

An assessment of the effect of proper book keeping practices on the financial performance perspectives from small and medium scale business enterprises in Kisii municipality

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ABSTRACT

Small and medium scale enterprises contribute over 50% of the employment opportunities and 40% of GDP in Kenya. Despite their significance, recent studies show that 60% of the SMEs fail within the first few months of operation. Studies also show that it is hard for the SMEs to access finances from the financial institutions since they lack proper financial records as a requirement. Therefore, the general objective of this study was to assess the effect of proper bookkeeping practices on financial performance of SMEs in Kisii municipality to ascertain the cause of such failures. The study employed a cross-sectional survey research design to get more details from the respondents so that the results from the sample can be inferred to the larger population. The target population consisted of 3528 owner-managers/managers of 3528 small and medium scale enterprises. Both stratified and simple random sampling techniques were used in the study. The respondents were 97 owner-managers/managers of the sampled SMEs. Structured questionnaire was self-administered to collect quantitative data from primary sources. Descriptive statistics such as frequency distribution and percentages was used to facilitate the change of raw data into a form that is easy to understand and interpret. Also Pearson correlation coefficient and simple linear regression was used to analyze quantitative data. Pearson correlation coefficient was used to determine the degree of association between proper book-keeping practice and financial performance. The analyzed data were presented using statistical tables and graphs. The research findings can provide knowledge to owners of SMEs to use in proper bookkeeping so as to

improve their performance. It can also be used by academicians, researchers and management consultants as a source of knowledge and reference.

KEY WORDS: GDP, Gross Domestic Product, SME; Small and Medium Enterprises

Background to the study

Bookkeeping refers to the recording of financial transactions. Transactions include sales, purchases, income, and payments by an individual or organization. Book keeping is usually performed by a bookkeeper who is responsible for writing “the day books “.The book keeper brings the books to the trial balance stage. An accountant may prepare the income statement and balance sheet using the trial balance and ledgers prepared by the book keeper. Book keeping should not be confused with accounting. The accounting process is usually performed by an accountant. The accountant creates reports from the recorded financial transactions recorded by the bookkeeper and files forms with government agencies. There are some common methods of bookkeeping such as the Single-entry bookkeeping system and the Double entry bookkeeping system (Pinson et al, 1993).

From properly kept books a person can at any time ascertain: what property he possesses, what amounts he owes and to whom, what profit he has made or what loss he has sustained for any given period and the manner in which the profit and loss has risen, and the amount of his capital or deficiency. If no records are kept, it will be difficult to find accurate net profit. Under such circumstances, tax authorities may overestimate the profits and thus a trader will suffer for not having kept the business records. In absence of proper business records, the trader will find it difficult to submit the true position to the court in case he becomes insolvent. Keeping of proper records helps the trader in framing future business plans and policies. Also it will be difficult to ascertain and fix the price of business to be sold or disposed off if no records are kept. Finally, in spite of the best memory it is beyond the capacity of a trader to remember all the business dealings with back references (Williams et al, 2008).

Small and medium enterprises (SMEs) comprise the largest proportion of businesses in most economies and frequently offer the greatest potential for job creation (Asquith et al, 1994). The government of Kenya has placed a lot of emphasis on the development of SMEs as a means of encouraging self employment, poverty reduction and accelerating economic growth. This has seen SMEs contribute over 50% of the employment opportunities in Kenya and over 40% of the GDP. Despite their significance, recent studies show that 60% of the SMEs fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). It is hard for the SMEs to access finances from the financial institutions since the lack proper financial records as a requirement (William et al 1993).

Small and medium enterprises are less capital intensive and highly labor intensive, there are huge opportunities for this sector in a labor – abundant capital-scarce economy like Kenya. The other factors that are responsible for the fast growth of this sector are extensive promotion and support by the government, available grants and subsidies, raw material procurement, rising export demand for Kenyan products and rising domestic demand which is the result of overall economic growth. But, the growth rates can increase further if more development measures are taken to improve the technology and marketing side of Small and medium enterprises and thus small and medium enterprises can construct the most dynamic and vibrant sector of the economy (Michael et al 2009).

Education is one of the factors that impact positively on the growth of firms (King et al 2000). Those entrepreneurs with large stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King et al, 1998). Infrastructure as it relates to provision of access roads, adequate power, water, sewage and telecommunication has been a major constraint in the development of SMEs (Rogers et al 1995).

In Kenya, like much of Africa, the informal sector plays a vital economic role and the new government is taking steps to help that sector grow. Each year thousands of people arrive in towns and cities such as Nairobi to try to earn a living, whether it is from selling newspapers

from a pavement or driving a taxi. The new government in Kenya says that entrepreneurship should be used to help rebuild the economy after years of neglect (Peacock, 1985).

Statement of the problem

The Government of Kenya has placed a lot of emphasis on development of SMEs as a means of encouraging self employment, poverty reduction and accelerating economic growth. This has seen SMEs contribute over 50% of the employment opportunities in Kenya and over 40% of the GDP. But unemployment, poverty and slow economic growth still continue to exist in the Kenyan societies. Despite their significance, recent studies show that 60% of the SMEs fail within the first few months of operation .Studies also show that it is hard for the SMEs to access finances from the financial institutions since they lack proper financial records as a requirement. The question that arises is why these businesses fail? Therefore, this study sought to assess the effect of proper bookkeeping practices on financial performance of SMEs in Kisii municipality to establish causes of the failures. The findings of the study can be of significant help to the business owners, the government, management consultants, academicians and researchers as a source of knowledge and reference.

Study Literature Review

The Concept of Book Keeping

Book keeping is a mechanical process that records the routine economic activities of a business (Rogers et al, 1995).Book keeping refers to the recording of financial transactions and events either manually or electronically (Larson et al,1999).Book keeping is the analysis, classification and recording of the business transactions in the books of accounts (Saleemi , 2008).

Chartered Institute of Management Accountants- UK defines bookkeeping as the analysis, classification and recording of financial transactions in books of account in a systematic manner. Commonly, bookkeeping can be defined as the recording of financial transactions and events in books of accounts in a systematic manner. Transactions include sales, purchases, income, and payments by an individual or organization. Book keeping is usually performed by a bookkeeper.

Book keeping should not be confused with accounting. The accounting process is usually performed by an accountant. The accountant creates reports from the recorded financial transactions recorded by the bookkeeper and files forms with government agencies. There are some common methods of bookkeeping such as the Single-entry bookkeeping system and the Double entry bookkeeping system (Pinson et al, 1993).

Book keeping and accounting basics in business

Many new business owners are daunted by the mere idea of bookkeeping and accounting. But in reality, both are pretty simple. Keep in mind that bookkeeping and accounting share two basic goals: to keep track of income and expenses, which improves chances of making a profit, and to collect the financial information necessary for filing various tax returns. There is no requirement that records be kept in any particular way. As long as your records accurately reflect the business's income and expenses, There is a requirement, however, that some businesses use a certain method of crediting their accounts: the cash method or accrual method. Depending on the size of the business and amount of sales, one can create own ledgers and reports, or rely on accounting (Williams et al 1993).

An accounting system records, retains and reproduces financial information relating to financial transaction flows and financial position. Financial transaction flows encompass primarily inflows on account of incomes and outflows on account of expenses. Elements of financial position, including property, money received, or money spent, are assigned to one of the primary groups i.e. assets, liabilities, and equity. Within these primary groups each distinctive asset, liability, income and expense is represented by respective "account". An account is simply a record of financial inflows and outflows in relation to the respective asset, liability, income or expense. Income and expense accounts are considered temporary accounts, since they represent only the inflows and outflows absorbed in the financial-position elements on completion of the time period (Williams et al, 2008).

There are account types that include real accounts which represent physically tangible things in the real world and certain intangible things not having any physical existence. Examples of tangible things are: plant and machinery, furniture and fixtures, computers and information

processing equipment. Intangibles include: goodwill, patents and copyrights; personal accounts which represent business and legal entities such as organizations, any local or statutory bodies including government' at country, state or local levels; nominal accounts which represent temporary income and expenditure accounts for recognition of the implications of the financial transactions during each fiscal year till finalization of accounts at the end. Examples include: sales, purchases and electricity charges. For example a sales account is opened for recording the sales of goods or services and at the end of the financial period the total sales are transferred to the revenue statement account (Profit and Loss Account or Income and Expenditure Account). Similarly expenses during the financial period are recorded using the respective expense accounts, which are also transferred to the revenue statement account. The net positive or negative balance (profit loss) of the revenue statement account is transferred to reserves or capital account as the case may be (Williams et al, 2008).

The classification of accounts into real, personal and nominal is based on their nature i.e. physical asset, liability, juristic entity or financial transaction. The further classification of accounts is based on the periodicity of their inflows or outflows in the context of the fiscal year. Income is immediate inflow during the fiscal year. Expense is the immediate outflow during the fiscal year. An asset is a long-term inflow with implications extending beyond the financial period and by the traditional view could represent unclaimed income. Alternatively, an asset could be valued at the present value of its future inflows. Liability is long-term outflow with implications extending beyond the financial period and represents unamortized expense as per the traditional view. Alternatively, a liability could be valued as the present value of future outflows. Items in accounts are classified into five broad groups, also known as the elements of the accounts. Asset, liability, Equity, Revenue, Expense. The classification of equity as a distinctive element for classification of accounts is disputable on account of the "Entity concept", since for the objective analysis of the financial results of any entity the external liabilities of the entity should not be distinguished from any contribution by the shareholders (Pinson et al 1993).

The double entry accounting systems records financial transactions in relation to asset, liability, income or expense related to it through accounting entries. Any accounting entry in the double entry accounting system has two effects: one of increasing one account, the other of decreasing

another account by an equal amount. If the accounting entries are recorded without error, at any point in time the aggregate balance of all accounts having positive balances will be equal to the aggregate balance of all accounts having negative balances. The double entry bookkeeping system ensures that the financial transaction has equal and opposite effects in two different accounts. Accounting entries use terms such as debit and credit to avoid confusion regarding the opposite effect of the accounting entry e.g. if an accounting entry debits a particular account, the opposite account will be credited and vice versa (Williams et al,2008).

The rules for formulating accounting entries are recorded in the books of accounts. It does this by ensuring that each individual financial transaction is recorded in at least two different nominal ledger accounts within the financial accounting system. The two entries have equal amounts and opposite signs, so that when all entries in the accounts are summed, the total is exactly the same: the accounts balance. This is a partial check that each and every transaction has been correctly recorded. The transaction is recorded as a “debit entry” (Dr.) in one account, and a “credit” (Cr.) entry in the other account. A debit entry generally means that value has been added to the account, and a credit entry means that value is being subtracted from the account. The debit entry will be recorded on the debit side (left- hand side) of a nominal ledger account and the credit entry will be recorded on the credit side (right-hand side) of a nominal ledger account. A nominal ledger has a Debit (left) side and a Credit (Right) side. If the total of the entries on the debit side is greater than the total on the credit side of the nominal ledger account, that account is said to have a debit balance (Williams et al, 2008).

The double entry system uses nominal ledger accounts. From these nominal ledger accounts a trial balance can be created. The trial balance lists all the nominal ledger account balances. The list is split into two columns, with debit balances placed in the left hand column and credit balances placed in the right hand column. Another column will contain the name of the nominal ledger account describing what each value is for. The total of the debit column must equal the total of the credit column. From the trial balance the profit and loss statement and the balance sheet can then be produced. The profit and loss statement will contain nominal ledger accounts

that are income or expense type nominal ledger accounts. The balance sheet will contain nominal ledger accounts that are asset or liability accounts (Williams et al 2008).

2.3 Empirical Studies

Peacock (1985) in his investigation of the effects and causes of 1,000 proprietary company failures in South Australia during ten years and found that 4.6 percent of failures had inadequate or no accounting records. He concluded that there was a minimal effect of accounting records of the success or failure of businesses of the proprietary companies and recommended for further research on causes of business failures.

In another study of company failures in South Australia, peacock (1987) 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. He recommended further research to be done on double entry systems of recording in companies.

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

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. 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.

In summary from the above studies, show that a lot of research has been done on effects and causes of company failures, bankruptcy of unincorporated businesses, the adequacy of accounting records for small enterprises, and the survey of accounting formation requirements of small enterprises. However little research has been done on the effects of bookkeeping on the performance of small and medium scale enterprises in Kisii municipality. This study will focus on the study variables as reflected in the conceptual framework with the hope of filling the gap.

Research Strategy

The study employed a cross sectional survey research design. A cross sectional survey design is a present oriented methodology used to investigate populations by selecting samples to analyze 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. It was also cheap to undertake and collect large volumes of data within a very short time. The results from the sample can be inferred to the larger population.

The target population consisted of 3528 owner-managers/managers of 3528 small and medium scale enterprises comprising 2296 trading, 200 manufacturing, and 1032 service providing SMEs.

The study was carried out in Small and Medium scale Enterprises found in Kisii municipality. The municipality is found in Kisii Central District, Nyanza province and it covers an approximate area of 29 km² with a population of 70,000 according to 2002 estimates. Kisii

municipality is divided into four trading zones namely: Central Business Centre, Daraja Mbili, Mwembe and Jogoo.

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. It is a technique that identified sub groups in the population and their proportion and selected from each sub group to form a sample. 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 has an equal chance of being included in the sample. Using Yamane's formula, there was a sample selection of 97 SMEs, comprising 63 trading SMEs, 6 manufacturing SMEs and 28 services providing SMEs.

The formula states:

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

Where: n-Sample size

N-population

e-Margin of error of 0.1

A structured questionnaire was self – administered to 97 owner-managers/managers of the sampled SMEs to collect primary quantitative data. The sample of 97 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:

$$F = a_0 + a_1B$$

Where: F is financial performance

a_0, a_1 are coefficients

B is book keeping

The analyzed data were presented using statistical tables and graphs.

Study findings and discussion

Adequacy of book keeping in SMEs

On the adequacy of book keeping, 9.3% of the respondents indicated excellent, 25.8% indicated good, 22.7% indicated average, and 32% indicated poor, 10.3% indicated very poor/non-existent. Generally, the results showed that book keeping practice of the SMEs in Kisii Municipality is not adequate and this may negatively affect the financial performance.

Table 1: Adequacy of book keeping in SMEs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	excellent	9	9.3	9.3	9.3
	good	25	25.8	25.8	35.1
	average	22	22.7	22.7	57.7
	poor	31	32.0	32.0	89.7
	v. poor /nonexistent	10	10.3	10.3	100.0
	Total	97	100.0	100.0	

Source: Survey data, 2010

Keeping of business receipts

The respondents indicated how regular business receipts are kept: 1.0% Of the respondents indicated never, 43.3% indicated rarely, 18.6% indicated sometimes, 2.1% indicated often, and 35.1% indicated always. This shows that most respondents poorly keep business receipts that result into records that are not correct. Therefore, it is hard to determine the true financial performance of the enterprises.

Table 2: Keeping of business receipts

		Frequency	Percent	Valid Percent
Valid	Never	1	1.0	1.0
	Rarely	42	43.3	43.3
	Sometimes	18	18.6	18.6
	Often	2	2.1	2.1
	Always	34	35.1	35.1
	Total	97	100.0	100.0

Source: Survey data, 2010

From the table, the respondents indicated how regular they set up and post entries to the ledgers: 11.3% indicated never, 39.2% indicated rarely, 13.4% indicated sometimes, 5.2% indicated often, and 30.9% indicated always. This is an indication that majority of the respondents do not set up and post entries to the ledgers always, and it has the effect of omitting or even forgetting some records. This shows that they have little knowledge in book keeping and as a result the records prepared do not reveal the true picture of the financial performance of the business enterprises.

Table 3: Setting up and posting entries to the ledger

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	never	11	11.3	11.3	11.3
	rarely	38	39.2	39.2	50.5
	sometimes	13	13.4	13.4	63.9
	often	5	5.2	5.2	69.1
	always	30	30.9	30.9	100.0
	Total	97	100.0	100.0	

Source: Survey data, 2010.

Regularity of creating basic financial reports

The results showed that 10.3% of the respondents indicated never, 39.2% indicated rarely, 14.4% indicated sometimes, 4.1% indicated often, and 32% indicated always. This shows that a greater percentage of the respondents represented by 67.9% create basic financial reports irregularly. This may be associated with little knowledge in book keeping among the owners and owner managers of the SMEs. Therefore, it becomes difficult to make a comparison between the current period and the previous period of time so as to determine the financial direction the businesses are taking.

Table 4: Regularity of creating basic financial reports

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	10	10.3	10.3	10.3
	Rarely	38	39.2	39.2	49.5
	Sometimes	14	14.4	14.4	63.9
	Often	4	4.1	4.1	68.0
	Always	31	32.0	32.0	100.0
	Total		97	100.0	100.0

Source: Researcher 2010

Extent of effectiveness in the given book keeping practices

From the above table it can be noted that keeping of receipts has the highest weighted mean of 2.814 followed by setting up and posting entries to the ledger with 2.711, and the least was use of computers in book keeping with 2.052. As far as extent of effectiveness in book keeping practices is concerned, most SMEs showed a weighted mean of around 3 (moderate extent), except on use of computers in book keeping which showed a weighted mean of 2 (little extent). Based on this result, book keeping practices among the SMEs in Kisii Municipality are not effective and this has a negative effect on the financial performance.

Table 5: Extent of effectiveness in the given book keeping practices

	Not at all	Little extent	Moderate extent	Large extent	Very large extent	Σf_i	$\Sigma f_i w_i$	$\frac{\Sigma f_i w_i}{\Sigma f_i}$
	1	2	3	4	5			
Keeping of receipts	3	45	20	25	4	97	273	2.814
Setting up and posting entries to the ledger	13	47	6	25	6	97	255	2.629
Creating basic financial reports	6	51	8	29	3	97	263	2.711
Interpretation of basic financial statements	12	45	8	31	1	97	255	2.629
Use of basic financial reports in decision making	19	39	9	25	5	97	249	2.567
Use of computers in bookkeeping	58	8	2	26	3	97	199	2.052

Source: Survey data, 2010

Mean and standard deviation of the effectiveness in book keeping of the SMEs

The respondents were asked to rate on a 5-point likert scale, the extent of effectiveness of six book keeping practices. The responses were collapsed 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 5 below.

Table 6: Mean and standard deviation of the effectiveness in book keeping of the SMEs

	N	Minimum	Maximum	Mean	Std. Deviation
effectiveness in bookkeeping	97	7.00	29.00	15.3505	6.4275
Valid N (listwise)	97				

Source: Survey data, 2010

From the table above, the mean value of the effectiveness of book keeping was 15.3505. This mean is below average value of 18 implying that most SMEs are not effective in book keeping.

Factors affecting proper bookkeeping of SMEs in Kisii Municipality

The second objective of the study was to identify factors that affect proper book keeping practices of small and medium scale enterprises in Kisii Municipality. The findings are as shown in the table below:

Table 7: SMEs' challenges in book keeping

	Frequency	Percent	Valid Percent	Cumulative Percent
little knowledge in bookkeeping	46	47.4	47.4	47.4
loss of some business records	38	39.2	39.2	86.6
negative perception towards bookkeeping	2	2.1	2.1	88.7
poor management of business records	11	11.3	11.3	100.0
Total	97	100.0	100.0	

Source: Survey data, 2010

The results indicated that 47.4% of the respondents sighted little knowledge in book keeping, 39.2% sighted loss of some business records, 2.1% sighted negative perception towards book keeping, and 11.3% sighted poor management of business records. This shows that book keeping

practice is a challenge among SMEs in Kisii Municipality, the greatest challenge being little knowledge in book keeping. This implies that records prepared are inaccurate and therefore the decisions made would not be appropriate for effective operations of the SMEs.

Associative Analysis of the Study

The last objective of this study was to establish the relationship between proper bookkeeping practices and the financial performance of SMEs. 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.

Table 8: Correlation matrix of financial performance and bookkeeping

		effectiveness in bookkeeping	financial performance index
effectiveness in bookkeeping	Pearson Correlation	1.000	.944
	Sig. (2-tailed)	.	.000
	N	97	97
financial performance index	Pearson Correlation	.944	1.000
	Sig. (2-tailed)	.000	.
	N	97	97

** Correlation is significant at the 0.01 level (2-tailed).

Source: Survey data, 2010

The correlation matrix shows that the financial performance has a very strong significant positive relationship with effectiveness in book keeping with Pearson’s correlation coefficient of 0.944.

Linear Regression Analysis

Before regression analysis was done, to investigate the effect of proper bookkeeping on financial performance, the model used for the linear regression analysis was expressed in the general form $F=a_0+a_1B$. 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 the tables below.

Table 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.944	.890	.889	1.6774

Predictors: (Constant), effectiveness in bookkeeping

B Dependent Variable: financial performance index

Source: Survey data, 2010

Table 8 above, shows the value of coefficient of determination (R^2) =0.890 which implies that 89% of the variation in financial performance could be explained by the changes in the effectiveness in book keeping. 11% remains unexplained.

Analysis of Variance (ANOVA)

Model		Sum of Square	Df	Mean Square	F	Sig.
1	Regression	2173.057	1	2173.057	772.276	.000
	Residual	267.314	95	2.814		
	Total	2440.371	96			

a Predictors: (Constant), effectiveness in bookkeeping

b Dependent Variable: financial performance index

Source: Survey data, 2010

Table 9 above shows the summary ANOVA (analysis of variance) and F statistic which reveals the value of F (772.276) significant at 0.05 confidence level. According to Geller (2009), 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. 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 772.276 at 0.05 confidence level indicates that the independent variable (proper book keeping) greatly contributes to the variation in financial performance.

Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.998	.443		4.511	.000
	effectiveness in bookkeeping	.740	.027	.944	27.790	.000

a Dependent Variable: financial performance index

Source: Survey data, 2010

From the above table, since the t-test values for the regression coefficients are significant at 95% confidence level ($t_{(1, 95)} = 27.790, p < 0.05$), it implies that the predictor variable (proper book keeping) makes a significant contribution to the financial performance of SMEs. Therefore, the unstandardized linear regression model is $F=1.998+0.740B$. The standardized beta coefficient indicates that a unit change in the effectiveness in bookkeeping causes a 94.4% increase in financial performance.

Summary of findings

Book keeping practices in small and medium scale enterprises in Kisii Municipality. In terms of years of experience majority of small and medium scale enterprises had 2-5 years with 52% followed by 6-10 years with 33% totaling 85%. The study identified the following as the book keeping systems in small and medium scale enterprises in Kisii Municipality: single entry book keeping system and double entry book keeping system. The study found that majority of small and medium scale enterprises use single entry book keeping system followed by those that use both single and double entry book keeping system. The research also identified the book keeping methods used by the small and medium scale enterprises as: the manual book keeping, computerized book keeping, and online book keeping. The study found that most of the small and medium scale enterprises use manual book keeping method with 63.9%, followed by 24.7% of the small and medium scale enterprises that use all the book keeping methods. The percentage of SMEs that use manual book keeping is big enough and can be used to explain the effect of proper book keeping on the financial performance since it may not be as accurate as computerized and online book keeping.

The relationship between proper book keeping and financial performance of small and medium scale enterprises in Kisii Municipality. In reference to the correlation analysis table 4.3.2, the correlation matrix shows that the financial performance has a very strong positive relationship with effectiveness in book keeping with Pearson's correlation coefficient of 0.944. By use of the regression analysis (Table 4.3.3), the study found that the coefficient of determination (R^2) = 0.890 which implies that 89% 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 4.3.4) 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 772.276 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 4.3.5), that 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 $F=1.998+0.740B$ and thus, the model is applicable.

Conclusions

The study found that book keeping is a great challenge among many SMEs in Kisii Municipality. The greatest challenge was seen in little knowledge in book keeping and loss of some business records which amount to 86.6%. The research also discovered that 65% of the SMEs showed inadequate book keeping practices. Further, the study found that 64% of the financial performance of SMEs was deteriorating and failing. In the regression analysis, the coefficient of determination (R^2) of 0.890 implied that 89% of the variation in financial performance could be explained by the changes in book keeping. Finally, the analysis of variance (ANOVA) gave an F value of 772.276 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 book keeping practices in order to be successful in their financial performance.

Study Recommendations

The government in conjunction with KASNEB should work out an understanding on how to sort out the problem of book keeping 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 book keeping. The study would recommend for the sensitization programmes so to equip the owners and managers of the SMEs with proper knowledge in book keeping.

Proper book keeping practices in small and medium scale enterprises in Kisii Municipality, identify factors that affect proper book keeping of small and medium scale enterprises in Kisii Municipality, and establish the relationship between proper book keeping and financial performance of small and medium scale enterprises in Kisii Municipality. Due to the limitations imposed on this study by its identified objectives, some areas that are relevant to this study were not covered and are suggested for further study: first, further study could be done to establish the effect of e-book keeping on proper management practices of small and medium scale enterprises. Second, further study could be done on the effect of use of financial accounting information on financial performance of large scale enterprises. Third, further research could also be done on the effect of business records management on the financial performance of private limited companies.

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