer recommended further research to be done on double entry systems of recording in companies.

Peacock in 1988 again found out that a significant element in the failure of many of the businesses was inefficient or absence of accounting records. More than half of the businesses failed were found to have no records or only bank and taxation records. The writer's findings are very important as examining the impact of bookkeeping system practices have a link on the profitability of SMEs. He recommended for further research study on bookkeeping and performance of companies.

Research conducted by Williams in 1986 throughout Australia on 10,570 SMEs revealed that a significant proportion of owner-managers kept inadequate accounting records. He recommended for further investigation on the record keeping practices in small enterprises in Australia.

Holmes (1987), in his survey study of accounting information requirements of 928 small enterprises operating in Sydney, Melbourne and Brisbane found out that 57% of the respondents used the journal/ledger (double entry) systems. This finding is rather in contrast to Peacock's (1987) findings of types of records maintained by failed enterprises, where only 2.1% of respondents were found to use double entry systems. He recommended for further research on challenges facing small enterprises in an economy.

Despite the above researches on the adequacy of accounting records for small enterprises, little research has been done on the effects of bookkeeping on the performance of small and medium scale enterprises and taking a step to research in this area using Kwaebibirem district in Ghana is in the right direction.

3. Methodology

To achieve the objectives of the study, the study used both primary and secondary data. Questionnaires were administered to business operators and their employees, banks and NBSSI, to gather primary data. In some cases personal interviews were conducted from the business operators/employees because most of them were illiterates.

Secondary data was from annual reports of NBSSI. Again, a cross sectional survey research design was used to investigate populations by selecting samples to analyse and discover occurrences. It provides quantitative descriptions of some part of the population. The cross sectional survey design enabled the study to get more details from the number of respondents that was used in this study. The results from the sample can be inferred to the larger population. The target population consisted of 172 owner-managers/managers of Small and Medium scale Enterprises comprising trading, manufacturing, and service providing SMEs.

Both stratified and simple random sampling techniques were used for the study. Stratified sampling was appropriate since it ensured that the three sub-groups of SMEs are proportionally represented and that the difference in the sub-group characteristics is accounted for. This technique was used to ensure that the target population is divided into different homogenous strata and each stratum is represented in the sample in a proportion equivalent to its size in the population. Simple random sampling was used to ensure that each member of the target population had an equal chance to be selected.

Using Yamane's formula, there was a sample selection of 120, comprising 100 SMEs (made up 65 trading SMEs, 6 manufacturing SMEs and 29 services providing SMEs), 18 Bank Officials and 2 NBSSI staff.

The formula states:

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

Where: n - Sample size

N - population

e - Margin of error of 0.5

A structured questionnaire was administered to 99 owner-managers/managers of the sampled SMEs to collect primary quantitative data through the assistance of students of Kade Senior High School. The sample of 99 was chosen because of the need to represent the target population in the study and the need to have a well spread representative group across strata. The sample also was enough to represent the salient features of the target population.

The study used a structured questionnaire to collect primary quantitative data from the owner- managers/ managers from each of the selected SMEs. The questionnaire was developed to capture information on businessmen's knowledge and in-depths skills of the principles of proper bookkeeping. The study used the test-retest method of assessing reliability of data by administering the same instrument twice to the same group of subjects. This method involved: selecting an appropriate group of subjects, administering the test to the subjects, keeping all initial conditions constant, and administered the same test to the same subjects for the second time after one month, and correlated the scores from both testing periods to obtain the coefficient of reliability or stability .This was done to have a reliable measurement that has a small error component and does not fluctuate randomly from one moment to another such that it may be dependable, stable, consistent, predictable and accurate.

The study used descriptive statistics such as frequency distribution and percentages to facilitate the change of   raw data into a form that was easy to understand and interpret in relation to the objectives. Also inferential statistics such as Pearson correlation coefficient and simple linear regression were used to analyze quantitative data. Pearson correlation coefficient was used to determine the degree of association between bookkeeping and financial performance. Simple linear regression was used to establish the relationship between book keeping and financial performance. A linear regression model was developed and tested to explain the relationship between financial performance and book keeping. The regression model below was applied to establish the relationship between the study variables:

$$F = a0 + a1B$$

Where: F is financial performance

a_0, a_1 are coefficients

B is book keeping

The analyzed data were presented using statistical tables.

4. Findings and Discussion

4.1. Demographic Features

Generally, the demographic characteristics of SMEs in terms of age and sex distribution, as well as educational background could influence recordkeeping habit in the study area. This is to help find out which of these is responsible in influencing the mode of recordkeeping in the study area.

Age (Years)	Frequency			Percentage (%)		
	SMEs	Banks	NBSSI	SMEs	Banks	NBSSI
20 -30	10	4	-	10	22	-
31 – 40	20	5	1	20	28	50
41 – 50	30	7	1	30	39	-
51 – 60	40	2	-	40	11	50
Total	**100**	**18**	**2**	**100**	**100**	**100**
Sex						
Male	70	**10**	**1**	70	56	50
Female	30	**8**	**1**	30	44	50
Total	**100**	**18**	**2**	**100**	**100**	**100**
Level of Education						
Illiterate	20	-	-	20	-	-
JHS	10	-	-	10	-	-
SHS	40	-	-	40	-	-
Tertiary	30	18	2	30	100	100
Total	**100**	**18**	**2**	**100**	**100**	**100**

Table 1: Demographic features of Respondents
Source: Survey Data, 2012

From table 1, the researchers revealed that majority (60%) of the respondents from the SMEs' sector are not above 50 years. However, those from banks ages are evenly spread and the two respondents from NBSSI are in the range of 31- 50 years. This means that the SME owners/managers are youths so when the necessary assistance is given to them, they will work hard to employ more people which will go a long way to reduce unemployment in Ghana.

Again, table 1 revealed that in all the categories of respondent, males form the majority.

It also came out from the research that all the respondents from both NBSSI and the Bank sectors have tertiary qualification. However, 70% of the SME respondents have qualification below tertiary level. This is an indication that majority of the SMEs in the district do not have or have little knowledge in book keeping and as a result the records prepared do not meet standard hence do not reveal the true picture of the financial performance of the business enterprises.

4.2. Nature of Business

The researchers want to know specifically the kind of business activity SMEs were engaged in. This would assist unraveled the most dominant economic activity in the district.

Responses	Frequency	Percentage (%)
Trading	65	65
Manufacturing	6	6
Services	29	29
Total	**100**	**100**

Table 2: Kind of business ventures
Source: Survey Data, 2012

Figures from table 2 indicates that, 6% were in to manufacturing, 29%t in the service sub-sector indicating the most second highest and 65% as the highest in the trading sub-sector. This is an indication that most of the business activities within the study area are into buying and selling. Since 94% of the respondents are in trading and services sectors it means that both the trading and the service sectors play a dominant role in the socio-economic development of the study area they offer employment opportunities to people in the district. Manufacturing however is the lowest with a 6%.

4.3. Book-Keeping

The researchers sought information from managers/Owners of SMEs as whether they have been keeping books of accounts. Respondents were asked to indicate Yes or No. Responses received are shown in table 2.

Responses	Frequency	Percentage (%)
Yes	65	65
No	35	35
Total	**100**	**100**

Table 3: Book-keeping
Source: Survey Data, 2012

The analysis showed that 65 (65%) responded 'Yes' and 35 respondents representing 35% responded 'No'. This is however positive, since a significant number of respondents (SMEs) claims to be practicing bookkeeping. It was observed that though some did keep books of accounts, but most of them were not up to the standard.

4.4. Reasons for Not Keeping Records

As a follow up to the above question, the 'No' respondents were asked to indicate why they fail to practice bookkeeping.   A summary of the respondents is presented in table 4.

Responses	Frequency	Percentage (%)
The nature of business does not require recordkeeping	6	17
Because the business is mine	14	40
There is limited time	6	17
High cost of competent personnel	5	15
I do not know how to keep record	4	11
Total	**35**	**100**

Table 4: Reasons for not keeping Records
Source: Survey Data, 2012

The outcome from table 4 was that, 40% of them said because the businesses belong to them there wasn't any need for keeping records. 17% of the respondents also claim that the nature of their business do not require record keeping. Another 17% indicated because of limited time, 15% also claim high cost of competent personnel and finally, 11% said they did not have any knowledge of bookkeeping.

4.5. Effects of Not Practicing Book-Keeping
When the researchers wanted to find out the consequences of not keeping proper records, the responses are summarised in table 5 below.

Responses	Frequency	Percentage (%)
Poor planning of business	18	18
Retards the performance of the business	20	20
No difficulty	14	14
Could not keep track of business activities	40	40
Monies easily leaks from the business	8	8
Total	**100**	**100**

Table 5: Effects of not practicing bookkeeping
Source: Survey Data, 2012

Analysis of table 4 gave a fair idea as to the difficulties businesses encounter for failing to maintain proper books of accounts. 18% said, they find it difficult planning their businesses while 20% says it retards the performance of the business, 14% said they face no difficulty for not keeping records, 40% says they could not keep track of business activities and 8% of the respondents says monies easily leaks from the business. It should be noted that all the factors listed above could impact negatively to the growth and development of a business if proper accounts are not maintained.

4.6. Adequacy of Bookkeeping
As a follow up to question to those who responded 'Yes' in respect of keeping books of account, respondents were asked to indicate the adequacy of bookkeeping in their firms.   A summary of the respondents is shown in table 6.

Responses	Frequency	Percentage (%)
Excellent	7	11
Good	17	26
Average	15	23
Poor	20	31
Non – existent	6	9
Total	**65**	**100**

Table 6: Adequacy of bookkeeping
Source: Survey Data, 2012

 On the adequacy of book-keeping, 11% of the respondents indicated excellent, 26% indicated good, 23% indicated average, and 31% indicated poor, 9% indicated non-existent.
From the table above, the results showed that book keeping practice of the SMEs in Kwaebibirem is not adequate and this may negatively affect the financial performance. This may be as a result of the academic level of the personnel involved.

4.7. Extent of Effectiveness in the Given Book-Keeping Practices
The researchers tried to find out the effectiveness of the SMEs who practice book keeping. The respondents were asked to rate on a 5-point likert scale, the extent of effectiveness of six book keeping practices. The responses were compiled and a composite value was obtained to represent the SMEs effectiveness in book keeping. The mean and standard deviation were computed and the results presented in table 7 below.

Responses	Not at all 1	Little Extent 2	Moderate Extent 3	Large Extent 4	Very large extent 5	Σfi	Σfiwi	$\frac{\Sigma fiwi}{\Sigma f i}$
Keeping of receipts	2	30	13	17	3	65	184	2.831
Setting up and posting entries to the ledger	9	31	4	17	4	65	171	2.631
Creating basic financial Reports	4	34	5	20	2	65	177	2.723
Interpretation of basic financial statements	8	30	5	21	1	65	172	2.646
Use of basic financial reports in decision making	13	26	6	17	3	65	166	2.554
Use of computers in bookkeeping	39	5	1	18	2	65	134	2.062

Table 7:   Extent of effectiveness in the given book keeping practices
Source: Survey Data, 2012

Analysis of table 7 shows that keeping of receipts has the highest weighted mean of 2.831 followed by creating basic financial Reports with 2.723, and the least was use of computers in bookkeeping with 2.062.   This point to the fact that most SMEs showed a weighted mean of around 3 (moderate extent), except for use of computers in book keeping which showed a weighted mean of 2 (little extent) as far as the extent of effectiveness in book-keeping practices is concerned. Based on this result, book keeping practices among the SMEs in Kwaebibirem District are not effective and this has a negative effect on the financial performance.

4.8. Mean and Standard Deviation of the Effectiveness in Book-Keeping of the SMES
The responses in relation to the rating of a 5-point likert scale and the extent of effectiveness of six book keeping practices were compiled and used to compute the mean and standard deviation and the results are presented in table 8:

	N	Minimum	Maximum	Mean	Standard Deviation
Effectiveness in bookkeeping	65	1	5	2.98	1.179

Table 8: Mean and standard deviation of the effectiveness in book-keeping of the SMEs
Source: Survey Data, 2012

From the table 8, the mean value of the effectiveness of bookkeeping was 2.98. This mean is below average value of 15 implying that most SMEs are not effective in bookkeeping.

4.9. Associative Analysis of the Study
 Pearson's correlation coefficients were used to determine the direction and strength of the relationship and simple linear regression analysis was used to deduce a model that could be used to explain financial performance. This will enable the researchers to establish the relationship between proper bookkeeping practices and the financial performance of SMEs

		Financial Performance Index	Effectiveness in bookkeeping
Effectiveness in bookkeeping	Pearson Correlation	1	0.961
	Sig. (2-tailed)		.000
	N	65	65
Financial Performance Index	Pearson Correlation	0.961	1
	Sig. (2-tailed)	.000	
	N	65	65
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 9: Correlation matrix of financial performance and bookkeeping
Source: Survey Data, 2012

The correlation matrix shows that the financial performance has a very strong significant positive relationship with effectiveness in bookkeeping with Pearson's Correlation coefficient of 0.961.

4.10. Linear Regression Analysis
In an effort to investigate the effect of proper bookkeeping on financial performance, the model used for the linear regression analysis was expressed in the general form F = a0+a1B. In interpreting the results of linear regression analysis, the coefficient of determination, the F-statistic and the regression coefficient were considered and their values are shown in tables 10.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.961	0.924	0.923	2.216

Table 10: Model Summary
Predictors: (Constant), effectiveness in bookkeeping
B Dependent Variable: financial performance index
Source: Survey Data, 2012

Figures in table 10 indicate the value of the coefficient of determination (R^2) = 0.924 which implies that 92.4% of the variation in financial performance could be explained by the changes in the effectiveness in book keeping. 7.6% remains unexplained.

Model	Sum of Square	Df	Mean Square	F	Sig.
Regression	3751.604	1	3751.604	763.950	.000[b]
Residual	309.380	63	4.911		
Total	**4060.985**	**64**			

Table 11: Analysis of Variance (ANOVA[a])
a Predictors: (Constant), effectiveness in bookkeeping
b Dependent Variable: financial performance index
Source: Survey Data, 2012

From the summary of ANOVA (analysis of variance) and F statistic in table 11, it shows the value of F (763.950) significant at 0.05 confidence level. Analysis of variance (ANOVA) is used to test the significance of variation in the dependent variable that can be attributed to the regression of one or more independent variables (Geller 2009). Employment of this statistical procedure produces a calculated F value that is compared to a critical F value for a particular level of statistical probability. Obtaining a significant F value indicates that the results of the regression are indeed true and not the consequence of chance.
Therefore, the F value 763.950 at 0.05 confidence level indicates that the independent variable
(Proper book keeping) greatly contributes to the variation in financial performance.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.937	.421		4.201	.000
	Effectiveness in bookkeeping	.649	.025	0.961	27.640	.000

Table 12: Regression Coefficients[a]
a Dependent Variable: financial performance index
Source: Survey Data, 2012

From the above table, since the t-test values for the regression coefficients are significant at 95% confidence level (t (1, 95) = 27.640, p < 0.05), it implies that the predictor variable (proper bookkeeping) makes a significant contribution to the financial performance of SMEs. Therefore, the unstandardized linear regression model is F = 1.937+0.649B. The standardized beta coefficient indicates that a unit change in the effectiveness in bookkeeping causes a 96.1% increase in financial performance.

5. Summary of Findings
Small and Medium Enterprises (SMEs) has been recognized as a significant sector in employment creation, income generation, poverty alleviation and a base for industrial development and also form a very large number of Ghana's economy. The study focused on book-keeping practices in small and medium scale enterprises in Kwaebibirem district of the Eastern region of Ghana.
The study found that majority of small and medium scale enterprises are males and their educational qualifications are very low as most of them do not have tertiary education.   Their educational qualification can be used to explain the effect of proper book-keeping on the financial performance since it may not be as accurate as those with first degrees. It was also revealed that for some businesses, there was no need to employ bookkeepers or other professionals for recordkeeping hence, end up either not keeping records, or it was poorly done by them.
Furthermore, the study also revealed that most of the business activities within the study area are into buying and selling as 94% of the respondents are in trading and services sectors, meaning both the trading and the service sectors play a dominant role in the socioeconomic development of the district
In reference to the correlation analysis table 9, the correlation matrix shows that the financial performance has a very strong positive relationship with effectiveness in bookkeeping with Pearson's correlation coefficient of 0.961. By use of the regression analysis

(Table 10), the study found that the coefficient of determination (R^2) = 0.924 which implies that 92.4% of the variation in financial performance could be explained by the changes in effectiveness in book keeping. Also the study used the analysis of variance (Table 11) to test the significance of variation in the dependent variable that can be attributed to the regression of the independent variables. The study found an F of 763.950 at 0.05 confidence level indicating that the independent variable (proper book keeping) greatly contributes to the variation in financial performance.   Further, the study used the regression coefficients (Table 12), which shows that the t-test values for the regression coefficients are significant at 95% confidence level. This implies that the predictor variable (effectiveness in book keeping) makes a significant contribution to the financial performance of SMEs. Therefore, the unstandardized linear regression model is F = 1.937 + 0.649B and thus, the model is applicable.

6. Conclusions

Within its limitations of the study, the findings establish the fact that there are various factors that account for lack of bookkeeping or improper book-keeping in businesses in the Kwaebibirem District. These are dominated by the perception of the owners of the businesses being that they own the business and could decide to keep or not to keep books of accounts. Also ignorance and lack of education on the part of many SME owners was a contributory factor to the problem according to the study.   Other also conceded book-keeping as a long process and complete waste of time and for that matter difficult to cope with.

The study further identified factors that affect proper book-keeping of small and medium scale enterprises and establish the relationship between proper book-keeping and financial performance of small and medium scale enterprises in Kwaebibirem District. Finally, the analysis of variance (ANOVA) gave an F value of 763.950 significant at 0.05 confidence level, which is an indication that book keeping greatly, contributes to the variation in financial performance. In other words there is a direct relationship between book keeping and financial performance. Therefore, poor book keeping would lead to poor financial performance and proper book keeping would lead to better financial performance of the SMEs. As such there is need for the owners and managers of the SMEs to embrace proper bookkeeping practices in order to be successful in their financial performance.

7. Recommendations

Based on the findings of the study the following recommendations are being made to ensure proper and adequate bookkeeping in business organizations in Kwaebibirem district in particular and Ghana in general:

The National Board for Small Scale Industry (NBSSI) and its Business Advisory Centres must be strengthen and well resourced to offer SMEs effective training programmes in order to equip them with the requisite skills on general business management, including proper bookkeeping to enable SMEs keep track of business activities and used it as bases for planning purposes.

Stakeholders such as Ministry of Trade and Industry, NBSSI, Banks and all other related institutions to collaborate and intensify education on the need for record keeping. This can be done through seminars, workshops, symposia and other mediums on the need to maintain proper records. The local dialect should also be used during publicity and training programmes for easy communication.

Small and Medium Enterprises should also be encouraged to form associations to enable NBSSI, Banks and other institutions to easily deal with them. These associations can also be used to effectively organize training programmes for SMEs.

The government in conjunction with NBSSI should work out an understanding on how to sort out the problem of bookkeeping by sensitizing the owners and managers of small and medium scale enterprises through exposure drafts, or discussion papers. Enough time should be given to all interested parties. Symposiums, conferences, and open forums can also be used. One of the findings of the study was that the owners and managers of the SMEs have little knowledge in bookkeeping. The study would recommend for the sensitization programmes so to equip the owners and managers of the SMEs with proper knowledge in bookkeeping.

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