Accounting Procedures of Small Business Enterprises in Trans Nzoia County, Kenya.

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Abstract

Small enterprises all over the world are the bedrock of economic development, as they are the basis for growth of developing economies. The present effort is therefore to look into the accounting procedures of selected small and medium scale enterprises in Trans Nzoia County, Kenya. Structured questionnaire were randomly distributed to sampled businesses. The data collected were presented in tabular form and analyzed using simple percentages, frequency counts and least square linear regression model to test set hypothesis, which was run on statistical package for social sciences (SPSS). The findings showed that proper accounting records has great influence on the effective operation of sole proprietor and that capital investment also has effects on the potential growth of one man businesses. This study recommended that good accounting practices will improve the effective operations of small and medium scale enterprises and even sole proprietors.

Keywords: Small enterprises, Accounting, Principles, County, Growth 1 .Introduction

Small businesses are the lifeblood of any developed economy. The entrepreneurial spirit propels people to create and grow new businesses as been an essential part of an economy. It is therefore recognized that appropriate accounting information is important for a successful management of a business whether it is large or small. In Kenya, accounting legislation is in place for listed companies. The Statement of Accounting Standards (SAS), The International Accounting Standards and for non-listed limited liability companies, the accounting directives i.e. Generally Accepted Accounting Principles (GAAP) are in place. However, this is not so for those enterprises which are not listed or are not limited liability companies; in most cases we would be referring to one man businesses.

In most industries, comparability will be affected by size. Larger firms will be able to avail themselves economic and certain sophisticated quantitative management techniques that may not be practicable for small ones. Smaller companies may be able to maintain closer client relation and better customer relation than the larger ones. This difference in operation technique may influence deficit in accounting method employed in generating financial information. Among the different principles that firm may employ are different inventory techniques, depreciation method, method of accounting for income taxes and revenue recognition procedures. Pacioli (1494) described in approach developed by Italian merchant to account for their activities as owner and managers of business as the basic accounting model that is used up to this days. As economic activities progressed from the fundable to agriculture continued to adapt to the need of the society. As business unit becomes more complex and broader on scope, accounting evolved in response to the increased planning and control responsibilities of management. As government grows in size and becomes more centralized, accounting was developed to meet the increased accountability. It is often stated that business decisions needs to be supported by good and quality financial information which needs to be relevant, user friendly and available in a timely manner. Where appropriate accounting should be an active steering tool to run and manage a business instead of representing another administrative burden that the sole proprietor has to comply with. It is important that the accounting systems for one man businesses should fulfill such functions as providing essential financial information for the owners and managers in order for them to be able to manage the business in a competitive environment and to make informed decisions to prevent business failure and to expand the business. However, owners of one man businesses may have particular needs and conditions, so that accounting systems need to be flexible in order not to impose unnecessary operative burdens. Because of the importance of appropriate accounting information for owners and managers of one man businesses and their different stakeholders, it is therefore important

to this study to analyze the types and amount of finance and various accounting systems applied in small businesses and its non-regulation in Kenya.

1.1. Statement of the Problem

The level of book keeping and accounting in one man businesses have created many problems against the effective operation and accountability of a sole proprietorship. One of the most common complaints by businesses and their enterprises is the amount and complexity of the various regulatory and administrative obligations that have to be observed. One man business suffers disproportionately from the regulatory burden compared to large companies, since the smaller enterprises often do not have sufficient financial and human resources to manage their obligations in the most efficient way. Normally, statutory accounts of one man businesses are not considered to be particularly useful for managing the enterprise, but the majority of entrepreneurs receive management advice or further analysis at the same time. Not many small enterprises have a computerized or partly computerized accounting system, and this is positively associated with the frequency or availability of management information and little capital investment involved. The most widely used and most used sources of financial information are cash flow information in various forms and the monthly/quarterly management accounts.

1.2. Objectives of the Study

The main objective of the study is to evaluate the accounts of one man businesses. Other specific objectives include:

i. To investigate if proper accounting records are being kept by one man businesses.

ii. To find out how managerial experience affects operation of accounts.

iii. To present ways on how to improve the accounting principle of one man businesses so that they can provide the owners and users with appropriate financial information.

1.3. Hypothesis of the Study

Hypothesis One

HO: There is no significant relationship between the accounting principles and the potential growth of one man businesses.

Hypothesis Two

HO: Proper accounting records have no influence on the effective operation of a sole proprietor.

2.Literature Review

2.1. Conceptual Framework

Jill & Robin (2002) defined sole proprietorship as a business owned by just one person; associated closely with the ideals of individual initiative, self reliance and hard work. A person becomes a proprietor when he goes into business for himself. He need not get legal permission to carry on his business, but sometimes license fees or special permits are required. Any successful business owner is constantly evaluating the performance of his/her business, comparing it with the company's historical figures, with its industry competitors, and even with successful businesses from other industries. To complete a thorough examination of the business effectiveness,

however a sole proprietor needs to look at more than just easily attainable numbers like sales, profits and total assets. He must be able to read between the lines of his financial statement and make seemingly inconsequential numbers accessible and comprehensible. According to Helinkamp (2007) small scale business enterprises play a vital role in the US economy. They generate jobs, increase production of consumer commodities, and improve employee skills; the government supports small business enterprise. In fact, the government has created an organization for small scale businessmen. Abbot (1978) noted that small scale businesses in India and elsewhere find it difficult to survive in the market. They have to beat tough competition against the big players in the market. Further, low demand for their products, high cost of production and overheads force many of the small scale business owners to close their businesses. Desmond (1985) pointed that most small manufacturing enterprises operate in an environment that exhibits characteristics which potentially, at least, constrain their survival and growth prospects. These include limited access to credit and other forms of institutional support, marketing constraints and raw material procurement problems, frequently exacerbated by the internal problems of a small production base and technical and organizational inefficiencies. Small and medium enterprises (MSMES), otherwise simply called small (as opposed to large) businesses are generally referred as the engine of growth in many economies. Their importance is always viewed from the perspective of employment generation, contribution to export earnings and the gross domestic product (GDP). In industrialized countries, SMEs are major contributors to private sector employment. Empirical studies have shown that SMEs contribute to over 50% of GDP and over 60% of total employment in high income countries. SMEs and formal enterprises account for over 60% of GDP and over 70% of total employment in low income countries, while they contribute about 70% of GDP and 95% of total employment in middle income countries (World Bank, 1977). Table 1 presents some country-specific statistics, which underlined this commonly reported importance of small businesses in many countries.

Other than employment, Kenyan statistics are clearly out of trend relative to other countries listed in the table. This can be associated to peculiar small business challenges and failures in Kenya, which was further elaborated upon later in this research work. According to the United Nations industrial Development Organization UNIDO, integration of countries into the global economy through economic liberation, deregulation and democratization is seen as the paramount way to triumph over poverty and inequality. Important to this process, however is the development of an animated private sector in which small and medium enterprises play a central role. In countries where attention is paid to developing small businesses along the value chain, SMEs also make significant contribution in the transition of agriculture-led economies to industrialized ones, furnishing plain opportunities, giving activities which can generate sustainable source of revenue and enhance the development process. Small businesses are also known in some cases to help in absorbing productive resources at all levels of the economy and add to the formation of flexible economic systems in which small and large firms are interlinked. Such linkages are very crucial for the attraction of foreign investment since investing transnational corporations normally look for sound suppliers for their supply chain. Regrettably, this does not currently obtain in Kenya.

2.2. Empirical Framework

2.3.1. ***Peculiar Small Business Challenges and Failure in*** Kenya Morries (2007) Small businesses have some inherent disadvantageous characteristics that will require that they be provided with public supports. Such characteristics, apart from limited managerial capabilities, include lack of economies of scale, lack of collective voice and influence on policy, frequent cases of market failures and/or biases against small businesses, weak financial capacity to undertake R$D or the costly support services such as Business Development Service (BDS), and huge knowledge gaps (most small business promoters don't know what they need to know but which they don't know). When these public supports are not available, chances of failure can be very strong.

According to Oladejo (2008), the achievement of the firm's objectives is greatly influenced by the application of accounting records. Most businesses in Kenya still are not aware of the importance and benefits of accounting records. It is found that accounting records are faced with some challenges which are inadequate infrastructural facilities, inability of most business firms to demand accounting systems adequate to them for their needs, lack of standardized professional body in accounting records and also local firms are been threatened by developed countries that are enjoying the full benefits of accounting records. He concluded that accounting records has contributed immensely to the unprecedented rate in the growth of small businesses in identifying the expenses, income, and profit and loss of a firm at the end of an accounting year.

Also Sege (2010) said small businesses fail because those who start them fail to carry out market research to find out if there is any genuine market for their products and/or services; Bother to get money sorted out before they start the business; Choose a feasibility business model; and Plan for growth or what happens if the business is a success; and plan an exit strategy.

2.3. Theoretical Framework

Accounting procedure is specific method of account. Accounting procedure is programmatic, more numeral than principle and more susceptible to change, they often represent alternative way of applying the same principle (Zoubi & Al-Khazali 2011). On the basis of this information, the following principles and concepts are described for an accounting framework for a small enterprise although not all small enterprises will want to apply all the principles.

2.4.1. Accounting Principles

Cash Basis Accounting: In cases when an enterprise is a micro or even a very small enterprise, it might be more appropriate to use cash basis accounting. In this case the accounting and the resulting financial statements are prepared on a cash basis. A cash basis means that a cost or an income is accounted at the equivalent amount of cash paid or received for it. ***Accrual Basis accounting:*** Often the financial statements are prepared on an accrual basis. Under the accrual basis accounting, income and expenses are recognized as follows:

Income recognition: income is recognized when both of the following conditions are met:

- ***Income is earned.*** Income is earned when products are delivered or services are provided, i.e. you recognized income when it is earned, not when you receive the money.

- ***Income is realized or realizable.*** Realized means cash is received. Realizable means it is reasonable to expect that cash will be received in the future.

Expenses recognition: Expense is recognized in the period in which the related product or service has been obtained.

The matching principle: In some small companies the expenses are matched with revenues. When expenses are matched with income, they are not recognized until the associated income is also recognized. For instance, wages paid to manufacturing workers are not recognized as expenses until the capital products are sold. When the products are sold, the expenses are recognized as part of the cost of goods sold. If no connection with revenue can be established, cost can be charged as expenses to the current period (e.g. office salaries and other administrative expenses).

Materiality concept: In accounting, the concept of materiality is a characteristic of information which helps to optimize the information presented in the financial statements. Materiality states that if information is of such magnitude that it has no influence on the user's judgment and decision-making, it can be left out.

2.4.2. Principles for External Financial Statements

For many businesses the principles outlined above may also lead to these additional principles:

The true and fair view principle: The financial statements provide a true and fair view of the enterprises assets, liabilities, financial position and income and expenses.

To support the application of the true and fair view, accounting has adopted certain concepts and principles which help to ensure that accounting information is presented accurately and consistently.

The going concern principles: Financial statements are prepared on the assumption that the entity is a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations.

The prudence principle

The principle of prudence requires that:

- Only profits made (realized) at the balance sheet date are included

- All liabilities of the financial year are included; even if the liabilities become apparent after the financial year but before the sate the balance sheet is drawn up.

The consistency principle: The methods of valuation and presentation are applied consistently from one financial year to another. The principle can also be defined as conformity to enforced rules and laws.

The separate valuation principle: Asset and liability components are valued separately; i.e. netting is generally prohibited. One should show the full details of the financial information and not seek to net off a liability with an asset, an income with an expense, etc.

2.4.3. Recording of Accounting Transactions

The accounting transactions of an enterprise need to be recorded in the accounting books. Some form of recording will be essential to all businesses 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 the failure. For record keeping purposes the enterprise can use different methods. The following main methods are described

2.4.4. ***Financial Records:*** Financial records are e.g. the sales day book, purchases day book, cash receipt book, cheque payments book, petty cash book, general journal, nominal ledger, debtors' ledger and creditors' ledger. Quite often a separate payroll system is maintained and payroll transactions are summarized through general journals. However, all enterprise does not necessarily need all the above mentioned financial records; the enterprise has to decide this on the basis of their needs. ***Double-entry bookkeeping***

Double-entry bookkeeping is used in many enterprises. In double-entry bookkeeping there are always two entries required for every transaction recorded. This is because any change in one account automatically results in a change in another. Both changes must be recorded. The means by which

theses are recorded is by way of debit and credit entries. In double-entry bookkeeping, accounting for each transaction means that the total debit amount must equal the total credit amount i.e. they must balance and at any time be equal. However in some cases a single-entry bookkeeping is justified when the enterprise is a micro and transactions are not that many or complex (Robert 2009).

2.4.5. The Books of Accounts

During the data collection phase, relevant details relating to financial transactions are captured as they occur on source documents; examples of source documents include invoices, bills, debit notes, receipts, vouchers, credit notes etc.

Ledger: is the book that contains the accounts for transactions of a business organization. It is written up periodically and is the ultimate destination of all entries recorded in the subsidiary books.

Subsidiary Books: can be defined as the books into which transactions are recorded on a daily basis from the source documents and from which transfers are made at suitable periodic intervals to the relevant accounts in the ledger.

3. Methodology

For this research work, a survey research design was adopted. Collection of primary data via Questionnaire enables us to extract useful information as regards the accounting procedures in the performance of one man businesses.

3.1. ***Types and Sources of Data***

With regard to sources of data, there are two categories of statistical data namely primary and secondary data (Azeez et al, 2005). For the purpose of this research work, both data sources were used. This primary data was obtained from the analysis of research questionnaire. Thus, primary source of data is original and free of influence, hence it was considered appropriate for this research study.

3.2. ***Methods of Data Collection***

The data for this study is collected through the use of a well structured questionnaire. The questionnaire is divided into two sections. The first section is designed to generate demographic data while the last section is designed to obtain information on the study problem.

3.3. Sampling Techniques and Sample Size

The primary sources of data will utilize responses from five hundred (500) convenience/Accidental randomly selected responses. The questionnaire was drawn on a likert scale of 5-1. Random sampling technique is a method whereby every element or subject in the population is not only known but has equal chance of being selected (Olatokun and Bodunwa 2006).

3.4. Methods of Data Analysis

The data collected for this research work was analyzed using the ordinary least square regression model. The model was used to estimate the relationship between a dependent variable and a set of explanatory variables i.e. the impact of proper accounting records on the effective operation of one man businesses.

3.5. Model Specification

The regression model is given as;

$Y = Po + P_1X_1 + P_2X_2 + pi$

Where Y= effective operation of one man businesses Po = intercept X_1 =accounting records X_2 =capital investment pi = error term

Pi, P_2 are the coefficient of the regression.

4. Results

The total of four hundred and eighty (480) questionnaire forms were received from the respondents out of the five hundred (500) administered. The data collected were analyzed to test the hypotheses of the research work. Data collected are presented in tabular form and analyzed using simple percentages, frequency counts and regression model (t-distribution).

4.1. Presentation and Analysis of Data Hypotheses Testing

The least square regression model (t- distribution) was used in testing the two hypotheses.

Hypothesis one

HO: There is no significant relationship between the accounting principles and the potential growth of one man businesses.

R is 37% (approximately) positively correlated but weak.

R2; 14% of effective operation of one man business can be determined by amount of capital investment while the remaining 86% can be determined by other factors.

The calculated value of t is greater than the critical t value i.e. 2.763> 1.645, at 0.05 level of significance. Thus reject the null hypothesis that states there is no significant relationship between the accounting principles and the potential growth of one man businesses.

Hypothesis two

Ho: Proper accounting records have no influence on the effective operation of sole proprietors. R is 63% positive and strong

R2; 40% (approximately) of effective operation of one man business can be explained by proper accounting records while the remaining 60% can be explained by other factors.

The calculated value of t is greater than the critical value i.e. 5.498>1.645, at 0.05 level of significance. Thus reject the null hypothesis that proper accounting records have no influence on the effective operation of a sole proprietor.

5.1. Conclusions

The role and significance of small industries in the economic development process is well recognized. Governments in developing countries, almost without exception, have introduced special support programs to encourage the growth and development of SSEs. Credit, normally at highly concessionary interest rates, is an important component in many of these programs. But credit is only one element in the myriad of factors comprising the environmental context of the SSE, and by itself cannot be expected to induce the type and level of response desired. Governmental policies on pricing, on agricultural development, on industrial incentives and, for the forest-based SSE, on forestry development and legislation, are all determinants of the vigor with which the small industries sector will develop.

There is no doubt that appropriate accounting information is not obtainable in most small scale businesses in Kenya, since there is no any accounting legislation in place. Based on the findings of this study, it is noted that small businesses do not maintain all necessary accounting records which may aid their decision makings and growth tendency.

After subjecting the data collected to thorough test, the result showed that proper accounting records (i.e. the most important financial records) should be encouraged in small businesses which improve the accuracy and reliability of the accounting transactions. Data gathered suggested that easy access to finance will influence greatly the potential growth of one man businesses positively.

Finally, it can be concluded that the growth and effective operation of small businesses in Kenya is largely influenced by proper records and availability of capital. This contributes to the welfares of society by creating sustainable wealth, employment with integrity.

5.2. Recommendations

On the basis of collected data for this research work on applied accounting systems in small enterprises, the researcher came forward with the following good practices for the for the accounting systems which may be considered appropriate for small enterprises according to their particular circumstances and needs.

1. Keeping the most important financial records such as the sales day book, purchases day book, cash receipt book, cheque payments book, petty cash book, general journal, nominal ledger, debtors' ledger and creditors' ledger and a payroll system. This improves the accuracy and reliability of the accounting transactions which further provides the input to the financial statements for small enterprises;
2. Using simplified format for financial statements i.e. the balance sheet and the income statement presenting only the main headings;
3. Preparing projected cash flow statement on a regular basis;
4. Applying accrual basis accounting, because such an accounting method provides a more accurate and complete picture of the enterprise's financial position, performance and changes in its financial position than cash basis accounting;
5. Applying the matching principle, because of the importance that revenues are matched with expenses to provide a truthful view of the enterprise's financial performance;
6. Applying the true and fair view principle, because it is very important to ensure that accounting information is presented accurately and consistently;
7. Using a standardized chart of accounts, because it remove some barriers when changing an accounting software package, but also because it facilitates the introduction of taxonomy to supply financial information, and
8. Applying the "only once" principle meaning an admin istrative simplification in the

supplying of financial information to different or the same authorities for different or the same purposes (e.g. taxation, statistics, Basel II, banks)

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Table 1: Importance of

SMEs

Countries	Employment	Export Earnings	GDP
UK	53%	27%	52%
USA	52%into the global economic	30%	50%
India	79%	38%	40%
Hong kong	78%	37%	51%
Japan	70%	40%	68%
Nigeria	75%	3%	10%

National Center for Entrepreneurship and Career Development, India and NBS- Nigeria.

Model Summary

MODEL	R	R SQUARE	ADJUSTED RSQUARE	STD. ERROR OF THE ESTIMATE
1	0.377	0.142	0.124	0.46296

Predictors: (constant), • X2

• Dependent variable: Y ***Coefficient s***

	UNSTANDARDIZED COEFFICIENT		STANDARDIZED COEFFICIENT		
MODEL	B	STD.ERROR	BETA	T	SIG
1(CONSTANT)	2.837	0.408		7.029	.000
X2	0.312	0.113	0.377	2.763	.008

• Dependent variable: Y

R: correlation coefficient, it shows positive or negative relationship between the variables. R Square: coefficient of determination. The extent to which X and Y is being explained by the independent variable.
Adjusted R: it is the coefficient of determination but has taken care of the standard error.