EFFECT OF SMALL ACCOUNTING PRACTICES ON THE PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN NAKURU CENTRAL BUSINESS DISTRICT

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DECLARATION

I do hereby declare that this thesis is my own original work and has never been submitted to any University or Institution for the award of a degree.

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DEDICATION

I dedicate this thesis to my Supervisors Dr. Riro Kamau and Dr. Kiragu David. They have remained a great blessing and source of encouragement to me throughout this research. May God bless them abundantly.

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ABBREVIATIONS

ACCA	-	Association of Chartered Certified Accountants
AICPA	-	American Institute of Certified Public Accountants
AIS	-	Accounting Information System
ASB	-	Accounting Standards Board
CBS	-	Central Bureau of Statistics
EC	-	European Commission
GAAP	-	Generally Accepted Accounting Principles
GDP	-	Gross Domestic Product
IAS	-	International Accounting Standard
IFRS	-	International Financial Reporting Standards
ILO	-	International Labour Organization
ITD	-	International Tax Dialogue
KNBS	-	Kenya National Bureau of Statistics
MSEs	-	Micro and Small Enterprises
SEC	-	Securities and Exchange Commission

ABSTRACT

The purpose of the study was to investigate the effect of small accounting practices on the performance of Micro and Small-sized Enterprises (MSEs). The general objective of the study was to determine the effect of small accounting services on the performance of MSE's in Nakuru County. The specific objectives of the study were;to examine the effect of bookkeeping on the performance of MSEs; to assess the effect of accounting on the performance of MSEs; to investigate the effect of auditing on the performance of MSEs; to establish whether tax accounting has an effect on the performance of MSEs; to explore the non-compliance services effect on performance of MSEs.This research was guided by agency Theory, Resource based Theory and Decision Theory as the theoretical framework. Thestudy adopted a descriptive research design. Using Yamane's formula, a stratified sample of 74 Micro enterprises from 26MSE's were arrived at. A pilot study was carried out to test the reliability and validity of the data collection instrument which was a semi structured questionnaire. The data collection tool was self-administered and distributed to the selected and representative sampled from population. A response rate of 72%was achieved. Primary data was analyzed with the aid of Statistical Package for Social Sciences (SPSS) software. Descriptive statistics, that is, frequencies, mean, and percentages were generated and discussed before testing the study null hypothesis. Tables were used to present various aspects of the variables. A bivariate linear regression model was used to determine the nature and significance of the relationship between the five study independent variables and performance of MSE. The findings of the study indicated that bookkeeping, accounting, auditing and tax accounting individually had a significant effect on the performance of MSEs.This study recommend that MSE's should leverage the use of small accounting practices to improve financial performance.Collectively, Book keeping and non-compliance had an effect on the performance of MSEs.

CHAPTER ONE

INTRODUCTION

1.1 Background

In many economies, there are few large scale enterprises, followed by a larger number of medium enterprises, whereas Micro and Small Enterprises (MSEs) dominate most of the economic landscape of most countries (Kessy and Temu, 2010, Benzing and Chu, 2009, Tarmidi, 2005). This industrial structure is common in most developing economies and Kenya alike, where the MSEsare very many and engages a better part of the Kenyan populace both from the Rural and Urban settings. It cuts 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 industrialisation (Sessional paper two of 2005).

According to the MSMEs Act (2012), a Micro-Enterprise is defined as an enterprise having a maximum of 10 employees with annual turnovers of less than KES 500,000 and capital formation of less than KES 5 Million for services or less than KES 10 Million for enterprises doing manufacturing.Small enterprises are defined as those that employ between 10 and 50 workers with annual turnovers between KES 500,000 and KES 5 million and capital formation between KES 5 million and KES 20 million for services or between KES 5 million and KES 50 million for enterprises doing manufacturing.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 to10 employees (Stevenson and St-Onge, 2005). This study used the following definition of micro-enterprises both formal and informal: Jua Kali, Coffee Shops, Butcheries, Retail shops, Bars and Restaurant Enterprises with 0 to 5 employees operating in the open with fixed worksites. Very small enterprises are defined as those with 6 to 10 employees operating in the open with fixed location and small-scale as registered or formalized enterprises with 11 to 50 employees operating from legitimate business premises.

According to the 2010 Economic survey, employment within the MSEs sector accounts for 74.2% of the total person engaged in employment. This sector contributes up to more than 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 industrialisation hence economic growth of the Country. This is to mean that MSEs performance 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.

The economic importance of MSEs, especially in developing economies, has been widely documented (Abor and Quartey, 2010). Not only do MSEs provide an increasing share of turnover in the private section in most economies, but many jurisdictions regard them as vital sources of innovation, growth and new jobs. In Kenya, they create employment at low levels of investment per job, lead to increased participation of indigenous people in the economy, use mainly local resources, promote the creation and use of local technologies, and provide skills training at a low cost to society (Lukacs, 2009). Estimates are that there were about 900,000 small and micro-enterprises establishments employing 2 million Kenyans and generating about 14 per cent of the country's GDP (Dolman, 1994). It is also stated that in Kenya this sector accounted for 20% of the GDP in 1999 (CBS, 1999) and 64% of the urban employment by 2002 (Karekezi and Majoro, 2002).

The MSEs are important for the economic growth in Kenya. It is apparently important to address the MSEs contribution to the country's economy for one to be able to understand why this research advocates for the thrive of these enterprises.Need (1998) asserts that the death or growth of a country's economy has a strong relationship with the health of the nature of the MSEs. In addition, Snodgrass and Biggs (1996); DFID (2000); and Beck (2005) noted that the role of MSEs development in contributing to poverty reduction and the general achievement of Millennium Development Goals (MDGs) is vital. It has also been argued that a dynamic and growing MSE sector can contribute to the achievement of a wide range of development objectives, including: the attainment of income distribution and poverty reduction (DFID, 2000); creation of employment; provision of the seedbed of industrialisation (World Bank, 2004); savings mobilisation (Beck, 2005) and production of goods and services that meet the basic needs of the poor (Cook and Nixson, 2005). For the Kenyan case, since the economy is one of the pillars for the Vision 2030, MSEs performance is very crucial.

The promotion of MSEs and, especially, of those in the informal sector such as Jua Kali is viewed as a viable approach to sustainable development because it suits the resources in Africa. MSEs are the main source of employment in developed and developing countries alike, comprising over 90% of African business operations and contributing to over 50% of African employment and GDP (Okafor, 2006).The government of Kenya has identified entrepreneurship development as a major policy plunge to achieve economic development. This is evidenced by a number of institutions established by the government to provide funding and improve operational efficiency in the MSEs sector. Most of the Public and Private Institutions of Higher Learning are also offering courses and mentorship programmes on Entrepreneurship.

From the above discussion on the importance of MSEs on the economic growth, it is evident that its contribution to taxes can be a big boast to the government in collection of revenue to finance the Budget. The International Tax Dialogue (ITD) Global Conference on taxation of small and medium enterprises held in Buenos Aires, Argentina, 17 – 19 October 2007 recognized that MSEs play a prominent role in all economies. They are important to the economy and they are important to tax policymakers and administrators. The large numbers of MSEs, high turnover rates and sheer diversity present challenges to all administrations. It is easy for Micro and Small businesses to remain outside the tax net because they are inconspicuous to the tax administration. They are largely cash businesses meaning inadequate accounting records and audit trail. Complicated tax systems and numerous processes is also another reason which makes them difficult and expensive for start-up firms to act in good faith. Compliance costs are also much higher relative to larger business operations and lastly is that Small businesses have limited resources and technical capacity

Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). However, it is generally recognized that MSEs face unique problems, which affect their growth and profitability and, hence, diminish their ability to contribute effectively to sustainable development. These problems include lack of access to credit, inadequate managerial and technical skills and low levels of education, poor market information, inhibitive regulatory environments, and lack of access to technology (ILO, 1989).

According to Strong, Lee and Wang (1997), poor information quality can create chaos. Unless its root cause is diagnosed, efforts to address it can be worthless. According to Ladzani (2001), the priority ranking of the MSEs needs, clearly puts information provision at the top of the list of services to be provided. The MSEs development is hampered by an “information-poor” environment (Wang, 1997). In most developing countries, market signals on business opportunities, customer trends, and methods of organization are not communicated effectively to the MSEs (Lawrence, 2009). The MSEs perform better in information-rich environments (Moyi, 2006 and Ladzani, 2001). To achieve quality within the information rich environment, some notable challenges need to be handled head on. In looking at the challenges, we need to consider them from the three core components whichare information players, challenges faced and strategies so as to achieve quality information. According to Finnegan, (2000), enterprises obtain new ideas on how to improve their businesses through, for example, increasing productivity, reducing production costs or accessing a more profitable market.

Poor finance management has been posted as the main cause of failure on the MSEs (Longeneter,Palich and Petty,2006). Bowen, Morara and Mureithi (2009) observe 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 MSEs. 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.

MSEs need to have access to adequate information to enhance productivity, to facilitate market access and to make informed decisions. The establishment of an active MSE sector and the effective utilization of quality business information have been identified as crucial in attaining long-term and sustainable economic growth for developed and developing countries (Lukacs, 2005). Financial Record Keeping is a contributor to making of informed decisions. However, in most developing countries, the MSE sector suffers from inadequacies in the provision of business information which is only available from stand-alone institutions which is often slow and cumbersome to access, is limited in scope and is not provided in an integrated manner (UNIDO, 2005).

Accounting Information Systems (AIS) 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, big or small, cannot be over-emphasized. In any sense, profit can analogously be viewed as the life-blood of a business and hence the accounting bases, concepts and principles adopted ought to capture and report all the relevant and reliable accounting information to ensure reliability in its measurement. Reported profits reflect changes in wealth of owners and this can explain why major economic decisions in business are centred on financial performance as measured by profitability (Onaolapo and Adegbite, 2014). It has been recognised that appropriate accounting information is important for a successful management of any business entity, whether large or small (European Commission (EC), 2008).

The American Institute of Certified Public Accountants (2014) defined accounting as ‘the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events, which are, in part of at least of a financial character, and interpreting the results thereof. The Accounting Standards Board (2014) on the other hand has defined accounting as “the provision of information about the financial position, performance and financial adaptability of an enterprise that is useful to a wide range of potential users in making economic decisions”. N.D Nzomo (2002) in Basic Accounting defines accounting as ‘the art and science of recording transactions, processing the recorded transactions into a comprehensible form and communicating the information to interested parties. The American Accounting Association (2014) defined accounting as the process of identifying, measuring and communicating economic information to permit informed judgments by users of information.

The definition provided by the American Institute of Certified Public Accountants (AICPA) focuses more on the procedures of accounting while the definition provided by the Accounting Standards Board (ASB) focuses on the purpose of accounting. The underlying purpose of accounting as implied in the definition provided by ASB is to provide information about an economic entity to individuals to aid them in the making of economic decisions. It may be useful to emphasize at this juncture that the role of financial accounting and reporting in the economy is to facilitate the making of commercial and economic decisions but not to determine what those decisions should be (Nzomo, 2002).

Financial statements provide small business owners with the basic tools for determining how well their operations perform at all times (Reeds, 2010). Many entrepreneurs do not realize that financial statements have a value that goes beyond their use as supporting documents to loan applications and tax returns. These statements are concise reports designed to summarize financial activities for specific periods. Owners and managers can use financial statement analysis to evaluate the past and current financial condition of their business, diagnose any existing financial problems, and forecast future trends in the firm's financial position.

International Financial Reporting Standards (IFRS) was set to be the accounting standard in Kenya in 1998 by the council of ICPAK (Institute of Certified Public Accountants of Kenya) (World Bank, 2001). All financial statements covering periods beginning January 1, 1999, must be prepared in accordance with IASs. IASs are required for enterprises of all types and sizes, both listed and non-listed (Deloitte Touche – International Financial Reporting Standards, Page 4). Even though there were no laws for listed companies to prepare their financial statement according to IAS, listed companies were advised by the Capital Markets Authority (CMA) to follow IASs. The rule changed in June 2001 when CMA made IASs mandatory for accounting and financial reporting by all listed companies. The Banking Supervision Department of the Central Bank of Kenya used its legal authority to require individual banks to disclose information in compliance with IASs (World Bank, 2001).

However, due to limited resources and the lack of law enforcement to compel MSEs to prepare and keep proper books of accounts, most MSEs do not keep books of accounts. This poses a challenge to the MSEs when it comes to borrowing loans from banks and other financial institutions and hence a source of failure to secure loans and in the case they secure, they are given at very high interests rates as they are deemed to be very risk and this leads to a high cost of capital.

A study by Wawira (2012) revealed that MSEs 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 MSEs. This makes it difficult for the entrepreneurs to calculate their business profit efficiently. Failure of keeping accurate records was highly blamed on the lack of skills in this field. The study further revealed that the owners and managers of MSEs were highly willing to learn more about how to keep accurate records of their business transactions.

Evaraert (2006) and Jayabalan and Dorasamy (2009) however argue that the high cost of hiring professional accountants leaves MSE owner-managers with no option but to relegate accounting information management. Zhou (2010) proposes the use of accounting software by ownermanagers in MSEs to improve accounting practices but laments that developers of accounting software are yet to produce the medium-sized software for MSEs.

It is crucial therefore that the Small Accounting Practices of MSEs supply complete and relevant financial information needed to improve economic decisions made by entrepreneurs. This research focused on analysing the Small Accounting Services and Practices offered by Accountants to Micro and Small enterprises; to examine the role of Small Accounting Practices on the performance of Micro and Small Enterprises and investigated the challenges faced by Micro and Small Enterprises when adopting the Small Accounting Practices.

1.2 Statement of the Problem

The Government of Kenya has placed a lot of emphasis on development of MSEs as a means of encouraging self-employment, poverty reduction and accelerating economic growth. This has seen MSEs 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 MSEs fail within the first few months of operation.Studies also show that it is hard for the MSEs 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.There was one area in particular which has been singled out for attention by researchers’ which is the effect of small accounting practices on the performance of MSEs.It was surprising to note that no specific research had been undertaken to tap the potential benefits that MSEs can reap by adopting a good framework of financial accounting routines. This study sought to assess the effectof small accounting practices on the performance of MSEs in Nakuru Town.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to investigate the effect of small accounting practices on the performance of MSEs in Nakuru Town.

1.3.2 Specific Objectives

i) To examine the effect of bookkeeping on the performance of MSEs
ii) To assess the effect of accounting on the performance of MSEs
iii) To investigate the effect of auditing on the performance of MSEs
iv) To establish whether tax accounting has an effect on the performance of MSEs
v) To explore the non-compliance services effect on performance of MSEs

1.4 Research Hypothesis

Ho1: There is no significant relationship between bookkeeping and MSEsPerformance

Ho2: There is no significant relationship between accounting and MSEs Performance

Ho3: There is no significant relationship between auditing and MSEs Performance

Ho4: There is no significant relationship between tax accounting and MSEs Performance

Ho5: There is no significant relationship between non-compliance services and MSEs Performance

1.5 Significance of the Study

The results of the study can be useful to MSEs to understand the importance of small accounting practices and its effect on their performance as a source of business growth. It is expected that the study results be used by the National Government in developing policies and regulations for MSEs as they are very important for economic development. It was also hoped that County Government of Nakuruwill use the results of this study to develop polices and strategies that will guide the planning for and regulation of MSEs within Nakuru Central Business Districtand other parts of the County. Non-Governmental Organizations (NGOs) and other Development Partners dealing with poverty eradication was expected to find the report useful. The results of this study will be disseminated in workshops and published and stored in Libraries thus will contribute to the stock of knowledge.

1.6 Scope of the Study

Kenya as a country is domiciled by MSEs but this study will mainly focus on the effect of small accounting practices on the performance of MSEs operating in Nakuru Central Business District. Furthermore there are many accounting practices but this study will emphasis on bookkeeping, accounting, auditing, and tax accounting and non-compliance accounting services.

1.7 Limitations of the Study

The main limitation of the research was that resources constraints meaning that relatively few (74) MSEs were be interviewed in Nakuru Central Business District. This did not detract from the objective, which was the generation of understanding of the effect of small accounting practices on the performance of MSEs. Nevertheless, it was desirable to follow up the research with more extensive surveys using the concepts generated in this study to extend and refine the findings.

1.8 Definition of Significant Terms

Small Accounting Practices- Theseare the accounting practices which Micro and Small enterprises engage when preparing their financial statements. They are termed small because the transactions carried by MSEs are not as many/huge as the ones of medium and big companies hence the accounting practices used by large companies do not meet the requirements of MSEs.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter gives a detailed theoretical review on agency, resource based theory and decision theory. Literature review of the research's objectives includes the discussion of variables of the study; effect of bookkeeping, accounting, auditing, and tax accounting and non-compliance services on the performance of MSEs.

2.2 Theoretical Literature

2.2.1 Agency Theory

Agency theory addresses the relationship where in a contract 'one or more persons the principal(s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent' (Jensen and Meckling, 1976). This happens because of the separation of ownership and control, when the owner of the company or the board of directors (the 'principals') have to employ managers ('agents') to run the business and need to monitor their performance to ensure they act in the owner's interest.

Alchian and Demsetz (1972) were the first to argue that monitoring the performance of individual work effort is always a cost of any firm and that organizational inefficiency is created when the flow of information on individual performance is decreased or blocked. This can happen if there are large teams, unsupervised professionals, or executives of corporations who act autonomously. The main concern of agency theory as proposed by Jensen and Meckling (1976) is how to write contracts in which an agent's performance hence organizational performance can be measured and incentivized so that they act with the principal's interests in mind. Based on the idea that employees at any level will have diverse goals, two main agencyproblemsare identified: how to align the conflicting goals of principals and agents, and how to ensure agents perform in the way principals expect them to.

The problems usually identified as a result of agency theory includes information asymmetry which is the agents have information on the financial circumstances and prospects of the entity which the owners do not have. The small accounting practices will help the owners of MSEs to get information pertaining to their financial performance.

The agency theory is relevant for this study because as the micro enterprises grows into a small enterprise and later a medium enterprise hence the owner manager will need to employ staff to help him or her operate the enterprise. Accounting information presented to the owners by the managers will be used to cage the performance of the management to maximize the owners' wealth.

2.2.2 Resource Based View theory

Resource Based View theory hypothesizes that with a unique bundle of assets and resources or capabilities, if a company engages it in distinctive ways, it can create competitive benefit (Barney, 2001). Interestingly, consistent with the RBV theorization, MSEs use external accountants as sources of advisory services and decision making to fill up gaps in their internal resource (Gooderham, 2004; Doving and Gooderham, 2005; Everaert, 2006; Marriott, 2008).

Therefore, the RBV is imperative to the study of utilisation of external resources such as accounting services and its effect on performance of MSEs (Bennett and Robson, 2004; McIvor, 2009).Resource Based View theory was worthwhile in thisstudy on outsourcing of accounting functions and provide constructive basis upon which to consider the factors that determine the tendency of a firm to outsource accounting task.

2.2.3 Decision Theory

Decision theory is theory about decisions (Hanson, 2005). Decision theory deals with methods for determining the optimal course of action when a number of alternatives are available and their consequences cannot be forecast with certainty. Decision theory is a body of knowledge and related analytical techniques of different degrees of formality designed to help a decision maker choose among set of alternatives in light of their possible consequences. The decision theory is imperious for this study as the financial statements enable a firm to calculate various financial ratios such as return on investment (ROI) and average debtors turnover among others which helps in decision making.

2.3 Empirical Review

2.3.1 Small Accounting Services offered to MSEs by Accountants

Bestowing to the definition of Accounting as provided by Accounting Standards Board (ASB), the primary purpose of any accounting function is that of ongoing financial record keeping,providing information about an economic entity to individuals to aid them in the making of economic decisions.Monetary information of all types ranging from operational expenses, salaries, donations, capital expenditures, investments, cash flow and utilities should be tracked on a monthly basis at a minimum. The ongoing result is the creation of an organization's financial history that can be used in a variety of ways, as it gives managers a snapshot of the firm's financial health and wealth at any given time (Kimel, 2003).

2.3.2 Bookkeeping

Bookkeeping, in business, is the recording of financial transactions, and is part of the process of accounting. Transactions include purchases, sales, receipts and payments by an individual or organization. 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. But while these systems may be seen as "real" bookkeeping, any process that involves the recording of financial transactions is a bookkeeping process (Marseden, 2008).

Bookkeeping is usually performed by a bookkeeper. A bookkeeper is a person who records the day-to-day financial transactions of an organization. A bookkeeper is usually responsible for writing the "daybooks". The daybooks consist of purchases, sales, receipts, and payments. The bookkeeper is responsible for ensuring all transactions are recorded in the correct day book, suppliers' ledger, customer ledger and general ledger (Marseden, 2008).

Many accounting firms employ full-time bookkeepers or junior accountants to handle basic bookkeeping services for clients. These include accounts payable and receivable, billing, payroll, monthly and quarterly taxes, bank reconciliations, general ledger entries, and monthly trial balances. The bookkeepers might also generate financial statements, but the statements are typically reviewed by a CPA in the firm before being presented to a client (Fritz, 2014).

Many MSEs business owners fail to recognize the importance of bookkeeping. Many believe that their current cash position is the only important financial measurement and they fail to recognize the critical data that is available in monthly financial statements. The foundation of accurate financial statements is timely, accurate bookkeeping services. Bookkeeping services include customer billings, customer collections, vendor payables, payroll processing and bank account reconciliation. Some important benefits of consistently maintaining your accounting records include: Improved revenue recognition and quicker conversion of accounts receivable to cash; Better measurement of spending allowing for better cash management; Real time access to account balances including credit cards, credit lines and bank accounts; Readily available customer and vendor records; Better customer and vendor relationships; Clear, concise transaction detail for financial statement preparation and Reduced time required for tax return preparation

2.3.3 Accounting and Auditing

Accounting is defined by the American Institute of Certified Public Accountants (AICPA) as "the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof. Accounting also refers to the process of summarizing, analysing and reporting these transactions (Nzomo, 2002). The financial statements that summarize a large company's operations, financial position and cash flows over a particular period are a concise summary of hundreds of thousands of financial transactions it may have entered into over this period. Accounting is one of the key functions for almost any business; it may be handled by a bookkeeper and accountant at small firms or by sizable finance departments with dozens of employees at larger companies (Needles, Belvered and Marian, 2013).

According to Dicksee (2014), "an audit is an examination of accounting records undertaken with a view to establishing whether they correctly and completely reflect the transactions to which they relate. In some instances, it may be necessary to ascertain whether the transactions themselves are supported by authority."Mautz (2013)defines auditing as being"concerned with the verification of accounting data, with determining the accuracy and reliability accounting statement and reports."

From the Big Four (Deloitte, PricewaterhouseCoopers, KPMG and Ernst & Young) down to small-business accounting firms, the main services offered include accounting and auditing. This means the company will produce financial records, track your revenues and expenses, and provide consulting on your business's overall financial health. The Accounting firms can help MSES with long-range planning, such as buying property or upgrading its infrastructure (non-compliance services). It can also help determine how to break even and what cash-flow needs are. These services help also to plan your next moves, figure out whether you are making a profit and make decisions about your company's growth (Ogunjimi, 2014).

It is clear from the above definitions thatauditing is the systematic and scientific examination of the books of a accounts and records of a business so as to enable the auditor to satisfy himself that the Balance Sheet and the Profit and Loss Account are properly drawn up so as to exhibit a true and fair view of the financial state of affairs of the business and profit or loss for the financial period.The Auditor will have to go through various books and accounts and related evidence to satisfy himself about the accuracy and authenticity to report the financial health of the business.

Auditing is a vital part of accounting. Traditionally, audits were mainly associated with gaining information about financial systems and the financial records of a company or a business. Many businesses require a periodic audit of their finances. This might be a requirement of your investors or written into the by-laws of your incorporation. Accounting firms conduct audits by examining not only financial records, but also the processes and controls in place to ensure records are being properly kept, policies are being adhered to, and your financial practices help support your business goals and are the most efficient way to do so. The goal of an audit is to form an opinion on whether your financial statements are presented fairly and accurately, and in accordance with generally accepted accounting practices.

2.3.4 Tax Filing and Planning

Tax filing involves the completion and submission of tax returns to the national or county government imposing the taxes. A popular specialty area, many accounting firms offer a range of tax services. The firm's accountants can help you figure out a new tax code to help ensure your financial reporting practices are in compliance with current International Reporting Standard

(IRS) regulations, determine your company's tax liability, and make sure you meet filing requirements and deadlines. The firm will prepare your national and county governments tax returns, and can also help you figure out how to reduce the taxes you must pay, making year-round tax accounting services convenient. This service can also be used to help the entrepreneur to do tax planning. Tax planning is the arrangement of the affairs of a taxpayer in such a way as to minimize tax liability at lowest cost without contravening any tax law or regulations. It is determination, in advance, of the tax effect of proposed business actions.

2.4 Role of small accounting practices on MSE performance

A large number of business failures have been attributed to inability of financial managers to plan and control properly the current assets and the current liabilities (Working Capital Management) of their respective firms. In particular, the small firms may face serious problems due to their operating conditions and specific characteristics. The 'resource poverty' that small firms may face creates a situation where the owner manager has many functional responsibilities and financial management may just be one of the responsibilities. Thus management time, in the small firm may be a scarce resource and thus have a high opportunity cost (Howard, 2009).

Business performance dimensions include; business competitiveness in terms of market share, sales growth, customer base, financial performance in terms of profitability, liquidity and capital structure, quality of services in terms of reliability and competence, flexibility in terms of speed of delivery and resource utilization in terms of productivity and efficiency (Fitzgerald,2006).

MSEs Owners have many tasks. One of the most important and vital to the success of their business is keeping good records. According to Howard (2009) many small businesses fail to keep adequate records. This leads to major problems and quite possibly the closing of the business. Evidence shows that keeping good records helps increase the chances of business good performance. In essence, the MSEs owners or manager should be personally involved in record keeping (Sian, 2006). Good record keeping will make them more aware of what is going on in their businesses and it will save them money.

According to Ademola, Samuel, and Ifedolapo,(2012), record keeping is essential to business management. Record keeping involves identification, classification, storage and protection, receipt and transmission, retention and disposal of records for preparation of financial statements. They also included that in record keeping, policies, systems, procedures, operations and personnel are required to administer the records. Record keeping plays a key role in management of knowledge necessary for good business performance. Modern organizations are concerned with the capture, use and storage of knowledge.Wawira (2012) pointed out the following as the most important reasons to set up a good record management: to control the creation and growth of records to reduce operating costs; improve efficiency and productivity; to assimilate new records management technologies and to ensure regulatory compliance.

Accounting records include entries from day to day transactions of business for instance transactions in respect to receipts and expenditure. Records may include a list of organizational assets and liabilities. These help the enterprise to evaluate their performance in a particular period of time usually at the end of a financial period. Proper record keeping provides evidence of how the transaction was handled and substantiates the steps that were taken in order to comply with business standards. Record keeping is the foundation on which a compliance program should be built upon measures should be put in place to capture the documentation and events that take place throughout a transaction commencing from delivery and payment (Reed, 2010).

The main factors that contribute to success or failure of small business are categorised as internal and external factors. The external factors include financing such as the availability of attractive financing, economic conditions, competition, government regulations, technology and environmental factors. The internal factors are managerial skills, workforce, accounting systems and financial management practices. The accounting department is generally viewed as a service unit to support the firm’s operations by providing information on costs and performance indicators (Bowen, 2009).

Enterprises are differentiated by size, sector and the motivations of their owners (Mitchell and Reid, 2000). There cannot be a ‘one size fitsall’ approach to the provision of services and policy formulation. Although it is recognised that management techniques which are relevant for large firms may not be appropriate for the small ones, yet some basic record-keeping and financial awareness are essential for tracking their performance. Financial management skills of small business are very different from those of large ones (Collis and Jarvis, 2002). They found that owner managers follow a wide range of personal and business goals which are inbuilt in the strategies which they adopt and are, therefore, prominent in their firms’ information systems.

A strand of the literature of this study looks at the importance of accounting practices on the basis of its application in assessing the performance of MSEsbusinesses by all stakeholders. Olson, Blomskvisk, Dergard and Jonson(2004) argue that accounting information users in MSEs is on the increase. Another aspect of the studies claim that, in the process of planning for profit, financial information is assembled in a way that can help make informed judgment and take economic decisions concerning the organisation. An accounting system is one of the most effective decision making tools of management. It provides an orderly method of gathering and organizing information about the various business transactions so that it may be used as an aid to management in operating the business.

Kinney (2001) suggests that accounting is one of the most important types of information for decision making both within and outside the organization. He further states that the quality of this information gauged by its relevance and reliability for a particular decision is equally important. Many enterprises record their transactions randomly without adherence to any established systems of accounting; hence making it difficult in keeping track of the cash flows in the enterprises; this call for a regulation on this aspect. Mitchel (2000) argued that accounting information could help MSEs manage short-term problems in such areas as costing, expenditure and cash flow by providing information to support monitoring and control.

An emphasis is laid on the significance of keeping proper books of accounts by Biryabarema (1998) because it enables small businesses to have accurate information on which to base decisions. MSEsproject its purchases and sales, determine break-even point, and make a wide range of other financial analyses based on accounting information. The study contends that, lack of proper accounting records has seen the closure of some businesses and thus makes it a significant issue for business success.

According to Lybaert (1998), the quality of accounting information utilized within an enterprise has a positive relationship with an entity's performance. Similarly, it has been emphasized that there is the need for financial information for small and micro business units due to the volatility normally associated with their situation such as unstable cash and profit positions, and reliance on short-term borrowing (Haber, 2004). Hughes (2003), asserts that's keeping records is crucial for the successful performance of a business. A comprehensive record keeping system makes it possible for entrepreneurs to develop accurate and timely financial reports that show the progress and current condition of the business. With the financial report you can generate from a good recordkeeping system, you can compare performance during one period of time (month, quarter or year) with another period, calculate trends and plan for the business's future. An accurate record of the business' financial performance is vehicle to monitor performance in specific areas.

Knowledge of cash-flows according to Pandy (1991) is very important because cash-flows are inseparable parts of the business operations of firms. Peren and Grant (2000) noted that decision making processes in small scale enterprises are more sophisticated than anticipated but they lacked effective accounting information and control system to support their decisions. Furthermore, there is some evidence to suggest that small firms are aware of the importance of accounting information (International Federation of Accountants, 2006). In spite of this awareness, most owners of small entities in Kenya are not too keen to use standard accounting systems to run the day-to-day activities of their enterprises. The high rate of failure of small scale enterprises in developing countries like Ghana, has generally been traced to poor management and accounting systems employed by these enterprises.

A study by Tanwongsval and Pinvanichkul (2008), found that MSEs ranked 'assessing profitability' second on the continuum of reasons for preparing financial statements well after 'sole purpose of tax preparation' which was ranked first. Cooley and Edwards (1983) reported that MSEs considered maximization of net income (profit) to be the most important financial objective. It also argues that owner in MSEs focus on profitability and the measures of net profit and net current assets when they are evaluating their firms.

Some aspects of the existing research scout into the relationship between record keeping and performance of firms. Tanwongsval and Pinvanichkul (2008) commented on the reasons why MSEs prepare financial statements, and argue that on the list, MSEs rank assessing profitability second to the purpose of tax returns. Owners of MSEs consider profit maximization as the most important financial objective. This has led to the argument that MSE owners pay attention to profitability and measurement of net profit when they are evaluating their firm's performance.

Holmes and Nicholls (1998) concluded that the extent of accounting practices in MSEs depend on a number of factors such as age of business, size of the business, and the nature of the industry. They further point out that most MSE owners and managers engage public accountants to prepare required information. According to Ismail and King (2007), the development of a sound accounting system in MSEs hinge on owners level of accounting knowledge and skills. Some authors have argued that small businesses use professional accounting firms for preparation of annual reports and for other accounting needs (Keasy& Short, 2010. Lalin and Sabir (2010), reports that the main drivers why Micro and Small Firms prepare financial statements is pressure from regulatory authorities.

Lybaert (1998) asserts that bookkeeping which is a tool for financial control enable managers to know the financial positions of their businesses and to take certain control measures to improve corporate performance. It provides a wealth of information that is used by managers, investors, leaders, customers, suppliers, and regulators. An analysis of its statements can highlight a company's strengths and shortcomings, and managers use this information to improve performance.

Accounts constitute part of the conceptual toolkit that person in business use in reflecting results or effects of their past decisions in considering present alternatives by providing technical information on outcomes of previous business actions. The central role played by accounting in rational and informed decision-making is also emphasized in modern accounting textbooks. They further argue that accounts can render an accurate assessment of the relative success of a particular investment and thereby facilitate the pursuit of higher profits. In addition, they also provide a record of current assets and are therefore used by business persons as an indicator of economic means at their disposal. Accounting practices are therefore a critical factor in making rational financial decisions and consequently contribute to the maximization of profits hence better performance. Kinney (2001) posits that accounting is one of the important type of information for decision makers both within and external to the organization. He further states that the quality of this information is equally important. The quality of information is gauged by its relevance and its reliability for a particular decision.

What accounts provide is the information necessary to measure and compare the alternatives and the selection of the alternative associated with the highest expected payoff. They allow someone to estimate the probabilities of success and the possible payoffs related to the various alternatives. Accounting is a technique that helps to organize and make sense of the business world. It would be extremely difficult, if not impossible, to conduct business without due order or recording. And this explains why some small and micro enterprises in Kenya fail; most often it is because they cannot tell the money/financial status of their business (Bowen, 2009).

2.5 Challenges faced by MSEs in Kenya while adopting small accounting practices

2.5.1 Ownership and structure

A vast majority of the small and micro enterprises are owner-run usually with no employees. In a study carried out by Padachi (2012), it was found out that the majority of the MSEs (63%) are family owned business and some 25% do not involve anyone in the decision-making process. In nearly 50% of the cases, the owner manager assumes overall responsibility of the business while another 44% occupy the post of managing director. Thus, in the majority of the cases, the owner manager oversees all the operational aspects of the enterprise and may thus have no time to perform even some of the basic accounting routines.

2.5.2 Size of firms

Padachi (2012) concluded that as expected, the majority of MSEs do not maintain or keep only minimum records. This could be explained by the lesser need for them to comply with the financial reporting requirements unlike the medium and larger firms hence a source of challenge in preparing proper books of accounts.

2.5.3 Level of education

The owner managers' education exposure is expected to influence the take up of accounting routines. In a study carried out by Mbugua, Wambui, Ogada and Kariuki (2013), they found that a fairly well educated class of entrepreneurs with most of the respondents (69.2%) of their target population having attained secondary school education, about 25% had primary level while 8 entrepreneurs accounting for 6.2% had obtained either college or university education. Majority of the respondents had not acquired any management training as out of the 130, only 44 (33.8%) had received training at certificate or diploma level.

The level of education influences the kind of accounting records kept hence a challenge.Important variables which discriminate between firms having accounting systems and firms with minimal accounting systems are the education level of owner manager, outside influence in the decision-making process, market conditions and the presence of accounting department.Ismail and King (2007) conclude that the development of a sound accounting information in MSEs depends on the owners' level of accounting knowledge. Research has shown that majority of the MSEs owners do not have the required accounting knowledge and therefore few able owners use professional firms to account for their business (Ngugi and Bwisa, 2013).

2.5.4 Family involvement

The closeness of family involvement is expected to influence the extent of accounting tasks. Firms with more non-family members and other family members tend to keep formal accounts. Put differently, firms with more close family involvement do not see the need to keep formal accounting records. When business is very small or small, it is part of the family and hence hardly the need for separate accounting system is felt. Minimal information like payables and receivables are maintained. As the business grow in its size, separation of business from family takes place and such firms start to formalise their accounting systems (Padachi, 2012). It is equally possible that the MSEs category of firms do not find the need to keep formal accounting records since they are mostly controlled by family members, where the 'entity concept' is less pronounced. However, on the other hand, they must be made aware of the accrued benefits that follow from a formal accounting system. It may be argued that the 'entity concept' is a starting point for a formal accounting system and that is normally absent in very small and small firms.

2.5.5 Accounting basis

The accounting in MSEs is on cash basis and most proprietors have no bank accounts (Padachi, 2012). Perhaps due to stringent requirements to open bank accounts and besides they need every coin to plan and meet all the business and family expenses at the early stages of business operations (Bowen, 2009). No formal accounting records are maintained and records are kept mainly through memory and the records kept are those of debtors with dates indicating the date of borrowing and due date for likely payment. Business sales income generated by the small and micro enterprises is used for stock repurchase, and family use in education for immediate and extended family, housing, and revolving savings fund for informal groups in which persons from similar business or localities form instead of saving their funds in banks (Wawira, 2012).

2.5.6 Cost of preparing Financial Accounting Statements

Jayabalan and Dorasamy (2009) argue that the high cost of hiring professional accountants leaves the MSEs owner or managers with no option but to relegate accounting information management. Accounting and marketing pose major challenges to management of MSEs and recommends that managers or owners in MSEs must learn about record keeping and accounting.Guo and Feng (2008) who highlighted that it is expected that perceived usefulness directly affects cost–benefit perception and thus where MSEs owners perceive AISs to be useful in relation to cost; they are likely to adopt it rather than those that perceive costs as outweighing the usefulness of AISs.

2.6 Conceptual Framework

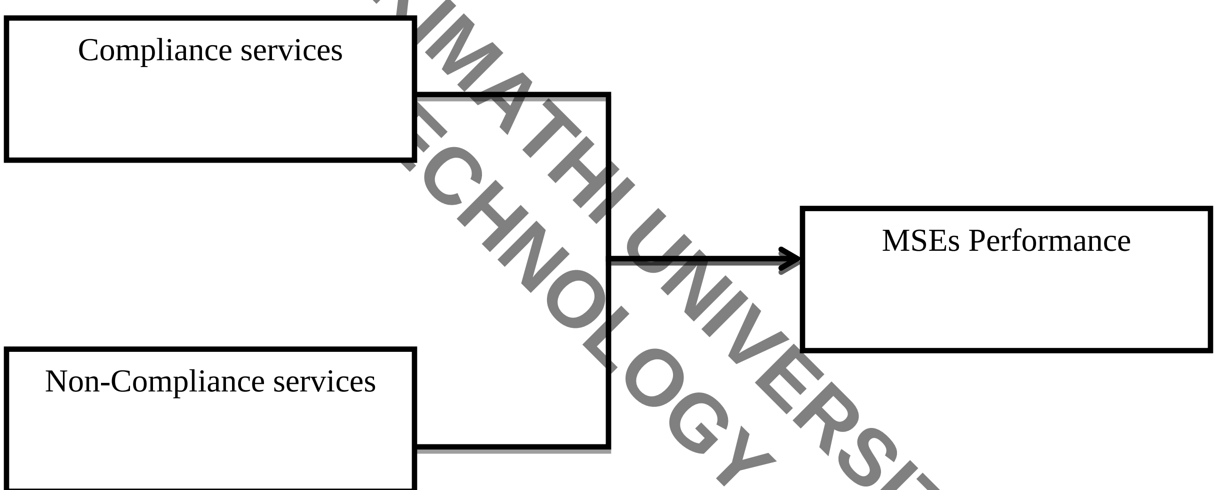


***Figure 1*: Conceptual Framework of the effects of small accounting practices on the MSEs Performance.**

Compliance services

Compliancemeans conforming to a rule, such as a specification, policy, standard or law(Greg, 2004). In terms of accounting, compliance simply means making sure that a company's financial matters are being handled in accordance with set laws and regulations. At any point in time, an entity should be able to provide accurate information about its accounts to its shareholders or to regulating authorities, such as the Securities and Exchange Commission (SEC). To ensure compliance, it’s necessary to have processes in place for recording, verifying, and reporting the value of a company’s assets, liabilities, debts, and expenses.

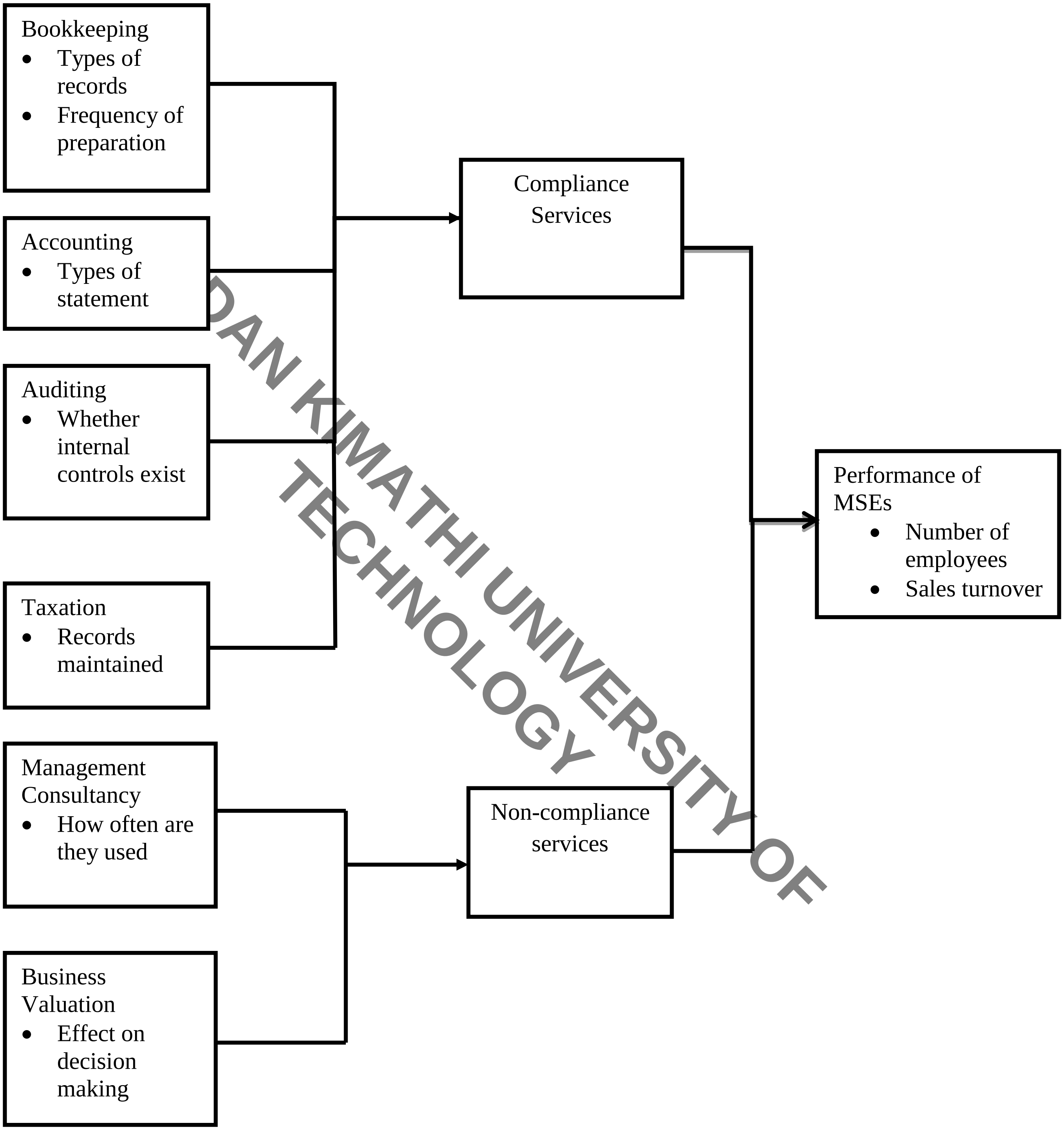
Non-Compliance Services

Non-compliance services include management consulting is the practice of helping organizations to improve their performance. It operates primarily through the analysis of existing organizational problems and the development of plans for improvement. Organizations may draw upon the services of management consultants for a number of reasons, including gaining external advice and access to the consultants' specialized expertise (Institute of Management Consulting, 2014).

As a result of their exposure to and relationships with numerous organizations, consulting firms are also said to be aware of industry "best practices", although the specific nature of situations under consideration may limit the transferability of such practices from one organization to another.

Consultancy firms may also provide organizational change management assistance, development of coaching skills, process analysis, technology implementation, strategy development, or operational improvement services. Management consultants often bring their own proprietary methodologies or frameworks to guide the identification of problems and to serve as the basis for recommendations for more effective or efficient ways of performing work tasks.

2.7 Operational Framework



Independent Variables **Dependent Variables**

Figure 2:**Operational framework for the specific independent variables studied**

Performance of MSEs

Performance of business refers to the ability of business to meet the required standards, increased market share, improve facilities, ensuring returns on profitability, and total reduction and once this is achieved, a business is believed to be performing effectively (Flolick, 2006).

Bookkeeping

Bookkeeping is that part of accounting that is concerned with recording data. Until about one hundred years ago all accounting data was kept by being recorded manually in books, hence the term 'bookkeeping'. By definition, bookkeeping is the process of recording a company's financial transactions and the first basic step of the accounting process. The accounting process involves classifying, reporting and analyzing of data and none of it can take place if there is no organized and accurate bookkeeping.

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/and 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, (Wawira, 2012).

Accounting

The central role played by accounting in rational decision-making is to reflect the results or effects of their past decisions in considering present alternatives by providing technical information on outcomes of previous business actions (Mwangi, 2011). Kinney (2001) posits that accounting is one of the important type of information for decision makers both within and external to the organization. The quality of information is gauged by its relevance and its reliability for a particular decision. In addition, they also provide a record of current assets and are therefore used by businessmen and women as an indicator of economic means at their disposal. Accounts are therefore a critical factor in making rational financial decisions and consequently contribute to the maximization of profits hence enterprise performance.

Accounting is a technique that helps to organize and make sense of the business world. It would be extremely difficult, if not impossible, to conduct business without due order or recording. And this explains why some MSEs in Kenya fail; most often it is because they cannot tell the money/financial status of their business (Bowen, 2009).

Auditing

Audit is an independent examination of financial information of an entity so as to be able to give an opinion whether the financial information portrays a true and fair view of the entity. There are two types of audit; external and internal audit. Internal Audit is a type of internal control. Internal controls are methods or procedures adopted in a business to: Safeguard its assets; Ensure financial information is accurate and reliable; Ensure compliance with all financial and operational requirements; and generally assist in achieving the businesses' objectives. Due to the business scale, human resource, financial and its own conditions, many MSEs are unwilling to establish the standard internal control system. They believe that establishing internal control system is a high cost method, which will bring heavy burden to the enterprise and maybe without significant results cannot compare with the managers manage all aspects of business directly.

Taxation Filling Services

With a number of taxes as per the Income Tax Act of Kenya, current and continuing tax information has become vital to the effective economics of business management hence performance. The assessment and planning of tax is very closely linked with financial accounts. A certified accountant offers services such as preparing the returns for tax purposes, representing assesses before the income tax authorities, tax planning and rendering general advice on tax to clients (Day, 2000).

Consultancy Services

This is the practice of helping organizations to improve their performance, operates primarily through the analysis of existing organizational problems and the development of plans for improvement. Organizations may draw upon the services of management consultants for a number of reasons which include; gaining external advice and access to consultants' specialized expertise. In the recent past, Accountants play a valuable role in assisting business organization to utilise resources effectively, increase their efficiency and achieving their goals and objectives. Accountants offer consulting services such as; developing management information systems, designing budgetary and control system, determining measures of effective utilisation of capital, installing cost accounting systems, review of financial planning and policies for effective utilisation of resources and assist in the preparation of feasibility studies of new projects and expansion schemes.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This section provides an overview of the methods which were used in the study. Areas covered include research design, population of the study, sample design, data collection instruments, methods of data collection and data analysis techniques.

3.2 Research Design

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari and Garg, 2014). Nachmias and Nachmias (2008) assert that research design refers to the master plan that will be used in the study in order to answer the research questions. Mouton (2011)explains a research design as follows: "The building of a new house starts with an idea…shape, size, and number of bathrooms…These ideas are given to the architect. The architect transforms these ideas into a blueprint of the prospective house… In essence the research design is the blueprint of the prospective research study at hand."The researcher useddescriptive survey in collecting primary data because it is concerned with answering questions such as who, how, what, which, when, how much and to what extent (Cooper and Schindler, 2009).

A descriptive study was carefully designed to ensure complete description of the situation, making sure that there is minimum bias in the collection of data and to reduce errors in interpreting the data collected (Ghauri and Gronhaug, 2010). This method is also flexible, appropriate, and efficientbecause it gives the researcher an opportunity to try various sources and methods of data collection. Its outcome clearly defines a research problem, research questions and a set of objectives thus it's appropriate.

It was a descriptive study that was concerned with finding out the effect of small accounting practices on the performance of MSEs in Nakuru Town. According to Kothari and Garg (2014),a survey refers to the method of securing information concerning phenomena under study from all or a selected number of respondents of the concerned universe. As widely accepted, the survey method is a fact-finding study that involves adequate and accurate interpretation of findings (Cooper and Schindler, 2009).

3.3 Population of the study

According to Mugenda and Mugenda (2003), a population in statistics is the specific population about which information is desired. A population is a well-defined or set of people, services, elements and events, group of things or households that are being investigated. The sampling frame is the list of respondents from which the samples were drawn. It provides a complete listing of the whole population (Naoum, 2007).

The population of the study comprisedboth registered and un-registered MSEs in Nakuru Central Business District (CBD). The researcher chose Nakuru Central Business District because of the thrive of the MSEs economy in the town, Nakuru Central Business District also has the second largestnumber of Certified Public Accountants (CPAs) firms offering accounting services to enterprisesand also the wide knowledge of the researcher's experience with the town. The target population of 35, 290 (Nakuru County Revenue office) respondents weredecided on, consisting of entrepreneurs in MSEs sector.

Table 3.1: Target Population

Category	Target population	Percentage (%)
Micro Enterprises	26, 279	74
Small Enterprises	9, 011	26
Total	**35, 290**	**100**

3.4 Sample Design

A sample design is a definite plan, technique or procedure for obtaining a sample from a given population (Kothari and Garg, 2014). Collis and Hussey (2013)explain that a sample is made up of some members of a targeted population, an extract from a targeted population, which is still representative of the targeted population. Griffiths (2009) affirms that a sample is a selection of items taken from a population and is chosen so that it is fairly representative of the population as a whole; it is a representative subset of the population.The researcher used stratified sampling to select a sample that was representative of the entire population of the study.

Naoum (2007), points out that stratified sampling method ensures the inclusion of small groups which otherwise could have been omitted entirely by other sampling methods. Further, Kothari and Garg (2014) recommends stratified sampling because it is accurate, easily accessible, divisible into relevant strata and it enhances better comparison; hence representation across strata. This technique was used to ensure that the target population is divided into different homogenous strata.

3.5 Sample Size

Using Yamane (1967) formula, there was a sample selection of 100MSEs, comprising 74micro enterprises and 26 small enterprises.The enterprises in the samples were selected purposively. Purposive sampling was adopted to achieve high response rates and to enhance sample representation of the population.

The formula states:

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

Where: n-Sample size

N-population

e-Margin of error of 0.1

The sample size for Micro enterprises $n = \frac{26,279}{1+35290(0.1)^2} = 74$

The sample size for Small enterprises $n = \frac{9011}{1+35290(0.1)^2} = 26$

Table 3.2: Research Sample

Category	Target population	Sample Size (%)
Micro Enterprises	26, 279	74
Small Enterprises	9011	26

Total	**35,290**	**100**

3.6 Data collection instrument and procedures

3.6.1 Questionnaire

Gay, Mills and Airasian (2006) explain that descriptive data are usually collected using questionnaires. Others like Simons (2009) also identified questionnaires and interviews as crucial instruments of data collection in descriptive research. This study adopted both the open ended and closed type of questionnaires, the questionnaires were administered by the researcher himself who interviewed the respondents and recorded their responses and collected primary quantitative data.According to Cooper and Schindler (2008)questionnaires can be administered by hand, by computer assisted software(online), telephone, post(snail mail) or by means of outsourcing it to data collection entities at a cost.

3.6.2 Method of data collection

The questionnaires were self-administered by the researcher. Before the actual data collection the researcher was given an introductory letter from the School of Business, Management and Economics of Dedan Kimathi University of Technology. The initial visit to the selected MSEs, companies and institutions was therefore the researcher's introduction and familiarization to the sampled firms, as well sought their consent to the study.

3.7 Pilot Study

Nachmias and Nachmias (2008) notes that pilot-testing is an important step in the research process because it reveals vague questions and unclear instructions. It also captures important comments and suggestions from the respondents that enable the researcher to improve efficiency of instruments, adjust strategies and approaches to maximize response rate. A piloting or a pre-test was done on MSEs operating in Nyeri Town. The data obtained during pre-testing was analyzed and the results used to develop dummy tables. The pilot study results indicated that small accounting practices have an effect on the performance of MSEs. The results weregiven to the supervisors who read and made corrections and improvements to ensure the research's validity.

3.7.1 Reliability and validity of data collection tools

The reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials. Validity is the extent to which the instruments will capture what they purport to measure (Dooley and Lindner, 2003andUlin, Robinson and Tolley, 2003). Validity of the instruments is critical in all forms of researches and acceptable level is largely dependent on logical reasoning, experience and professionalism of the researcher (Cooper and Schindler, 2008). To uphold content validity, the researcher discussed the contents of the questionnaires with the supervisors before going to the field. This ensured that vague and unclear questions were eliminated or corrected.

3.8 Data Analysis

Data collected was mainly quantitative with a minimal element of qualitative data. The quantitative data was appropriately analysed using descriptive statistics and linear regression. The raw data from the field was entered into the SPSS software, coded and cleaned before the analysis begun. The descriptive statistics tools in SPSS helped the researcher to describe the data and determine the extent to be used. Linear Regression analysis was used to analyse the relationship between the variables. Measures of central tendencies and frequency distributions were also generated. The results were presented using charts, graphs and frequency tables.

The linear regression formula which was used in this study was

$Y= a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$

Where Y= performance (Dependent variable)

X_1= bookkeeping

X_2= accounting

X_3= auditing

X_4= taxation

X_5= consultancy

e = error

a= constant

$b_1, b_2, b_3, b_4$and$b_5$are the coefficients of the independentvariables

This study used sales growth turnover of the enterprise to measure performance. The performance was arrived at by comparing the annual average sales turnover of the year before adoption of small accounting practicesand after adoption.

The data for bookkeeping, accounting, auditing, taxation and consultancy services was collected using a Likert Scale with a scale of 1 to 5. Qualitative data was also collected on a nominally scaled data "Yes" or No answers.

CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the analysis and interpretations of the data collected from the MSEs in Nakuru Central Business District, on the effect of small accounting practices on the performance of MSEs. The specific tools of analysis and the results are presented in form of tables, frequency distribution and percentages. In verifying the relationship between each of the independent variable and the dependent variable,bivariate linear and multiple linear regressions analysis were used. The interpretation of the research findings is based on the outputs from the SPSS as per the objectives of the study.

4.2 Response Rate

Questionnaires were personally distributed by the researcher to the sampled target population and out of the 100 Micro and Small Enterprises, 57 Micro enterprises and 15 Small enterprises responded and data obtained was analyzed. Thus the response rate for this study was 72%. This response rate compares well with past studies such as Wawira (2012) study which attained a response rate of 84%. While most scholars do not seem to agree on the acceptable level of response rate to form the basis for data analysis, Nachmias and Nachmias (2008) have pointed that survey researches face a challenge of low response rate that rarely goes above 50%. Accordingly they suggest that a response rate of 50% and above is satisfactory and presents a good basis for data analysis. The current study therefore falls under the very good range as it attained 72% response rate.

4.3 Background Information

Table 4.1: Gender of the respondents

	Frequency	Percentage(%)
Male	49	68.1
Female	23	31.9
Total	**72**	**100**

Table 4.1 shows that a total of 72 informants formed the respondents of the study. There were a total of 49 males which accounted for 68.1% operating the MSEs of who 34 of them operated Micro Enterprises and 15 of them operated Small enterprises. There were a total of 23 females which accounted for 31.9% of the respondents of who 20 of them operated Micro Enterpriseswhile 3 of them operated Small Enterprises. This is a clear indication that most of the MSEs are operated by men with a mean of 0.68.

4.3.1 Years of Operation

The age of an organization has been used in many studies as a measure of an organization's maturity or level of structural stability or establishment.

Table 4.2: Years of operation

Range of Years	Frequency	Percentage (%)
1-2 years	28	38.9
2-3 years	28	38.9
3-5 years	11	15.3
over 5 years	5	6.9
Total	**72**	**100**

From Table 4.2, 38.9% of the enterprises had both operated for a period of between 1-2 years and 2-3 years. 15.3% of the business accounted for those which had operated for a period of between 3 and 5 years. A 6.9% of the enterprises were those premises which had operated for over five years.

The results found shows that most of the enterprises are new in the business environment notably at the introduction stage hence low level of structural and system development and not yet well established. The outcomes also illustrate conclusions made by other studies which indicate that most MSEs do not survive for more than five years to be true (Kenya National Bureau of Statistics, 2007). Over 77% of the enterprises are still in the introduction and growth stage, few are at maturity stage.

Table 4.3: Nature of Business

Nature of Business	Micro Enterprises	Small Enterprises	Total	Percentage (%)
Kiosk	28	2	30	41.7
Chemist	13	3	16	22.2
Hotel/Café	7	5	12	16.7
Garage	3	1	4	5.6
Mini-Supermarket	1	4	5	6.9
Coffee Shop	2	0	2	2.8
Car Wash	3	0	3	4.2
Total	**57**	**15**	**72**	**100**

From Table 4.3, a total number of 57 Micro and 15 Small enterprises were involved in the study. Among the Micro enterprises there were 28 Kiosks, 13 Chemists, 7 Hotels/Cafes, 3 garages, 1 Mini-Supermarket, 2 coffee shops and 3 car washes. The Small Enterprises included 2 Kiosks, 3 Chemists, 5 Hotels/Cafés, 1 garage, 4 Mini-Supermarkets, 0 coffee shops and 0 car wash. In terms of percentage frequency, the study involved 80.5% of micro and 19.5 % of the Small enterprises. This means that a larger percentage of the respondents operate Kiosks (Micro) probably because of the few legal procedures required to start a kiosk and the less labour requirement.

Table 4.4: Number of Employees

Number of employees	Frequency	Percentage (%)
0-5 Employees	40	55.6
6-10 Employees	17	23.6
11-30 Employees	12	16.7
31-50 Employees	3	4.2
Total	**72**	**100**

From Table 4.4, 55.6% of the enterprises have employees between 0-5 employees, 23.6% accounted for those enterprises with 6-10 employees. 12 enterprises had 11-30 employees while 3 had 31-50 employees. This means that 57 of the enterprises are Micro enterprises and 15 are Small enterprises.

Table 4.5: Management of the business

	Frequency	Percentage (%)
Owner manager	64	88.9
Employee manager	8	11.1
Total	**72**	**100**

Table 4.5 indicates that 88.9% of the enterprises are managed by the owners themselves while 11.1% are managed by employee managers. This indicates that most of the enterprises are managed by those who own them. The need to employ an employee manager increases as the entity grows especially into a Small enterprise as the number of transactions and operations increases also.

4.4 Analysis and Interpretation per Objective

4.4.1 Effect of Book keeping on Financial Performance

The First objective this study sought to determine the relationship between book keeping and MSEsperformance. In order to achieve this, the study tested the null hypothesis;This was achieved by testing the following hypothesis:

HO_1: There is nosignificant relationship between book keeping and MSE's performance.

Book keeping was measured in terms of the extent to which the enterprise prepared books of original entry such as general journal, ledgers, cash book and trial balance. The extent to which keeping records as a requirement to aid in decision making and impact on business performance was also measured. Performance was measured using sales turnover.

Table 4.6: Do you record transactions

	Frequency	Percentage (%)
No	10	13.9
Yes	62	86.1
Total	**72**	**100**

Table 4.6 revealed that 86.1% of the respondents record their transactions while 13.9% do not record their transactions. This is not in agreement with past studies which showed that most MSEs do not record their transactions. The revelation that majority (86.1%) keep records of their transactions became interesting to assess the extent of their accounting practices. This also implies that efforts are being made by this Micro and Smallscale enterprise to gather some accounting information despite their low level of accounting skills. On the other hand, while the 13.9% who do not keep any records points that they face challenges in maintaining records and therefore calls for providing them with basic accounting training so as to equip them with accounting skills and knowledge. The need to prepare a complete set of financial statements increases as an entity grows, especially into medium size.

Table 4.7: Book Keeping Responsibility

	Frequency	**Percentage (%)**
Self	49	68.1
Outsourcing	2	2.8
Business Accountant	11	15.3
Not applicable	10	13.9
Total	**72**	**100**

Table 4.7 indicates that 68.1% of the owners solely maintain their books of accounts, 2.8% outsource it and 15.3% have a business accountant. Owner-managers dominate preparers of financial statements in MSEs and as found out in the study, most of the owner-managers are not financially literate and they may be resorting to this practice to avoid the cost of hiring accountants, confirming the findings of Everaert (2006).

In testing the hypothesis, it was deemed necessary first to test the effect of book keeping on performance of MSEs before adoption of accounting practices.

Table 4.8: Model fitness of Book keeping and MSE performance before adoption of book keeping

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.769[a]	.592	.586	.851

a. Predictors: (Constant), bookkeeping

From the regression results above, the R value was 0.769 indicating that there was a positive relationship between book keeping and MSEs performance. The R squared (R^2) value of 0.592 shows that 59.2 percent of MSEs performance is explained by book keeping. The remaining 40.8 percent is explained by other strategies put in place by the enterprises in order to enhance their performance.

Table 4.9: ANOVA of book keeping and sales

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	72.388	1	72.388	99.939	.000[b]
Residual	49.978	69	.724		
Total	**122.366**	**70**			

a. Dependent Variable: What were your Annual Sales before Adoption

b. Predictors: (Constant), Bookkeeping

The model was significant with the F ratio = 99.939 at $p < 0.05$. This is an indication that book keeping has a positive effect on MSE performance and the effect is significant.

Table 4.10: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.717	.316		-2.265	.027
Bookkeeping	**.797**	**.080**	**.769**	**9.997**	**.000**

a. Dependent Variable: Level of Sales before adoption

Book keeping has a positive and significant effect on MSE performance at β= 0.769 at $p < 0.05$.with a significance level of 0.000. This means that as book keeping use is increased, business performance improved. This meant that, as book keeping is increased, there was an increase in MSEs performance.

Table 4.11: Model Fitness of Book keeping and MSE performance after adoption of Book Keeping

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.863[a]	.745	.742	.818

a. Predictors: (Constant), bookkeeping

From the regression results above, the R value increased from 0.769 before adoption to 0.863 after adoption of book keeping. This indicates that there was a positive relationship between book keeping and MSEs performance. The R squared (R^2) value of 0.745 shows that 74.5 percent of MSEs performance is explained by book keeping. The remaining 25.5 percent is explained by other strategies put in place by the enterprises in order to enhance their performance.

Table 4.12: ANOVA of Book Keeping and Level of Sales

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	135.161	1	135.161	202.027	.000[b]
Residual	46.163	69	.669		
Total	**181.324**	**70**			

a. Dependent Variable: Level of ales after adoption

b. Predictors: (Constant), bookkeeping

The model was significant with the F ratio = 202.027 at $p < 0.05$. This is an indication that book keeping has a positive effect on MSE performance and the effect is significant.

Table 4.13: Coefficients of Book keeping and Level of Sales after adoption

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.675	.304		-2.218	.030
Bookkeeping	**1.089**	**.077**	**.863**	**14.214**	**.000**

a. Dependent Variable: what were your annual sales after adoption

b. Predictor: Bookkeeping

Book keeping has a positive and significant effect on MSE performance at $\beta = 0.863$ at $p < 0.05$. This means that as book keeping is increased, business performance improved. This meant that, as book keeping is increased, there was an increase in performance.

The results of the regression analysis indicated a positive moderating effect of book keeping on the performance of MSEs. The findings therefor, show that book keeping influences the performance of MSEs positively. The null hypothesis, which states that there is no significant relationship between book keeping and MSEs performance is therefore rejected

4.4.2 Effect of Accounting and Performance of MSE

Objective of this study sought to determine the effect of accounting and of performance of MSE's. In order to test this hyppthesis, this study tested the null hypothesis that;

HO_2: There is no significant relationshipbetween accounting and performance of MSEs.

Accounting was measured using a Likert scale of one to five on the extent to which the MSEs prepared statement of financial performance, statement of financial position and cash flow statements. The research also sought to find out the opinion of the respondents regarding how financial statements affect the performance of their enterprises.

Table 4.14: Business Operation Experience

	Frequency	Percentage(%)
No	52	72.2
Yes	20	27.8
Total	**72**	**100**

From Table 4.14 above, it is vibrant that 72.2% of the respondents had not operated a business enterprise before. 27.8% had operated a business before.

Table 4.15: Business failure History

	Frequency	Percentage (%)
No	2	2.8
Yes	18	25.0
Not applicable	52	72.2
Total	**72**	**100**

Table 4.15 shows that 18 out of the 20 enterprises failed. This accounts for 90% of the 27.8% of the respondents who operated a business before meaning that most MSEs fail. Just as it is in the formal business sector, the survival MSEs is dependent on favourable monetary and fiscal policies, the cost of doing business and the availability of a market for their products. In brief, the success of any business depends on how it manages the rapidly changing external environment.

Table 4.16: Reason for Business Failure

	Frequency	Percentage 9%)
Lack of records to track performance	18	25
Not applicable	54	75
Total	**72**	**100**

Table 4.16 directs that all the 18 business enterprises which failed attributed the cause of the failure to lack of keeping records to track performance. This means that most of the entrepreneurs who had operated businesses before have learnt that record keeping is paramount for measuring performance hence record keeping improves performance. This is in agreement to various literatures on performance and survival of MSEs.

Table 4.17: Contribution of improper book keeping to business failure

	Frequency	**Percentage (%)**
No	2	2.8
Yes	18	25.0
Not applicable	52	72.2
Total	**72**	**100**

Table 4.17 shows that 18 of the respondents agreed that lack of maintaining proper books of accounts led to the failure of their business enterprises. Absence of proper books of accounts is a source of inefficient use of accounting information to support performance measurement by MSEs. This made it difficult for the entrepreneurs to calculate their business profit efficiently and hence uninformed decisions were made and the business failed consequently.

Table 4.18: Model fitness of Accounting and MSEs performance before adoption of financial statements

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.652[a]	.425	.417	1.010

a. Predictors: (Constant), accounting

From the regression results above, the R value was 0.652 indicating that there was a positive relationship between accounting and MSEs performance. The R squared (R^2) value of 0.425 shows that 42.5 percent of MSEs performance is explained by accounting. The remaining 57.5 percent is explained by other strategies put in place by the enterprises in order to enhance their performance.

Table 4.19: ANOVA of Accounting and Annual Level of Sales

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	52.014	1	52.014	51.014	.000[b]
Residual	70.352	69	1.020		
Total	**122.366**	**70**			

a. Dependent Variable: Level of annual sales before adoption

b. Predictors: (Constant), accounting

The model was significant with the F ratio = 51.014 at $p < 0.05$. This is an indication that accounting has a positive effect on MSEs performance and the effect is significant.

Table 4.20: Regressions Coefficients of Accounting and Performance of MSE

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-4.475	.954		-4.693	.000
Accounting	**2.032**	**.284**	**.652**	**7.142**	**.000**

a. Dependent Variable: what were your annual sales before adoption

The beta values exhibited the degree to which each predictor variable affects the outcome when all other predictors are held constant. Accounting has a positive and significant effect on MSE performance at $\beta = 0.652$ at $p < 0.05$. This means that as accounting is increased, MSEs performance improved in a positive approach. This meant that, as accounting increased, there was an increase in performance.

Table 4.21: Model Fitness of Accounting and Performance of MSE after adoption of financial statements

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.758[a]	.575	.568	1.057

a. Predictors: (Constant), accounting
b. Level of Sales

From the regression results above, the R value was 0.758 indicating that there was a positive relationship between accounting and MSEs performance. The R squared (R^2) value of 0.575 shows that 57.5 percent of MSEs performance is explained by accounting. The remaining 42.5 percent is explained by other strategies put in place by the enterprises in order to heighten their performance.

Table 4.22: ANOVA of Accounting and Level of Sales after Adoption and Performance of MSE

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	104.198	1	104.198	93.220	.000[b]
Residual	77.126	69	1.118		
Total	**181.324**	**70**			

a. Dependent Variable: Level of Annual sales after adoption

b. Predictors: (Constant), accounting

The model was significant with the F ratio = 93.220 at $p < 0.05$. This is an indication that accounting has a positive effect on MSEs performance and the effect is significant.

Table 4.23: Regression Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-6.140	.998		-6.150	.000
Accounting	**2.876**	**.298**	**.758**	**9.655**	**.000**

a. Dependent Variable: Annual Level of sales after adoption
b. Accounting

Accounting has a positive and significant effect on MSE performance at β= 0.758 at $p < 0.05$. This means that as accounting is increased, MSEs performance improved in a positive slant. This meant that, as accounting increased, there was an increase or improvement in performance

From the regression results above, the R value was 0.758 after adoption as compared to 0.652 before adoption of accounting. This was an indication that there was a positive relationship between accounting and MSEs performance. The F ratio =93.220 at $p < 0.05$ was a clear indication that accounting had a positive effect on MSEs performance and the effect is significant. This prompted the rejection of the null hypothesis which stated that there was no significant relationship between accounting and MSEs performance.

4.4.3: Influence of Auditing onPerformance of MSE

The third objective of the study was to determine the influence of auditing on MSEs performance. In ordert o achieve this objective, the study tested the null hypothesis that;

HO_3: There is no significant relationship between auditing and performance of MSEs.

The questions on auditing were majorly qualitative and therefore no regression was done but descriptive statistics was mainly used to measure this hypothesis. The research also sought to find out the opinion of the respondents regarding the effect of auditing of financial statements on the performance of their enterprises.

Table 4.24: Presence of Internal Controls

	Frequency	Percentage (%)
No	59	81.9
Yes	13	18.1
Total	**72**	**100**

Table 4.24 shows that 81.9% of the respondents agreed to the fact that they do not have internal controls in their enterprises. This is because most MSEs are owner managed hence the owner of the enterprise is the custodian of all the financial and non-financial information hence no need for internal controls such as audit. Internal control systems are also expensive to install and maintain. For example, the physical control security systems require qualified personnel to maintain them and constant servicing. Internal controls are important in safe guarding of assets. This explains why most enterprises failed as lack of internal controls leads to mismanagement of resources. The rest, who said that they had internal controls (18.1%), may not have good internal controls but basic internal controls.

Table 4.25: Nature of Internal Controls

	Frequency	Percentage(%)
Internal Audit	13	18.1
Not applicable	59	81.9
Total	**72**	**100**

Table 4.25 indicates that internal audit was found to be the most available internal control present in the MSEs. Few Micro enterprises have internal controls. 13 Small enterprises which accounted for 18.1% had internal audit. This is because of the cost of developing and installing internal controls in the enterprises is high.

The finding confirms that most MSEs do not prepare a complete set of financial statements with some not preparing any financial statement at all henceforth there is no need for internal audit.

Table 4.26: Audit of Books of Accounts

	Frequency	Percentage (%)
No	13	18.1
Yes	13	18.1
Not applicable	46	63.9
Total	**72**	**100**

Table 4.26 disclosed that out of the 13 respondents who have internal audit, all of them answered that they had their books of accounts subjected to audit procedures. This means that they go to a greater extent of improving the credibility of their financial statements. There still exists the risk that the accounting records maintained and the financial statements prepared by management might not be accurate, free from bias and reflect the true financial position and performance of the company and this prompts the need for an audit procedure.

Table 4.27: Purpose of Audit

	Frequency	Percentage (%)
To ensure the books portray a true and fair view of the business and safeguard assets	13	18.1
Not applicable	59	81.9
Total	**72**	**100**

From Table 4.27, it was found out that the major reason why most entrepreneurs carry out auditing procedures is to ensure that their books of accounts portray a true and fair view of the business financial position and to also safeguard their assets. The separation that exists between the owners and management forces the absentee owners to institute control measures to ensure honesty of their business stewards.

Table 4.28: Frequency of Audit

	Frequency	Percentage (%)
Yearly	13	18.1
Not applicable	59	81.9
Total	**72**	**100**

Most of the enterprises prepare their financial statements at the end of the year and that is why all the 13 enterprises that carried out audit procedures on their books of accounts did the audit procedure yearly.

4.4.4 Effect of Tax Accounting and Performance of MSEs

The fourth objective of this study sought to determine the relationship between Taxation and MSEs performance. In order to achieve this objective, the study tested the null hypothesis that;

$H0_4$: There is nosignificant relationship between Taxation and financial performance of MSEs.

Tax accounting effect on the performance of MSEs was measured using a Likert scale of one to five by asking the respondents the extent to which tax accounting influenced recording keeping.

Table 4.29: Model fitness of Tax accounting and performance of MSEs performance before adoption

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.489[a]	.240	.229	1.161

a. Predictors: (Constant), tax accounting
b. Level of Annual Sales

From the regression results above, the R value was 0.489 indicating that there was a positive relationship between Tax accounting and MSEs performance. The R squared (R^2) value of 0.240 showed that 24.0 percent of MSEs performance is explained by taxation. The remaining 76 percent was explained by other strategies put in place by the enterprises in order to enhance their performance.

Table 4.30: ANOVA of Tax Accounting and Performance of MSE's

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	29.313	1	29.313	21.735	.000[b]
Residual	93.054	69	1.349		
Total	**122.366**	**70**			

a. Dependent Variable: Level of Annual Sales before adoption
b. Predictors: (Constant), tax accounting

The model was significant with the F ratio = 21.735 at $p < 0.05$. This indicates that accounting has a positive effect on MSEs performance and the effect is significant.

Table 4.31: Regression Model Coefficients of Tax Accounting and Performance of MSE's

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.883	.330		2.676	.009
Tax accounting	**.477**	**.102**	**.489**	**4.662**	**.000**

a. Dependent Variable: what were your annual sales before adoption
b. Tax Accounting

Accounting has a positive and significant effect on MSE performance at β= 0.489 at $p < 0.05$. This means that as accounting is increased, MSEs performance improved positively. This meant that, as accounting increased, there was an increase in performance.

Table 4.32: Model Fitness of Tax accounting and performance of MSEs after adoption of Tax Accounting

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.590[a]	.348	.339	1.309

a. Predictors: (Constant), tax accounting
b. Annual Level of Sales

From the regression results above, the R value was 0.590 indicating that there was a positive relationship between Tax accounting and MSEs performance. The R squared (R^2) value of 0.348 shows that 34.8 percent of MSEs performance is explained by taxation. The remaining 65.2 percent is explained by other strategies put in place by the enterprises in order to enhance their performance.

Table 4.33: ANOVA of Tax Accounting and Performance of MSE after Adoption of Tax Accounting

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	63.120	1	63.120	36.846	.000[b]
Residual	118.204	69	1.713		
Total	**181.324**	**70**			

a. Dependent Variable: what were your annual sales after adoption

b. Predictors: (Constant), tax accounting

The model was significant with the F ratio = 36.846 at $p < 0.05$. This is an indication that tax accounting has a positive effect on MSEs performance and the effect is significant.

Table 4.34: Regression Model Coefficients of Tax Accounting and Performance of MSE after adoption

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.370	.372		3.684	.000
Tax accounting	**.700**	**.115**	**.590**	**6.070**	**.000**

a. Dependent Variable: Annual sales after adoption
b. Tax Accounting

The beta values show the degree to which each predictor variable affects the outcome when all other predictors are held constant. Tax accounting has a positive and significant effect on MSE performance at β= 0.590 at $p < 0.05$. This means that as tax accounting is increased, MSEs performance improved in a positive approach. This meant that, as accounting increased, there was an increase in performance.

From the regression results above, the R value was 0.590 after adoption indicating that there is a positive relationship between tax accounting and MSEs performance. The F ratio =36.846 at p

<0.05 which was a clear signal that tax accounting had a positive effect on MSEs performance and the effect is significant. This provoked the rejection of the null hypothesis which stated that there is no significant relationship between tax accounting and MSEs performance

4.4.5 Effect of Non-Compliance Services and performance of MSEs

Objective five of this study assessed the relationship between non-compliance services offered by accountants and MSEs performance. In order to establish this relationship, this study tested the null hypothesis that;

$H0_5$: There is no significant relationship between non-compliance services and the performance of MSEs.

Non-compliance services included services such as advisory services, management consultancy, and asset valuation among others. This was measured by asking responding to rate with a Likert scale of one to five how consultancy services influences decision making in their enterprises, how it influences adoption of accounting and performance.

Table 4.35: Extent of outsourcing Accountancy Services from accounting firms

	Frequency	Percentage(%)
No	63	87.5
Yes	9	12.5
Total	**72**	**100**

Table 4.35 indicates that 87.5% of the respondents have never outsourced accounting services from accounting firms while the remaining 12.5% have outsourced. This shows that most MSEs enterprises do not engage accounting services on their day to day operations and this explains why most MSEs fail as they do not take into account advisory services from accountants.

Table 4.36: Model Fitness of Non-compliance services and performance of MSEs before adoption

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.051[a]	.003	-.012	1.330

a. Predictors: (Constant), Non-compliance
b. Outsourcing of Non-Compliance services

From the regression results above, the R value was 0.051 indicating that there was a positive relationship between Non-compliance services and MSEs performance though minimal. The R squared (R^2) value of 0.003 shows that 0.3 percent of MSEs performance is explained by non-compliance. The remaining 99.7 percent is explained by other strategies put in place by the enterprises in order to enhance their performance.

Table 4.37: ANOVA of Outsourcing of Non- compliance services and Performance of MSE

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.321	1	.321	.182	.671[b]
Residual	122.045	69	1.769		
Total	**122.366**	**70**			

a. Dependent Variable: Level of Annual Sales Before adoption

b. Predictors: (Constant), Non-compliance

The model was not significant with the F ratio = 0.182 at $p < 0.05$. This is an indication that non-compliance services a positive effect on MSEs performance but the effect is not significant.

Table 4.38: Regression Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.768	1.216		1.453	.151
Non-compliance	**.118**	**.277**	**.051**	**.426**	**.671**

a. Dependent Variable: what were your annual sales before adoption

Non-compliance had a positive but not significant effect on MSE performance at $\beta = 0.051$ at $p < 0.05$. This means that as non-compliance services are increased, MSEs performance improved positively. This meant that, as non-compliance services were increased, there was an increase in performance.

Table 4.39: Model fitness of Non-compliance services and Performance MSEs after adoption

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.055[a]	.003	-.011	1.619

a. Predictors: (Constant), noncompliance
b. Level of Annual Sales after Adoption

From the regression results above, the R value was 0.055 indicating that there was a positive relationship between Non-compliance services and MSEs performance. The R squared (R^2) value of 0.003 shows that 0.3 percent of MSEs performance is explained by non-compliance. The remaining 99.7 percent is explained by other strategies put in place by the enterprises in order to enhance their performance.

Table 4.40: ANOVA of Non-compliance services and Performance of MSE after adoption

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.557	1	.557	.213	.646[b]
Residual	180.767	69	2.620		
Total	**181.324**	**70**			

a. Dependent Variable: what were your annual sales after adoption

b. Predictors: (Constant), noncompliance

The model was not significant with the F ratio = 0.213 at $p < 0.05$ when other variables were held constant. This is an indication that non-compliance services a positive effect on MSEs performance but the effect is not significant.

Table 4.41: Regression Model Coefficients$_a$

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.746	1.480		1.855	.068
Non-compliance	**.156**	**.338**	**.055**	**.461**	**.646**

a. Dependent Variable: what were your annual sales after adoption
b. Adoption of Non-compliance services

Non-compliance had a positive and insignificant effect on MSE performance at β= 0.055 at $p < 0.05$. This means that as non-compliance services are increased, MSEs performance improved positively. This meant that, as non-compliance services were increased, there was an increase in performance.

From the above results, it was be concluded that the null be accepted because the outcomes indicated that there was a positive relationship between non-compliance and MSEs performance but the relationship was not significant at β= 0.055 at $p < 0.05$.

4.4.6 Effect of Small Accounting Practices on the Performance of MSEs

In order to determine the combined effect of all the study independent variables (Book keeping, accounting, auditing, tax accounting and non-compliance services on the study ependenta variable (performance of MSEs, the weighted score of each of the predictors were regressed on the dependent variable. The resultant multiple linear regression output;, that is, Model fitness, ANOVA and Regression model coefficients are presented in Table4.42, Table 4.43 and Table 4.44 respectively.

Table 4.42: Model Summary Small accounting practices and MSEs Performance before adoption

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.779[a]	.607	.583	.854

a. Predictors: (Constant), non-compliance, tax accounting, accounting, bookkeeping
b. Dependent Variable: Level of Annual Sales

From the regression results above, the R value was 0.779 indicating that there was a positive relationship between small accounting practices and MSEs performance. The R squared (R^2) value of 0.607 shows that 60.7 percent of MSEs performance is explained by small accounting practices. The remaining 39.3 percent is explained by other strategies put in place by the enterprises in order to enhance their performance.

Table 4.43: ANOVA of Small Accounting Practices and Performance of MSE

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	74.254	4	18.564	25.466	.000[b]
Residual	48.112	66	.729		
Total	**122.366**	**70**			

a. Dependent Variable: what were your annual sales before adoption

b. Predictors: (Constant), noncompliance, tax accounting, accounting, bookkeeping

The model was significant with the F ratio = 25.466 at $p < 0.05$. This is an indication that small accounting practices had a positive effect on MSEs performance.

Table 4.44: Regression Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	**Std. Error**	**Beta**		
(Constant)	.259	1.254		.206	.837
Bookkeeping	.822	.161	.793	5.119	.000
Accounting	.079	.457	.026	.174	.863
Tax accounting	-.026	.101	-.027	-.262	.794
Non-compliance	-.289	.183	-.125	-1.575	.120

a. Dependent Variable: Level of Annual Sales Before adoption

Book keeping had the highest positive and significant effect on MSEs performance at $\beta = 0.793$ at $p < 0.05$. This means that as book keeping use increased MSEs performance improved. Accounting also had a positive effect on the performance of MSEs but it was not significant at $\beta = 0.026$ at $p < 0.05$. On the other hand, non-compliance had the highest negative and insignificant effect on corporate MSEs performance with $\beta = -0.125$ at $p < 0.05$. This meant that, as non-compliance services were engaged, the change on MSEs performance decreased. Tax accounting also had a negative effect on MSEs performance at $\beta = -0.027$ at $p < 0.05$. This meant that as tax accounting increased, there was no increase in MSEs performance.

Table 4.45: Model Fitness of Small Accounting Practices and MSEs Performance after adoption

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.877[a]	.769	.755	.796

a. Predictors: (Constant), noncompliance, tax accounting, accounting, bookkeeping
b. Dependent Variable: Level of Annual Sales

From the regression results above, the R value was 0.779 before adoption of small accounting practices and it increased to 0.877 after adoption. This was an indication that there was a positive relationship between small accounting practices and MSEs performance. The R squared (R^2) value of 0.769 showed that 76.9 percent of MSEs performance was explained by small accounting practices. The remaining 23.1 percent is explained by other strategies put in place by the enterprises in order to enhance their performance.

Table 4.46: ANOVA of Small Accounting Practices and Performance of MSE

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	139.456	4	34.864	54.959	.000[b]
Residual	41.868	66	.634		
Total	**181.324**	**70**			

a. Dependent Variable: what were your annual sales after adoption

b. Predictors: (Constant), noncompliance, tax accounting, accounting, bookkeeping

The model was significant with the F ratio = 54.959 at $p < 0.05$. This is an indication that small accounting practices had a positive effect on MSEs performance.

Table 4.47: Regression Model Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-8.603E-005	1.170		.000	1.000
Bookkeeping	.982	.150	.778	6.559	.000

Accounting	.424	.427	.112	.995	.324
Tax accounting	.041	.094	.035	.437	.663
Non-compliance	-.415	.171	-.148	-2.426	.018

a. Dependent Variable: what were your annual sales after adoption
b. Predictors: Small Accounting Practices

From the coefficients table above, bookkeeping had the highest positive and significant effect on MSEs Performance at $\beta = 0.778$ at $p < 0.05$. This means that as bookkeeping use increased, MSEs performance improved. Accounting also had a positive effect at $\beta = 0.112$ at $p < 0.05$ but it was not significant on the performance of MSEs. Tax accounting had positive and insignificant effect on MSEs performance at $\beta = 0.035$ at $p < 0.05$. Non-compliance on the other hand had a negative effect on MSEs performance but it was significant $\beta = - 0.148$ at $p < 0.05$.

Given the results of the multi-regression, a model was developed as follows

$Y= -8.603 + 0.982_{X1} + 0.424_{X2} + 0_{X3} +0.410_{X4}-0.415_{X5} + 1.170$

Where Y= performance (Dependent variable)

X_1= bookkeeping

X_2= accounting

X_3= auditing

X_4= taxation

X_5= consultancy

e = error

a= constant

0.982, 0.424, 0.041, 0.415 and-*0.415*are the coefficients of the independentvariables

Table 4.48: Challenges Faced By Entrepreneurs In Adoption Of Small Accounting Practices

	Frequency	Percentage(%)
Cost of accounting services	41	56.9
Lack of accounting knowledge and skills	24	33.3
Lack of accounting regulation on MSEs	2	2.8
Number and size of transactions	1	1.4
ownership structure	4	5.6
Total	**72**	**100**

Cost of accounting services emerged as the most challenge which is faced by MSEs operators in the process of adopting proper record keeping with 56.9%. Lack of accounting knowledge was the second with 33.3%. Lack of accounting regulation, number and size of transactions and ownership structure accounted for 2.8%, 1.4% and 5.6% respectively. The results reveal that MSEs do not maintain proper books of accounts because of cost of accounting services; owners lack the necessary accounting knowledge and skills, lack of accounting regulations on MSEs, number and size of MSEs transactions and the ownership structure.

The reasons given by the respondents as to why they don't practice recordkeeping in their enterprises are not unique to Kenya. Lack of accounting knowledge on the part of the managers or the owners of MSEs has been cited in various studies in the world ((Everaert et al. (2006). Cost and time constraint is an obvious reason given by many business owners but researchers and scholars have emphasized the business operators should persevere and keep records of their business transactions for the purpose of efficient management

CHAPTER FIVE

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings as discussed in chapter four. It also draws conclusions based on the findings as per the objectives of the study and recommendations for policy, practice and further research. This research was an attempt to understand the effect of small accounting practices on the performances of MSEs.

5.2 Summary

The summary presented here is based on the findings and it is done as per the objectives of the study.

5.2.1 Book keeping

The first objective of the study was to examine the effect of book keeping on the performance of MSEs. In the quest to ascertain the relationship between book keeping and MSEs performance, the researcher tested the hypothesis on the relationship between the two variables. The results of the linear regression indicated a strong positive and statistically significant relationship between book keeping and MSEs performance with R of 0.769 and R squared value was 0.592 before adoption of the accounting practice. After adoption, the R was 0.863 and the R squared value was 0.745 at a confidence level of 95%. This meant that book keeping had a positive effect on the performance of MSEs with a significance level of 0.000. It is on the basis of these findings that Ho_1 was rejected. The overall results indicated that book keeping had a significant effect on the performance of MSEs.

5.2.2 Accounting

The second objective of the study was to assess the effect of accounting on the performance of MSEs. In the imperative to ascertain the relationship between accounting and MSEs performance, the researcher tested the hypothesis on the relationship between the two variables. Overall results of the linear regression indicated a strong positive and significant relationship between accounting and MSEs performance with R value of 0.652 and R squared was 0.425 before the enterprise adopted accounting practice. The regression analysis results indicated that the R value increased to 0.758 and the R squared to 0.575 after adoption with a significance level of 0.000 at a confidence level of 95%. It is on the foundation of these findings that *Ho*$_2$ was rejected.

5.2.3 Auditing

The third objective of the study was to investigate the effect of auditing on the performance of MSEs. This was addressed by testing hypothesis *Ho*$_3$. The results of the descriptive statistics pointed out that most MSEs do not engage auditing procedure. The researcher found out that most of the MSEs do not keep proper books of accounts but they tend to keep books of original entry such as receipts and because of these most did not engage auditors because most MSEs are managed by the owners hence there is no need for audit as the owners are the custodians of all the financial information of the business. This led to the acceptance of *Ho*$_3$.

5.2.4 Tax Accounting

The researcher wanted to establish whether there was a relationship between tax accounting and MSEs performance. This was measured by testing hypothesis *Ho*$_4$. The results of the linear regressions established that the R value and R squared value before adoption were 0.489 and 0.240 respectively. There was also an increase in the R and R squared values after adoption to 0.590 and 0.348 with a significance level of 0.000. This meant that tax accounting had a positive and significant effect on MSEs performance when other factors are kept constant. It is on the basis of these findings that *Ho*$_4$ was rejected. Tax accounting had positive and insignificant effect on MSEs performance at $\beta = 0.035$ at $p < 0.05$ when multiple regression was done.

5.2.5 Non-compliance

Non-compliance services were measured in terms of the effect of advisory and valuation services among others on the decision making hence performance of MSEs enterprises. The fifth objective of the study was to explore the relationship between non-compliance services and MSEs performance. The results of the linear regression signposted a weak positive and insignificant relationship between non-compliance and MSEs performance with R of 0.051 and R squared value was 0.03 before adoption of the accounting practice. After adoption, the R was 0.055 and the R squared value was 0.03 with a significance level of 0.646 at a confidence level of 95%. This prompted the acceptance of *Ho*$_5$.

5.3 Discussion.

5.3.1 Book keeping

Book keeping was found to have an effect on the performance of MSEs. This is in agreement to research findings by Ademola, Samuel, and Ifedolapo, (2012) who concluded that record keeping is essential to business management. Failure to record business financial transactions (bookkeeping) leads to collapsing of the business within few months of its establishment (Germain, 2009). In essence, recordkeeping is one thing an entrepreneur cannot afford to ignore. The foundation of accurate financial statements is timely, accurate bookkeeping services.Wawira (2012) pointed out the following as the most important reasons to set up a good record management: to control the creation and growth of records to reduce operating costs; improve efficiency and productivity; to assimilate new records management technologies and to ensure regulatory compliance.

5.3.2 Accounting

The research findings revealed that accounting was not a statistically significant variable on MSEs performance. This is because if the owners of MSEs do not perform book keeping which is the foundation of accurate financial statements then preparation of financial statements will be jeopardized. An emphasis is laid on the significance of keeping proper books of accounts by Biryabarema (1998) because it enables small businesses to have accurate information on which to base decisions. Hughes (2003), asserts that's keeping records is crucial for the successful performance of a business. A comprehensive record keeping system makes it possible for entrepreneurs to develop accurate and timely financial reports that show the progress and current condition of the business.

The research findings were also in agreement to Lybaert (1998), the quality of accounting information utilized within an enterprise has a positive relationship with an entity's performance. It was also found that most MSEs are largely cash based businesses meaning inadequate accounting records and audit trail. The study also revealed that for those entrepreneurs who had operated business before, most of their businesses failed because they did not prepare financial statements. It has been recognised that appropriate accounting information is important for a successful management of any business entity, whether large or small (European Commission (EC), 2008). Further evidence was consistent with Kinney (2001) suggests that accounting is one of the most important types of information for decision making both within and outside the organization.

5.3.3 Auditing

The study revealed that most MSEs do not engage auditing procedures. This objective was not regressed. Auditing was found not to be statistically significant to MSEs performance. It is clear thatauditing is the systematic and scientific examination of the books of accounts and records of a business so as to enable the auditor to satisfy himself that the Balance Sheet and the Profit and Loss Account are properly drawn up so as to exhibit a true and fair view of the financial state of affairs of the business and profit or loss for the financial period.Most MSEs did not prepare final books of accounts which mean that there was no examination of the books of accounts.

5.3.4 Tax Accounting

Findings from the study indicated that most of the micro enterprises do not prepare financial statements for tax purposes. However, it was found that most Micro enterprises prepare financial statements because it is a requirement by Kenya Revenue Authority to file yearly returns. This influences Micro enterprises to do book keeping, prepare financial statements, carry out audit on the books of accounts and also use the audited books to file returns. If an enterprise prepares books of accounts for tax purpose, it can be able to do tax planning which involves arrangement of the affairs of a taxpayer in such a way as to minimize tax liability at lowest cost without contravening any tax law or regulations. Since tax is an expense to the entrepreneur, tax avoidance can enable the entrepreneur reduce this expense hence increase income and improve profitability. The findings are also in agreement with Lalin and Sabir (2010) who reported that the main drivers why Micro and Small Firms prepare financial statements is pressure from regulatory authorities.

5.3.5 Non-compliance services

The findings revealed that non-compliance have a positive effect on the performance of MSEs though the effect is minimal. The study revealed that most MSEs are not even aware about the non-compliance services offered by accounting firms. The few who declared that they had engaged accountants for non-compliance services said that they received advisory services which improved their decision making hence good business performance. The findings also revealed that most MSEs are willing to outsource non-compliance services because they believed that the services improve business performance**.**

5.4 Conclusions

5.4.1 Effect of Book keeping on MSEs performance

The study concluded that book keeping has an effect on MSEs performance. It was also concluded that many MSEs record their transactions randomly without adherence to any established systems of accounting; hence making it difficult in keeping track of the cash flows in the enterprises; this call for a regulation on this aspect.

5.4.2 Effect of Accounting on MSEs performance

The study concluded that accounting is an important variable which affects MSEs performance even though most MSEs do not keep complete accounting records because of lack of accounting knowledge and the cost of hiring accountants. As a result, there is inefficient use of accounting information to support financial performance measurement by MSEs. This made it difficult for the entrepreneurs to calculate their business profit efficiently. Failure of keeping of accurate records was highly blamed on the lack of accounting skills and knowledge.

5.4.3 Effect of Auditing on MSEs performance

Most MSEs do not subject their books to auditing procedure. The study concluded that auditing does not affect the performance of MSEs. This is mainly because most MSEs are managed by owner managers hence the custodian of all the information on the enterprise hence no need for audit.

5.4.4 Effect of Tax accounting on the performance of MSEs

The study showed that tax accounting does not have an effect on the performance of MSEs because it is more of a requirement of the law than a procedure to improve business performance.

5.4.5 Non-compliance Services and MSEs performance

The research findings led to the conclusion that non-compliance services have an effect on MSEs performance though the effect is minimal.

5.5 Recommendations

i) The findings vibrantly exhibited that there is generally lack of accounting knowledge and skills of recordkeeping by the owners or managers of the MSEs. Although some are willing to learn about the recordkeeping others are not motivated enough and therefore recommended that some incentive be put in place in terms of policy to force them practice the recordkeeping for their enterprises. The study therefore recommends that the ministry responsible for MSEs should initiate accounting training programs for entrepreneurs running micro and small businesses.

ii) The study also recommends that the accounting firms should make an effort to provide a special package for MSEs owners on preparation of financial statements. The package should be cost friendly to the MSEs operators and tailor made for their unique businesses.

5.6 Areas of further study

i) The study was carried out to explore on the effect of small accounting practices on the performance of MSEs in Nakuru Central Business District (CBD). Nakuru CBD is located in NakuruCounty. The researcher suggests that similar studies can be carried countrywide.

ii) The researcher also advocates for a further study on the factors that affect adoptionof small accounting practices by MSEs in Kenya.

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APPENDICES

APPENDIX I Letter of introduction

DEDAN KIMATHIUNIVERSITY OF TECHNOLOGY
P.O. BOX 657, 10100 – NYERI KENYA
TELEPHONE: 0713-835965 EMAIL: schoolofbusiness@dkut.ac.ke
OFFICE OF THE CHAIRMAN, DEPARTMENT OF BUSINESS ADMINISTRATION

TO: Whom it may concern

FROM: Chairman, Business Administration Department

DATE: 18th December 2014

SUBJECT: ASSISTANCE IN DATA COLLECTION

This is to certify that **CHEPKELYO HENRY BARTOO**– Registration No. **B211 – 02 – 1500/2014**is registered in the Masters of Business Administration Programme at Dedan Kimathi University of Technology. In partial fulfillment of the requirements for the award of the Degree, the candidate is required to undertake an empirical study to enable her write a thesis.

To this end, **CHEPKELYO HENRY BARTOO** iscarrying out a study entitled**"*Effects of small Accounting practices on the performance of Micro and small enterprises (MSE'S) in Nakuru town."***This is to request you to offer her the necessary support to enable him collect primary data, which will be used for academic purposes only.

Thank you.

Dr. Ofunya, F.A., PhD., FCIM (UK)
CHAIRMAN, BUSINESS ADMINISTRATION DEPARTMENT

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Better Life Through Technology

APPENDIX II Questionnaire

PART I: PROFILE OF THE ENTERPRISE

Please place a cross (x) or a tick (√) in the appropriate box

1. Please indicate your gender

Male	[ ]
Female	[ ]

2. Years of operations:

1-2 Years	[ ]
2-3 Years	[ ]
3-5 Years	[ ]
Over 5 Years	[ ]

3. Nature of the business

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

4. Number of Employees in your business

0-5 Employees	[ ]
6-10 Employees	[ ]
11-30 Employees	[ ]
31-50 Employees	[ ]

5. Who manages this business?

Owner Manager	[ ]
Employee Manager?	[ ]

PART II: Small Accounting Services offered by Accountants

Bookkeeping

1. Do you record your transactions?

Yes	[ ]
No	[ ]

2. Who maintains your books of accounts?

Self	[ ]
Outsourcing	[ ]
Business Accountant	[ ]

3. To what extent do you prepare the following records?

Description	**Very great extent (5)**	**Great extent (4)**	**Moderate extent (3)**	**Low extent (2)**	**No extent at all (1)**
Journals					
Ledger Accounts					
Cash Book					
Trial Balance					

4. To what extent do you agree with the following statements?

Description	**Very great extent (5)**	**Great extent (4)**	**Moderate extent (3)**	**Low extent (2)**	**No extent at all (1)**
I prepare the records because it is a requirement					
The records are an aid in decision making					
I use the records to acquire loan					
The records have an impact on my business performance					

5. How often do you prepare them? Please tick where appropriate

Description	**Daily**	**Weekly**	**Monthly**	**Quarterly**	**Yearly**
Journals					
Ledger Accounts					
Cash Book					
Trial Balance					

6. If No, why don't you maintain them?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

Accounting

1. To what extent do you prepare the following financial accounting statements?

Description	**Very great extent (5)**	**Great extent (4)**	**Moderate extent (3)**	**Low extent (2)**	**No extent at all (1)**
Income Statement					
Statement of financial position					
Cash flow statements					

2. What were your annual average sales in the past two years? (estimate)

2013 ………………………………………………………………………………………

2012 ……………………………………………………………………………………...

3. Have you ever before operated a business like this one before elsewhere in the country?

Yes [ ]

No [ ]

4. If yes, has it ever failed?

Yes [ ]

No [ ]

5. Why did it fail?

…………………………………………………………………………………………………

…………………………………………………………………………………………………..

6. Was lack of maintaining proper books of accounts among the causes of the failure?

Yes [ ]

No [ ]

7. What is your opinion about the following?

Statement	**Strongly Disagree(1)**	**Disagree(2)**	**Somewhat Agree(3)**	**Agree(4)**	**Strongly Agree(5)**
Preparation of Books of accounts is key to the success of a business					
Some business for example micro and small businesses do not require recordkeeping.					
It is always good to keep record of all transactions in my business					
It is waste of money to employ an accountant to help in recordkeeping					
My business has been very successful even if I don't practice recordkeeping.					
I would really appreciate if given a chance to learn more about recordkeeping.					

Auditing

1. Does your business have internal controls?

Yes [ ]

No [ ]

2. What kinds of internal controls?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

3. Do you have your books of accounts audited?

Yes [ ]

No [ ]

4. If yes, what is the purpose of carrying out the auditing procedure?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

5. How often is the auditing done?

Monthly [ ]

Quarterly [ ]

Half-Yearly [ ]

Yearly [ ]

Tax Accounting

1. To what extent does tax influence record keeping?

Very great extent	(5)	[ ]
Great extent	(4)	[ ]
Moderate extent	(3)	[ ]
Low extent	(2)	[ ]
No extent	(1)	[ ]

2. Which accounting records do you maintain for tax purposes?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

3. Why do you keep such records?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

Non-Compliance Services

1. Have you ever outsourced accountancy services from accounting firms?

Yes	[ ]
No	[ ]

2. If yes, what kind of accounting services?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

3. To what extent do you agree with the following statements?

Description	**Very great extent (5)**	**Great extent (4)**	**Moderate extent (3)**	**Low extent (2)**	**No extent at all (1)**
Consultancy services influence decision making?					
Consultancy services influence adoption of accounting practices					
Consultancy services affect MSEs performance					

PART IV: CHALLENGES

1. What challenges do you face in record keeping for your current business?

   ………………………………………………………………………………………………………
   ………………………………………………………………………………………………………
   ………………………………………………………………………………………………………
   ……………………………………………………………………………………………………..

2. In your opinion, what are the solutions to those challenges?

   ………………………………………………………………………………………………………
   ………………………………………………………………………………………………………
   ………………………………………………………………………………………………………

Thank you very much for sacrificing your precious time to answer my questions.