
EFFECT OF BOOKKEEPING ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN CHUKA TOWN

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ABSTRACT

Despite the effort made by the government of Kenya to support the growth of SMEs sector by creating enabling environment through appropriate legal and regulatory procedures, and in spite the fact that banks have recently made micro-credit accessible to SMEs, there is no indication that the sector is growing. This research was therefore set to investigate the extent to which the owners or managers of Small and Medium Enterprises kept records in their businesses. For the success of SMEs accurate records of business transactions need to be kept. The target population of the study was the owners or managers of SMEs in Chuka Town. The study used both purposive and random methods to sample the respondents. The study found that the SMEs do not keep complete accounting records because of lack of accounting knowledge and the cost of hiring professional accountants. As a result, there is inefficient use of accounting information to support financial performance measurement by SMEs. This made it difficult for the entrepreneurs to calculate their business profit efficiently. Education is also critical to enable small business owners acquire more knowledge on bookkeeping practices. This is through introduction of seminars, workshops and training sessions where such knowledge can be acquired. Universities and colleges should also offer more courses related to bookkeeping apart from the general business courses

Key Words: Bookkeeping, Financial Accounting, Business growth, SMEs

1.0 INTRODUCTION

Micro, Small and Medium-sized enterprises play important roles in the economic growth and sustainable development of every nation. Due to this, The Government of Kenya has since independent supported the Micro and Small enterprises; Republic of Kenya Sessional Paper 1992). The Government has been doing this to ensure economic growth and sustainable development. The enterprises have however been facing numerous problems including lack of efficient access to finances from the banks and other lending institutions and collapsing of the MSEs due to mismanagement (MESPT, 2011). With the current legal and regulatory framework in Kenya and with the increase in number of the lending institutions, the problem of funding for this sector has decreased (Economic Survey 2006). The problem that might require emphases in research would be the management of the SME'S. Efficient managing of these enterprises involves accounting a practice which is highly dependent on the record keeping of the business transactions.

Micro and small Enterprises (MSEs) play an important role in many developing countries. Nead (1998) observes that especially in the developing countries the health of the economy as a whole has a strong relationship with the health and nature of Small and Micro Enterprises sector. In Kenya for example, the MSEs sector contribute more than 50 of new jobs created (Economic Survey 2006). Due to the importance of SMEs to the Kenya economy, the Government of Kenya has made notable intervention by putting in place measures that are geared towards promotion of and development of MSEs. One of the major interventions is the creation of an enabling environment for the Small enterprises through an appropriate legal and regulatory framework (Sessional paper No 2 of 1992). Furthermore, the banking sector has recently improved its financial services to the SMEs. The banks in Kenya are currently offering microfinance to the SMEs without demanding for collateral as (Kyendo (2010). This means that the previous financial constraints that were faced by majority of the owners of MSEs in Kenya are under control. Despite their significance, and the financial support given to them, the MSEs are faced with the threat of failure with the past statistics indicating that three out of five fail within the first few months of operation. Bowen (2009) affirms that starting and operating a small business include a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to death of a small enterprise hence no opportunity to learn from its past mistakes.

Poor finance management has been posted as the main cause of failure on the MSEs (Longeneter et al 2006). Bowen (2009) observes that there is a strong relationship between business performance and the level of training in the business management especially in business finance record keeping. Business management entails keeping proper records of the business transactions. Knowledge and skills in bookkeeping is especially one major factor that impacts positively on sustainability and growth of SMEs. Failure to record business financial transactions (bookkeeping) leads to collapsing of the business within few month of its establishment (Germain 2009). In essence, recordkeeping is one thing an entrepreneur cannot afford to ignore. Research has shown that in any business, recordkeeping is the first step of the accounting process, which also includes classifying, reporting and analyzing the business financial data. It involves organizing and tracking receipts, cancelled checks and other records generated by financial transactions. Bookkeepers chronologically record all transactions: cash disbursements, cash receipts, sales and purchases, and others in a journal and post the

journal entries to a general ledger of accounts, which is essential for preparation of monthly financial statements. This is imperative for a profitable business. Further, research has in the past shown that in business management, proper keeping of records of all business transactions is vital for the success of the business. In addition, Butler (2009) asserts that without accurate and complete records of business

transactions the business is doomed to fail at its onset. In respect of the fact that good record keepers require training in this field and in consideration of the fact that in Kenya majority of the MSEs fail few months after they are established (Bowen, 2009), one would be eager to find out the extent to which the owners and managers of the enterprises are trained in record keeping and how well they keep the records of their enterprises. The fact that these enterprises may have very little capital they may not be capable to hire or employ qualified accountants to enable efficient recordkeeping. In this case the owners or managers of the enterprises should have proficiency in keeping their business records.

According to Bowen (2009), as with many developing countries, there is limited research and scholarly studies about the SME sector in Kenya. It would be therefore imperative that the study of this kind be conducted in this locale. The study was to seek information concerning bookkeeping by the managers and owners of the MSEs and therefore determine the extent to which the recordkeeping help in sustaining or even ensure growth of the SMEs.

2 LITERATURE REVIEW

2.1 Theoretical Framework

Accounting theory

In terms of its theoretical framework, this study drawn on the Accounting theory and particularly the Decision usefulness theory. This theory attempts to describe accounting as a process of providing the relevant information to the relevant decision makers. Since the theory set out a formal procedure whereby an individual can make the best decision given his or her subjective probabilities, it is then relevant in this research where the MSEs managers are expected not only to monitor their business transactions but also to make the most accurate decisions that would bring profit to their enterprises. Clelland (1961) explains how entrepreneurs succeed in their business. He contends that successful business operators consider profit to be a measure of success and competency. They set personal but attainable goal for their business and are concern in how well they are doing. In this sense, they are conscious of every transactions accruing from their business and hence they are in a better position to control loss. The decision usefulness accounting theory emphasizes the recording of business transaction for the purpose of effective decision making in business.

2.2 Scope and definitions of MSEs in Kenya

In order to systematically present the literature reviewed in this chapter, it would be imperative to commence with definitions used to describe MSEs in Kenya. These definitions are both qualitative and quantitative, that is, they are based on the number of employees in the enterprises and other non-quantitative factors. A microenterprise is defined as having a maximum of 10 employees; a small enterprise is defined as having a minimum of 11 employees and a maximum of 50; whereas a medium-size/large enterprise has, at least, 50 employees. Farm holdings are excluded from the definition of MSEs, except those farm based enterprises that involve some sort of processing before marketing. Some experts differentiate Jua Kali (informal) micro-enterprises from very small micro- enterprises by using the term very small to define micro-enterprises with 6 to 10 employees (Stevenson and St-Onge, 2005). This study will use the following definition of micro- enterprises: Jua Kali enterprises with 0 to 5 employees operating in the open without any fixed worksites. Very small enterprises are defined as those with 6 to 10 employees operating in the open without any fixed location and small-scale as registered or formalized enterprises with 11 to 50 employees operating from legitimate business premises. The SMEs are important for the economic growth in Kenya. It is apparently important to address the SMEs contribution to the country's economy for one to be able to understand why this research advocates for the success of these enterprises

2.3 The concept of bookkeeping

The American heritage dictionary defines bookkeeping as "the practice or profession of recording the accounts and transactions of a business." The transactions include sales, purchases, income and expenses by an individual or organizations. Bookkeeping differs from accountancy in that bookkeeping ends at the trial balance stage. Accountancy uses the trial balance information and ledgers to prepare the income statement and the statement of financial position. There are some common methods of bookkeeping such as the single entry bookkeeping system and the double entry bookkeeping system (Pinson et al, 1993). Bookkeeping refers to the recording of financial transactions and events either manually or electronically (Larson et al, 1999). According to the chartered institute of accountants - UK, bookkeeping is the analysis, classification and recording of financial transactions in the books of accounts in a systematic manner. Bookkeeping is the analysis, classification and recording of business transactions in the books of accounts. Further, bookkeeping is the mechanical process that records the routine economic activities of a business (Rogers et al, 1995). According to Haber, Jeffry (2004) Bookkeeping is a set of rules for recording financial information in a financial accounting system in which every transaction changes, when it comes to bookkeeping there are different situations in which it is used including personal and business banking. If a business owner is too busy to contemplate being able to keep track and make a record of every transaction, bookkeepers are employed to perform the duty. Currently the duty of bookkeeping in organizations is being done by qualified accountants it's a statutory requirement in all public organizations.

2.4 The Importance of Bookkeeping in MSEs

Bookkeeping is the first essential step of accounting which as a system provide a source of information to owners and managers of MSEs operating in any industry for use in the measurement of financial performance. The importance of financial performance measurement to any business entity cannot be over-emphasized. In this sense, the accounting bases, concepts and principles adopted ought to capture the relevant accounting information to ensure reliability in its measurement. Cooley and Edwards, (1983) contend that reported profits reflect changes in wealth of business owners. This can explain why major economic decisions in business are centered on financial performance as measured by profitability. Moreover, European Commission (EC), 2008) affirms that accounting information is important for a successful management of any business entity, whether large or small. operators especially those in MSE perceive recordkeeping as a chore that must be done to simply get back some much needed cash at the end of a particular period of time for example after an year. However, actually, accurate recordkeeping is not as important to many business operators. With this perspective, it is no wonder so many of these businesses fail from the beginning (Wanjohi (2012). If one does not keep accurate and complete records the success of business will be threatened in many ways. For example one may end up paying more tax than is due because of lack of evidence of tax deductible expenditure or land inaccurate sales. If one pays an accountant to prepare the business accounts they will charge based on how long it will take them. If one's records are more accurate this will reduce the time taken and therefore reduce the amount they charge, (Commonwealth of Australia 2010). The aforementioned reasons are sufficient to ensure one keeps good books and records but the most important reason is to ensure one has control over the business and that one can assess its profitability and the cash flow situation therefore ensuring awareness of any potential problems as soon as possible and can make business decisions with all available information at hand.

In order to achieve this crucial control of a business, one has to consider keeping accurate records. This leads one to find out which records must be kept for the purpose of the success of a business. Bookkeeping helps in acquisition of financing from financial institutions. The financial institutions usually require adequate financial statements to provide the loans for expansion purposes. Bookkeeping usually acts as the guide to the preparation of financial reports and banks assess these financial reports before granting loans. They also assist in making inventory decisions like product diversification decisions so as to improve sales and profitability. Businesses must always confirm from the books which goods and services easily sell for them to invest in them. This can be confirmed by checking which goods are easily emptied from the stores. Businesses can easily be monitored with the proper records and this will facilitate sound business decisions being made, for example; by keeping track of debtors and creditors.

2.5 Review of empirical studies of the MSEs in Kenya

Critical researches have been conducted in Kenya concerning MSEs. It is worth mentioning some findings of these studies at this point for this study to have a well-founded advocacy for the intended intervention measures in this sector. Perhaps it would be more systematic to commence with the findings of the studies carried out in favour of the importance of the MSEs in the country. To start with, Micro and Small Enterprise cut across all sectors of the Kenya's economy and provide one of the most prolific sources of employment not to mention the breeding ground for medium and large industries, which are critical for industrialization. (Sessional paper two of 2005) According to the 2010 Economic survey, employment within the MSE sector accounts for 74.2 of the total person engaged in employment. This sector contributes up to 18.4 of the country's GDP. MSEs Sector is therefore not only a provider of goods and services but also a driver in promoting competition and innovation and enhancing the enterprise culture which is necessary for private sector development and industrialization. This is to mean that MSEs performance and competition must therefore be increased if it is to effectively respond to the challenges of creating productive and sustainable employment opportunities and hence promoting economic growth and sustainable development in the country. Despite the significant role played by the sector, research has shown that it has continued to experience many binding constraints that inhibit the realization of its full potential (Wanjohi, 2012; Omiti et al., 2004; Ibeh 2004; Hallway and Ehui, 2002; Lapar et al., 2002). For example three out of five businesses fail within the first few months of their establishment (Kenya Bureau of statistics, 2007).

Bowen, et al (2009) observed that in Kenya 65.1 of the small enterprises fail within their first year of their operation. The failure of the MSEs has mainly been attributed to simple management mistakes. Longenecker, (2006) assert that due to their small size a simple management mistake is likely to lead to sure death of the small and micro-enterprise hence no opportunity for them to learn from their past mistakes. (Otenyo-Matanda, 2008) observes that in Kenya many MSEs owners or managers lacked managerial training and experience. The typical owner or managers of these businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept. Improved level of sales leads to the growth of the small business through expansion of the market base of the business. Higher stock turnovers are a recipe for growth. Bookkeeping will facilitate increased sales because management of sales will be easier. Peacock (1985), investigated 1,000 proprietary company failures in South Australia during ten years and he found that 4.6 percent of failures was caused by inadequate or no accounting records. He concluded that there was a minimal effect of accounting records to the success or failure of businesses and recommended for further research on causes of business failures. In another study of company failures in South Australia, peacock

(1987) studies 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. He recommended further research to be done on double entry systems of recording in companies.

In another more recent study Peacock (1988) found 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. He recommended for further research study to be carried out on bookkeeping and performance of companies. Peacock's (1985 1987 and 1988) findings are very important as examining the impact of bookkeeping system practices on growth of SMEs.

Williams (1986) in his evaluation of the adequacy of accounting records for 10,570 failed and surviving small enterprises operating throughout Australia found 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. Many researches have been conducted concerning MSEs in most part of the country. However the studies are based on policy constraints, educational constraints, market opportunities for MSE and financial constraints on the part of the MSEs owners (Ngari, 2004, Omiti, Omolo, and Manyengo, 2004, Matanda, 2008). However, Green, et al (2005) research found out that there was very little research carried out in Kenya in the area of MSEs especially in the area of enterprises management and therefore called for more research to be conducted in the area .

3.0 METHODOLOGY

3.1 Research Design

This study used an explanatory study design and adopted a survey approach. A descriptive survey attempts to describe characteristics of subjects or phenomena, opinions, attitudes, preferences and perceptions of persons of interest to the researcher. Moreover, a descriptive survey aims at obtaining information from a representative selection of the population and from that sample the researcher is able to present the findings as being representative of the population as a whole (Mugenda and Mugenda 1999).

3.2 Location, Population and sample size of the Study

According to Creswell (2003) ten percent or more of any population is appropriate representation of the population and for generalization of research findings. Orodho (2001) defines a sample as part of large population, which is a representative of the larger population. Kasomo (2006) suggests that for descriptive studies 10 of the accessible population is enough for a sample. Being that the total number of SMEs in Chuka municipality is 1200; a sample size of 120 forming 10 of the target population was sampled. According to Kothari, (1990) systematic sampling involves selecting the first unit randomly but the remaining units of the sample are selected at fixed intervals. The 10 which make 120 of the total population of MSEs in Chuka municipality was randomly sampled and was subjected to the study.

3.3 Data Collection Procedures and Data Analysis

Data was collected using self-administered questionnaires. The choice of this method of data collection was selected because questionnaires can reach a large group of respondents within a short time and with little cost, at the same time use of questionnaires will enable the respondents to remain anonymous and be honest in their responses (Kasomo, 2007). The questionnaires with adequate instructions and easy to understand

language were hand delivered to the already identified samples of the population by the researcher and the trained research assistants. Dates of collecting the filled questionnaires were agreed upon at the time of delivery and follow up was made through use of mobile phones. Kasomo (2007) defines data analysis as the process of bringing order to data and manipulating it. It involves organizing data into patterns, categories and basic descriptive units. For this study, descriptive data analysis was done. The researcher organized the data to ensure that raw data was sorted and coded. Data analysis was done with guidance of a statistician using the Statistical Package for Social Sciences (SPSS) computer software. Information from the analyzed data was presented using percentages and frequency distribution tables.

4.0 Empirical Results and Discussions

4.1 Response Rate

According to Mugenda and Mugenda (2003) a 50 response rate is adequate, 60 good and above 1000 rated excellent. This also concurs with Kothari (2004) assertion that a response rate of 50 is adequate, while a response rate greater than 70 is very good. This implies that based on this assertions; the response rate in this case of 100 is excellent.

4.2 Distribution of Respondents according to Business entities and gender

Table 1: Distribution of Respondents according to Business entities and gender

Entities	Frequency		Percentage
	Male	Female	
Micro	25 (20.8%)	32 (26.7%)	48
Small	43 (35.8%)	20 (16.7%)	52
Total	68 (56.7%)	52 (43.3%)	100

Table 1 shows that a total of 120 (100%) informants acted as respondents of the study. 43.3 % of them were female of which 26.7% among them operated Micro enterprises and 16.7% of them operated Small enterprises. There was a total of 68 (56.7%) Males operating the MSEs of who 20.5% of them operated micro enterprises while 35.8% of them operated small enterprises. In addition the number of micro enterprises operated was 48% and the small enterprises operated were 52%.

4.3 Distribution of Respondents according to Business Type

Table 2: Distribution of Respondents according to Business Type

Type	Frequency	Percentage
Trading	76	63
Service	44	37
Total	120	100

The results show that most businesses were dealing with product while 37% were offering services. This shows that there is potential of services related business as Chuka Town grows. This could be attributed by presence of devolved units of government as well as many learning institution in the area.

4.4 Distribution of Respondents according to Records kept

Table 3: Distribution of Respondents according to Records kept

Record keeping	Frequency	Percent
Yes	63	52.5
No	57	47.5
Total	120	100

Table 3 shows that only 52.7% of the respondent has kept financial records. This shows that many businesses lack records that can be used by business owner to borrow loans. Hence hindering growth of SMEs

4.5 Distribution of Respondents on usage of Bookkeeping in Decision making

Table 4: Distribution of Respondents on usage of Bookkeeping in Decision making

Response	Frequency	Percentage
Strongly agree	60	50
Agree	30	25
Not sure	15	13
Disagree	10	8
Strongly disagree	5	4
Total	120	100

According to the results 50% of the respondents strongly agree that the record keepings aid in decision making, 25% agree that record keeping aid in decision making,13% were not sure whether it aids in decision making,8% disagree that record keeping was of importance in decision making while 4% strongly disagree that recordkeeping aids in decision making.

4.6 Relationship between level of sales and bookkeeping

Table 5: Relationship between level of sales and bookkeeping

Keeping records	Level of sales		
	Increasing	Constant	Decreasing
Yes	58(48.3%)	5(4.2%)	0
No	0	24(20%)	33(27.5%)
Total	58(48.3%)	29(24.2%)	33(27.5%)

Chi-square=102.56 df=2 p-value=0.00

The Chi-Square value for the association between level of sales and bookkeeping obtained as 102.56 with 2 degrees of freedom and a Significance Probability less than 0.0000. This implies a very highly significant result. On the evidence of this data there would appear to be no doubt that there is an association between level of sales and bookkeeping from which this sample of 120 respondents was drawn among SMEs

4.7 Relationship between number of branches and bookkeeping

Table 6: Relationship between number of branches and bookkeeping

Keeping records	No. of branches		
	1	2	3 and above
Yes	17(14.2%)	30(25%)	16(3.3%)
No	52(43.3%)	2(1.7%)	3(2.5%)
Total	69(57.5%)	32(26.7%)	19(15.8%)

Chi-square=50.85 df=2 p-value=0.00

The Chi-Square value for the association between size of business and bookkeeping obtained as 50.85 with 2 degrees of freedom a p-value=0.000<0.05. This implies a very highly significant result. On the evidence of this data there would appear to be no doubt that there is an association between size of business and bookkeeping from which this sample of 120 respondents was drawn among SMEs

4.8 Relationship between level of profitability and bookkeeping

Table 7: Relationship between level of profitability and bookkeeping

Keeping records	Level of profitability		
	Increasing	Constant	Decreasing
Yes	58(48.3%)	5(4.2%)	0
No	0	24(20%)	33(27.5%)
Total	58(48.3%)	29(24.2%)	33(27.5%)

Chi-square=103.41 df=2 p-value=0.000

The test carried out shows that there is a relationship between level of profitability and bookkeeping because the p- value of 0.000 is less than the significance value of 0.05. The level of sales was used to identify the profitability. Evidence of this data shows that no doubt that there is an association between level of profitability and bookkeeping.

5.0 Conclusions and Recommendations

5.1 Conclusions

The researcher concludes that bookkeeping impacts on the growth of SMEs in terms of level of sales, size of the business and level of profitability and there is need for cooperation therefore from all the stakeholders in ensuring small businesses are operated in a more professional manner to attain the economic growth as a whole. The government, small business owners, accountancy firms, universities and the media have a role to play in facilitating better bookkeeping practices and growth of small medium enterprises. This cooperation should not only last in the short term but in the long-term as the country gears up to achieving vision 2030.

5.2 Recommendations

- i. There is need by the government to enhance better management practices in these small businesses because they participate a lot in the county's GDP and employment opportunities to the citizens.
- ii. More bookkeeping consultancy firms that provide bookkeeping advice should be opened up throughout the country to facilitate better bookkeeping amongst SMEs.
- iii. Education is also critical to enable small business owners acquire more knowledge on bookkeeping practices. This is through introduction of seminars, workshops and training sessions where such knowledge can be acquired. Universities and colleges should also offer more courses related to bookkeeping apart from the general business courses

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