

UNIVERSITY OF CAPE COAST

THE IMPACT OF MANAGEMENT ACCOUNTING PRACTICES ON  
FINANCIAL PERFORMANCE OF SMALL AND MEDIUM  
ENTERPRISES IN THE CAPE COAST METROPOLIS IN THE CENTRAL  
REGION OF GHANA

STEPHEN KWAME YEBOAH-MANTEY

2017

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BY

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## DECLARATION

### **Candidate's Declaration**

I hereby declare that this dissertation is the results of my own original research and that no part has been presented for another master degree in this university or elsewhere except for the references and quotations which have been acknowledged.

Candidate's Signature: ..... Date.....

Name: Stephen Kwame Yeboah-Mantey

### **Supervisor's Declaration**

I hereby declare that the preparation and the presentation of this dissertation were supervised in accordance with the guidelines on the supervision of dissertation laid down by the university of Cape Coast.

Supervisor's Signature: ..... Date: .....

Name: Mr. Seyram Kawor

## ABSTRACT

The study sought to assess the impact of management accounting practices on financial performance of small and medium enterprises (SMEs) in the Cape Coast Metropolis in Ghana. The study adopted a descriptive design with cross sectional survey and is both quantitative and qualitative in nature. The study used SPSS statistical procedure to analyze the data collected through the administration of questionnaires and did content analysis for the interview guide. The qualitative data collected were analyzed using open-coding session of what is referred to as a line-by-line analysis in order to detect prominent concepts. Simple random sampling and purposive sampling techniques were used to select the participants. The sample for the study consisted of 338 SME owners and 7 bank managers. Triangulation was a technique used to strengthen the robustness of a qualitative and quantitative study. The study found out that management accounting practices enabled the SMEs to produce and sell high quality goods and that promoted increased productivity and profit growth rate and boosted SMEs performance level. The result also indicated that access to credit and buying bulk purchases from cheaper sources enhanced business prospects in profit maximization and smoothened SMEs financial performance. It is concluded that SMEs owners bought high quality products from cheaper sources but had competitive market environment in selling their goods. It is recommended that SMEs should sell goods that have greater demand in the market and engage in competitive advertisement.

KEY WORDS

Management Accounting Practices

Management

SMEs Financial Performance

Microfinance Institutions

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DEDICATION

To my lovely wife: Evelyn (Mrs) and my children: Lawrence, Maame Brago,  
Maame Adomaa, Awo Kwantemaa and Joshua Yeboah-Mantey.

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## LIST OF ABBREVIATION

SMEs- Small and Medium Enterprises

MAPs- Management Accounting Practices

MNC – Multinational Corporation

ROCE - Return on Capital Employed

CVP - Cost-Volume- Profit Analysis

NBSSI - National Board of Small Scale Industries

## CHAPTER ONE

### INTRODUCTION

#### **Background to the study**

Current management accounting practices (MAPs) have incorporated financial and non-financial techniques that aim at providing crucial information to financial performance of SMEs. Small and medium enterprises (SMEs) make up the vast majority of the business population in most countries in the world therefore they constitute a vital force in modern information-based economies (Mitchell & Reid, 2000). Small and Medium Enterprises use management accounting techniques to assess their operations in this 21<sup>st</sup> century (Horngren, et al., 2009). These include budgeting, variance analysis and breakeven analysis. These methods help Small and Medium-Scale Enterprises to plan, direct and control operating costs and to achieve its financial performance. It is recognized that management accounting practices are important to the success of the SMEs (Horngren, et al., 2009). Management accounting is the application of appropriate techniques and concepts in processing the historical and projected economic data of an entity to assist management in establishing a plan for reasonable economic objectives and in the making of rational decisions with a view towards achieving SMEs financial performance.

Management accounting practices in small and medium enterprises (SMEs) has been accepted worldwide as instruments of economic growth and development in achieving financial performance (Osotimehin, Jegede, Akinlabi & Olajide, 2012). Globally, small and medium enterprises (SMEs) play crucial roles in the support of both developed and developing economies.



About 75% of the work force in Europe are employed by SMEs (Rathnasiri, 2014). In Korea, SMEs represent 99% of the total number of companies and corresponded to 43% of the country's exports. A study by Shandong University of Technology in China, showed that 60-80% of new jobs are solely generated by the SME sector annually.

The phenomenal growth of SMEs in most countries (Chironga, Dahl, Goland, Pinshaw & Sonnekus, 2012) and in Zimbabwe is mainly due to the people's quest to be self-employed and not because it is easy to establish and manage. The story is not different in countries such as Ghana, predictably so because of their inability to attract investments in large scale and heavy capital demanding ventures. A total estimate of 90 percent of businesses in Ghana are micro, small and medium scaled (Ghana Banking Survey, 2013) and contributed 70 percent to GDP in 2012 (Abor & Quartey, 2010). This is as a result of low capital formation coupled with the reluctance of foreign investors and Multinational Corporations (MNCs) to invest in underdeveloped economies, due largely to the unattractive business environments of these economies. The result is that, the size of businesses in many low income countries is limited to micro to medium in scale. In Uganda, SMEs account for 90 percent of Uganda's non farming workforce. (Ugandan Investment Authority Report, 2008) cited in (Abanis et al, 2013).

SMEs are regarded as a catalyst in the socio-economic development of any country (Jagongo, 2012). They are veritable vehicles for the achievement of national macroeconomic objective in terms of employment generation and enhancement of apprenticeship business management training (Osotimehin *et al*, 2012). SMEs have not performed creditably well and they have not played

expected significant role in economic growth (Osotimehin *et al*, 2012). This situation has been of great concern to the public and government and this is the factor that motivated the current study.

The World Bank (2012) determined that around 200 million people are currently unemployed, and 600 million jobs need to be created by 2020 mainly in developing countries. A number of those jobs are expected to be generated in the small and medium enterprises (SMEs) sector given its high labour intensity. For instance, Stein, Goland, and Schiff (2010) stated that in developing countries formal small and medium enterprises (SMEs) represent around 45 percent of employment and 33 percent of GDP. In turn, the Organization for Economic Cooperation and Development (2004) stated that in their economies, SMEs provide 60-70 percent of employment while accounting 55 percent of the GDP. In general, SMEs are often considered as engines for innovation, economic growth, employment and social mobility as stated by (Innovations for Poverty Action [IPA], 2013, Ayyagari, Demirguc-Kunt, & Maksimovic, 2011).

Dawuda and Azeko (2015) observed that poor records keeping or non-availability of financial records lead to mismanagement of resources and poor cash management and this do have negative effect on the growth of SMEs leading to the collapse of some of them. According to Van Aardt *et al.* (2008) and Rankhumise (2010) poor records keeping makes it difficult to differentiate between business transactions and personal transactions. It is the responsibility of business owners and managers to avoid using assets of the business for personal use at the expense of the business.

A primary purpose of preparing financial statement is to make available accurate information to owners and managers of SMEs for use in measuring financial performance. Thus, the significance of financial performance measurement to any business, big or small, is very imperative (Amoako et al, 2014). Haryani (2012) postulates that as profit maximization is most often the main concern of business entities, the accounting bases, concepts and principles adopted have to capture and report all the relevant accounting information to ensure consistency in its measurement. Owing to dire consequence that improper accounting practices can have on SMEs producing incomplete financial statements, it is imperative that the accounting practices of SMEs supply holistic and pertinent financial information needed to improve economic decisions made by entrepreneurs (Amidu & Abor, 2005).

According to Amidu and Abor (2005) SMEs play a unique role in countries industrial development through employment creation, income generation and ensuring equitable distribution of limited resources. In Ghana, the SME sector's contribution has fallen short of its potential due largely to not only access to capital but also lack of effective and quality management and coordinated effort to support SME operations (Acolatse, 2012). Most of the management decisions that spell the doom of many small businesses are related to financial and accounting issues. Mostly the last thing small business owners think of is careful accounting, which should be the first. Most SMEs are plagued with lot of worries-from making payroll, buying products and selling their services, they can put themselves at a competitive disadvantage by not being accounting oriented from the beginning (Acolatse, 2012).

In Ghana, 90% of businesses are small and medium enterprises which make the pivot of the country (Acolatse, 2012). They are essentially the drivers of the Ghanaian economy through their contribution to income, employment generation and ultimately economic growth. A survey conducted by Aryeetey (2001) reports that SMEs represent the production force of Ghana. They contribute about 85% of the manufacturing employment of Ghana. They are noted to provide 70% to Ghana GDP and represent about 92% of enterprises in Ghana. Small and medium scale enterprises face a numerous challenges and these challenges can be summed up to lack of knowledge since most SMEs lack knowledge in keeping records of business operations (E-services, 2011). This menace has caused the folding up of most SMEs especially in the Cape Coast Metropolis of Ghana. Record keeping is an integral part of business accounting. It entails accumulating, analyzing and classifying of financial data in the accounting system on a daily basis (Hagenimana, 2008). Accounting records include entries from day to day transactions that involves receipts and expenditure and in some cases a list of organizational assets and liabilities (Reed, 2010).

According to Longenecker, Moore, Petty, & Palich (2006), an accounting system must offer accurate and all-inclusive report of business activities and transactions, offer easy assessment between current and previous year's data. It makes the financial statement easy to be used by bankers, potential creditors, management and it ease filing of reports and tax returns to government regulatory agencies. Keeping proper accounting record help minimize the degree of error, waste, theft, employee misconduct and do significantly contribute to the growth and sustainability of SMEs.

### **Statement of the problem**

Despite the benefits derived from keeping appropriate accounting system and engaging the services of qualified accountants, most SMEs try to do without them resulting in poor growth, financial loss and mismanagement of resources (Fisher & Reuber, 2000). The management accounting of SMEs is problematic in the sense that most of these SMEs are short lived despite their importance to the economy. As Fisher and Reuber (2000) aptly puts it: it is in the interest of the public for SMEs to thrive. Unfortunately, a large number of SMEs in Ghana do not survive. This is undoubtedly a worrying phenomenon. It is argued that a larger number of SMEs do not survive beyond their fifth anniversary (Westhead & Matlay, 2005). This is supported by a study undertaken by Boachie et al (2005) which showed that 60% of SMEs in Ghana fail within the first five years of existence. A number of reasons have been suggested as accounting for the non-performance of SMEs (BICA, 2013; Musa & Ibrahim, 2014; Adebisi & Gbegi, 2013).

The Financial challenges have continued to militate against SMEs success in Ghana because they have no habit of accessing the service of the accountant. Adequate accounting practices are necessary for appropriate financial management practices (Watson, 2003). In the emerging business environment, the accountant initiates the system of good financial management, thereby, providing far-reaching remedies for SMEs financial challenges. Most studies on the impact of management accounting on financial performance in SMEs in Ghana concentrate on SMEs access to funds and dwell rather too little on the relevance of accounting information in ameliorating financial challenges of SMEs (ACCA, 2013). The additional

pressure that is brought to bear on Ghanaian businesses such as high competitive turbulence as a direct consequence of trade liberalisation; and unfavourable macroeconomic variables (inflation, high interest rates, unfavourable terms of trade and high exchange rates), makes it important that firms in Ghana employ the right performance tools to survive (ACCA, 2013).

Previous studies have tried to test the contribution of accounting information systems to SMEs performance (Boachie et al., 2005; BICA, 2013; Musa & Ibrahim, 2014; Adebisi & Gbegi, 2013). While these studies contributed rigorously to the accounting practices for SMEs, they did not capture much details of the management of accounting records by SMEs. Thus, this current study aimed at filling the gap by assessing the impact of management accounting practices on the financial performance of SMEs in the Cape Coast Metropolis of Ghana.

### **The purpose of the study**

The main objective of the study was to assess the impacts of management accounting practices on financial performance of SMEs and how to ensure their sustainable growth in Ghana.

### **Objectives of the study**

The objectives of the study were to:

1. find out how management use MAPs to influence SMEs' performance in the Cape Coast Metropolis.
2. assess the impacts of management accounting practices of SMEs on their financial performance.
3. find out how accounting information help SMEs to overcome financial challenges.
4. assess the relationship between management accounting practices and SMEs' financial performance.

5. find out how the management accounting practices of SMEs inform the financial and non-financial institutions to give loans to the SMEs in the Cape Cost Metropolis.

### **Research questions**

1. How does management use MAPs to influence SMEs' performance in the Cape Coast Metropolis?
2. What are the impacts of management accounting practices on SMEs financial performance in the Cape Coast Metropolis?
3. To what extent do analyses of accounting information help SMEs to overcome financial challenges?
4. What is the relationship between management accounting practices and SMEs' financial performance?
5. How do the management accounting practices of SMEs inform financial institutions to give loans to the SMEs in the Cape Cost Metropolis?

### **Significance of the study**

This study had useful implications for theory and practice. Regarding the potential implications for theory, the study would expand the existing management accounting literature in two main ways. First the study would provide new empirical evidence on the use of management accounting practices (MAPs). Second, the study would contribute an additional study in the new context of Ghanaian SMEs regarding what contingent factors affect the extent of MAP use.

Findings of this study would also provide information to SME operators towards finding long term solutions to their business record keeping challenges. It

would also provide SME operators and stakeholders with information on value of quality record keeping as a pillar for sound business decision-making and subsequent good performance.

Finally, the research would test for a relationship between the use of MAPs and the financial performance in the context of Ghanaian SMEs. The focus on Ghana is especially important because research on MAPs and SMEs is very limited in this country. Benefits for practice will include the following:

The creation of an awareness among SME managers of the importance of management accounting as a means of improving performance and maintaining competitiveness in the marketplace. The provision of results that may assist policymakers, such as the level of use of MAPs among SMEs and factors that affect the use of MAPs, that may ensure that future policy decisions made by the Ghanaian government, financial institutions and other groups with an interest in SMEs are evidence based.

### **Delimitations**

The scope of the study comprises the impact of management accounting practices on financial performance of SMEs in the Cape Coast Metropolis in the Central Region of Ghana. The study sought to find out management accounting practices on SMEs performance; assessed the impacts of management accounting practices on SMEs finances; found out how accounting information is used to overcome financial challenges; assessed the management accounting practices and SMEs' financial performance and found out the management accounting practices and loan acquisition.



The respondents for the study were SMEs owners and managers of banks and microfinance institutions (MFIs). Questionnaire and interview guide were used for data collection.

### **Limitation of the study**

The researcher focused on the owners of SMEs and bank managers who are usually very busy with heavy schedules and so there were challenges in getting them to answer interview questions. Some were hesitant to give needed information, others were simply not prepared to give.

In some places that were assessed, the fear of competitors prohibited some respondents to give facts about their operation. In addition, some respondents felt the research is an investigative work to look into the malpractice in the business. Several appointments were rescheduled before information could be gathered but this did not affect the reliability of the instruments.

### **Definition of terms**

**Management:** Management is the act of getting people together to accomplish desired goals and objectives using available resources efficiently and effectively. According to Ricketts (2009) management is to exercise executive, administrative and supervisory direction of a group or organisation.

**Accounting practices:** All activities undertaken by the SMEs are to ensure good and dependable accounting system. Accountants should be able to guide SMEs to observe a set of generally accepted accounting practices (GAAPs) to ensure the generation of quality accounting information. The global practice now is that SMEs should observe the International Financial Reporting Standard (IFRS) for SMEs.

**SMEs finance:** All forms of funds at the disposal of the SMEs for business use. Finance includes monies obtained through loans, credit supplies, plough back profits; monies saved by skilful money management, etc. which are available for business use.

### **Organisation of the study**

This study is arranged under five chapters. Chapter one discussed the background information to the study, statement of the research problem, the objectives of the researcher, research questions, significance of the study, scope of the study and definition of terms. Chapter two contained review of relevant literature to the study and the establishment of the theoretical and empirical work for the study. The third Chapter established the methodology used in carrying out the study and the statistical tools used in the analysis of data. The results and discussion of both primary and secondary data is carried out in the fourth Chapter. The fifth Chapter concluded the study where the summary, key findings, conclusions, recommendations and suggestions for further studies have been established.

## CHAPTER TWO

### LITERATURE REVIEW

#### **Introduction**

This chapter described the theoretical foundation of the study and provided a review of literature on the nature of management accounting and its impact thereof on financial performance of SMEs. The chapter opened with an overview of theories and concepts of financial management. This is followed by a look at the relationship between management accounting practices and financial performance. Finally, the chapter concluded with empirical studies on the research topic is highlighted. This chapter has been organised under the following sub headings:

#### **Theoretical Underpinnings**

- a. Contingency Theory of Management Accounting
- b. The Theory of Residual Equity
- c. The Contingency Theory
- d. Conceptual Model

#### **Empirical Review**

1. Meaning and Concepts of SMEs,
2. Management Accounting Practices on SMEs Performance,
3. Impacts of MAPs on SMEs Financial Performance,
4. Challenges Facing the SMEs in the Competitive Environment,
5. Management Accounting Practices on SMEs' Finances
6. Management Accounting Practices and Loan Acquisition.

### **Theoretical underpinnings**

A number of theories explain management accounting practices on financial performance of SMEs. This section presents three theories. The first theory is contingency theory of management accounting, the second is the Theory of Residual Equity while the third is the Contingency Theory of management accounting as discussed by Burns and Stalker (1961).

### **Contingency Theory of Management Accounting**

Burns & Stalker (1961) discussed why management accounting practices may be unlike when comparing one organization to the other. This can be related to organisations operating in different industries or sectors. Otley (1980) applied contingency theory to management accounting practices and explained that there is no single general standard accounting practice that can be applied to all organisations. In essence, each organization will have its own management accounting practices. The theory looks at certain influential factors that will assist management to decide on an appropriate management accounting practice. These factors can either be technological changes and the infrastructure of an organization. For example, a manufacturing food company may want to change the technology used to a more modern hygienic and efficient way of handling, processing and packaging its food. It may then consider installing a computer based system that mass produces its products. However, the type of qualified personnel that is required to operate such highly complex equipment will influence the type of management accounting practices selected and production costs (Otley, 1980).

Dugdale (1994) highlighted which management accounting practices are widely used in manufacturing organisations. Those that were highly

favoured were budgeting for controlling costs and performance evaluation. His findings revealed that budgeting plays an important role in the managing and directing process of the organization. This tells managers what costs to expect over the next budgeted period and also gives an indication when the company might expect to go through a seasonal change and the impact it will have on the company's cash flows and revenues. Perhaps this is the main reason why this particular management accounting practice is highly rated over many other practices. Dugdale (1994) further went on to mention that budgeting enables organisations to effectively plan and develop strategies to achieve their goals. Luther & Longden (2001) also observed that the budgeting process is an integral part of managing and controlling costs in the manufacturing sector, for example, in the UK, South Africa and Australia.

### **The Theory of Residual Equity**

The residual equity theory stipulates that changes in asset assessment, income and in reserved earnings and variations in interest of other equity holders are all replicated in the residual equity of the common shareholders (Kitonga, 2013). Kitonga identified the specific equities as the entitlements of creditors and the equities of preferred stockholders. According to Kitonga, the balance sheet becomes: "Assets minus specific equities are equal to residual equity". The investment of common investors in the balance sheet should be obtainable distinctly from the equities of preferred stockholders and equity holders precisely.

The aim of this theory is to provide a better financial reporting as a result of good management accounting practices. In a successful condition the current value of common stock is reliant primarily upon the anticipation of

future dividends. Also, the future financial performance is reliant upon expectations of total receipts minus precise pledged obligations, payments to specific equity holders and necessities for ploughing back. It is therefore important to note that since financial statements are not usually set on the basis of likely liquidation, the information provided in respect of the residual equity should be useful in forecasting likely future financial performance to common stockholders. In the balance sheet format, this is stated as follows: Assets minus liabilities are equal to residual equity. The assets are assumed to be owned by the proprietor and the liabilities are the proprietor's obligations. Revenues are increases in proprietorship and expenses are decreases. Thus, the net income accrues directly to the owners, that is, it represents an increase in the wealth of the proprietors. The proprietorship is considered to be the net value of the business to the owners and this is a financial performance concept (Kitonga, 2013).

### **The Contingency Theory**

Pike (1986) explained the contingency theory in relation to management accounting to mean that the efficiency of resource allocation is not simply a matter of adopting complex, theoretically higher investment techniques and procedures but also attention must be given to the fit between the SMEs setting and the design and operation of the management accounting system. Three characteristics of the SMEs setting which are assumed to be related with the design and operation of a firm's management accounting system have been emphasised by Pike. Pike, according to Kitoga, (2013), identified firm's organisational characteristics as the first of such aspects. In this regards, Pike argued that large companies are characterised by

decentralisation and a more administratively oriented control plan concerning a higher degree of standardisation. Moreover, smaller and less complex firms tend to adopt interpersonal and simple control systems. However, Akas, Gordon & Pinches (1985) have a contradictory view and argued that firms will experience more benefits from using complex management accounting methods. This idea, according to Kitonga (2013), was based on findings of a study conducted by Sundemin (1980) which found out that the use of sophisticated management accounting methods is inversely related to environmental uncertainty (Kitonga, 2013).

Pike (1986) recognised environmental uncertainty as the second feature of firms and argued that the more mutable and random the context of operation is, the less suitable will be the highly bureaucratic, mechanistic management accounting practices. According to Pike, management accounting practices in highly indeterminate environments are assumed to benefit from complex investment approaches, mainly in appraising risk. Finally, Pike was concerned about behaviour characteristics of firms. In terms of behaviour characteristics, Pike recognises three characteristics, namely degree of professionalism, the history of the organisation and the management style. According to Kitonga (2013), Pike explained that an administratively-oriented management accounting control policy is assumed to be consistent with analytical style of financial management, a high degree of professional competence and a history of ordinary investment outcomes.

### **Conceptual Model**

The model of this research explains the separate influence of the independent variables in order to determine if certain factors hinder the

appropriate adoption of management accounting practices (MAPs) among the SMEs in the Cape Coast Metropolis to enhance financial performance. The independent variables of MAPs are formed by adopting the scales consisting of terminologies applicable to investigate MAP usage intensity. MAPs, a subjective scale used by Aksoylu & Aykan (2013) for perceived financial performance, was adopted. In order to measure the predictability, this study adopted the model in Fagbemi et al (2013) with some modifications.

The conceptual model in this study is specified as follows:  $Y=f(\text{MAP})\dots\dots 1$

Where Y is the financial performance; MAP is the Management Accounting Practices which include Costing, Budgeting Performance Evaluation, Information for Decision Making, and Strategic Analysis.

$$Fp = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + e\dots\dots\dots 2$$

Where;

FP = financial performance

X1= Costing

X2= Budgeting

X3= Performance Evaluation

X4= Information for Decision Making

X5= Strategic Analysis

$\beta_0$  = constant or intercept;  $\beta_1$  to... $\beta_5$  are regression coefficients

e = Error term

In order to find out the relationship between management accounting practices and financial performance of SMEs in Cape Coast Metropolis, regression analysis was done where the management accounting practices were regressed against the financial performance to find out which practices have significant



influence on the financial performance. The results of the regression analysis was interpreted based on the R square, significance of F statistics and the significance of beta values from the coefficients of the X variables. Significance was tested at 5% alpha level.

### **Empirical Review**

This section looked at works done by other researchers with findings, conclusions and recommendations established on assessment of the impacts of management accounting practices on financial performance of SMEs and how to ensure their sustainable growth in Ghana.

### **Meaning and Concepts of SMEs**

Definitions of small and medium enterprises (SME's) vary from country to country, depending on one or more of verges outlined in respect of investment, employment, turnover etc. (Adjei, 2012). The issue of what constitutes a small or medium enterprises are a major concern in the literature. Different writers have usually given different definitions to this category of business. SME's have indeed not been spared with the definition problem that is usually associated with concepts which have many components. The definition of firms by size varies among researchers as well as writers. Others define SME's in terms of their legal status and method of production (Adjei, 2012). The role of finance has been viewed as a critical element for the development of small and medium-sized enterprises. Previous studies have highlighted the limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development (Levy, 1993).

Despite the potential role of SMEs to accelerated growth and job creation in developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors, including finance, lack of managerial skills, equipment and technology, regulatory issues, and access to international markets (Gockel & Akoena, 2002). Finance is one of the life wires of every economic activity. Access to finance will provide start-up capital for the business as well as funds to meet operational costs. Not neglecting the fact that entrepreneurs may face lack of start-up financing as one of the difficulties in assessing start-up finance, there are other factors that come into place such as ignorance of sources of finance and lack of a saving culture. It is quite unfortunate that the problem with access to financial capital has been long due though there seems to be a little improvement (Adjei, 2012).

### **Accounting practices**

The empirical evidence about the accounting practice of SME is organized in terms of evidence such as; record keeping, financial accounting, financial management and cost and management accounting.

**Record keeping:** A study involving more than 1,000 SMEs in Australia, found that majority of the respondents (85.7%) has a computer-based in-house general ledger accounting system (McMahon, 1998). Larger enterprises tend to statistically use more of computer-based general ledger accounting system compared to smaller enterprises. Study examined private limited companies in the UK found that 57 per cent of the respondents had a computerised accounting system and 25 per cent had a partly computerised system suggesting moderate level of sophistication of accounting system (Collis &

Jarvis, 2002). Similarly other study found that SMEs that are concerned with procedural controls activities and use financial plan as part of their preparation for startup are more likely to employ computerized accounting system (Gorton, 1999). In addition to their internal accounting staff, SMEs often employ outside professionals to provide accounting advice. It has been found that the most frequently form of outsourced accounting services are for taxation purposes and preparation of accounting reports (Collis & Jarvis, 2002; McMahon, 1998).

**Financial accounting related:** In Australia, there have been a large number of empirical studies conducted on SMEs such as (McMahon and Davies 1994), (McMahon 1998). These studies investigate the types of financial reports produced by SMEs, the frequency of their preparation and their perceived usefulness for management purposes. The findings indicate that financial reports for SMEs are prepared predominantly by external accountants at annual intervals, and they normally comprise just the balance sheet and the profit and loss statement. The content and presentation of financial reports appear to be greatly influenced by taxation and corporate statutory reporting requirements.

Other Studies were conducted in various countries to examine the usefulness of accounting reports within the context of SMEs, for examples McMahon (1998) in Australia Collis and Jarvis (2002), Gorton (1999) and Nayak and Greenfield (1994) in the UK; and Hopper et al. (1999) on SME Japanese companies. These studies found evidence that financial reports are not considered particularly useful for decision making purposes by SMEs owner-managers. These studies also found that there is limited usage of

financial and management accounting reports by SMEs. In addition, it has been argued that accounting reports produced by SME's are usually limited to a few types of simple reports comprising mainly profit and loss account and balance sheet. The studies using a postal questionnaire to small private limited companies in the UK, found that 82 per cent of the companies use monthly or quarterly management accounts, 87 per cent of the companies prepare profit and loss statement and 78 per cent prepare balance sheet (Collis & Jarvis, 2002). On the other hand, SMEs consider the most frequently used sources of information are the periodic management accounts, cash flow information and bank statements, to a lesser extent budgets, the state of order book and the additional annual accounts (Collis & Jarvis, 2002).

**Financial management:** There are a number of reasons that explain the different approach to financial management practices of small firms. Some studies showed that they are driven by the personal motivation of the owner-manager, business life cycle model; resource poverty while a dynamic view of the financial management process reveal that change may be brought about as a consequence of experiential learning of the owner managers. A review of the literature on the financial management practices of small firms, revealed that owner-managers' personal and business goals dictate partly their approach to short term financial management of their businesses (Collins & Jarvis, 2002).

There is also theoretical justification that the business life cycle model lends support to the evolutionary approach to financial management practices of small firms (Lewis, 1983; Scott & Bruce, 1987).

**Cost and Management Accounting:** A study found similarities between costing systems used by SMEs and larger companies (Hopper et al. 1999). The

costing systems and cost management practices used by the SMEs were mainly for product costing and budget and less emphasis for decision making or performance evaluation. They also found that sophisticated detailed process of cost management was commonly used for engineering and quality control. The management accounting reports studied include budgets and different types of budget variance analysis, production cost statement, cost volume profit (CVP) analysis and benchmarking report.

The findings show that among the management accounting reports, majority of the respondents (92.1%) prepared budget, followed by production cost statement (82.9%), variance analysis (80.3%), CVP analysis (73.7%) and benchmarking reporting (57.9%). The findings might indicate that most of the SMEs are mainly utilizing a traditional management accounting techniques as compared to the more contemporary management techniques such as activity based costing or total quality management. Among the different types of budgets, cash budget is the most frequently prepared (93.4%), followed by sales budget (92.1%), expenses budget (86.8%) and lastly production budget (85.5%). The least prepared management accounting report is benchmarking report (Che, Zakiah, Noor & Sapiei, 2007).

### **Management accounting practices and financial performance of SMEs**

Management accounting basically deals with money circulation and control of money for all kinds of business operations (Lasher, 2010). According to Meredith (1986) management accounting practices are the central activities for the success of small business. SMEs financial profitability is the conceived result of management accounting practices (Dess, et al, 1997). Management accounting transactions cover various objectives start with cost

calculation, cost control, sales & profit maximization, attaining the market share and overall endurance of firm (Jacobs, 2001). The arrangements and optimal utilization of financial resources for current and future opportunities provides to organization by management accounting practices (Byoun, 2007). The feature of optimum capital structure practices as function of management accounting practices provides efficient way and quick cost effective decisions (Temtime & Pansiri, 2007). Emerging economies get the advantage of financial flexibility which helps in the various economic cycles (Graham & Harvey 2001; Bancel & Mittoo, 2004).

Management accounting practices cover all implications of finances to various activities includes, production, investment, personnel and marketing decision particular to calculate overall financial performance (Meredith 1986). Simply management accounting practices cover a broad aspect to understand future financial performance with a way to maximize the profit and conversion into wealth and typically it works to capitalize the efficiency of financial resources. McMahon (1993, p.3) defines “management accounting based on mobilizing and using sources of funds: it is concerned with raising the funds needed to finance the enterprise’s assets and activities, the allocation of these scarce funds between competing uses, and with ensuring that the funds are used effectively and efficiently in achieving the enterprise’s goal”. SMEs are rare to effective use of risk management, liquidity, working capital, scientific inventory management, project valuation thorough capital budgeting techniques, financial reporting and financial analysis which are core functioning areas of management accounting practices and this issue is the most critical aspect for obtaining the best financial Small business have been

using the different set of management accounting practices, core principles of management accounting practices are not exercised, it run with short term management accounting approach and run by the personal business goals of the owner (Jarvis, et al 1996; Collis & Jarvis, 2002).

Collis and Jarvis (2002) stated that at SMEs the function of management accounting practices is concerned only with cash based information, particular for effective use of financial resources and control of allocation of funds and generally for the same formal accounting system is not being in the practice, it goes with the expertise of external resources (Jarvis, et al, 1996). Collis and Jarvis (2002) revealed that to overcome the various constraints, hindrances of capacity utilization, small business must put consternation for computerized accounting for effective uses of management accounting practices.

### **Impacts of MAPs on SMEs financial performance**

Financial performance is one of the most difficult attributes of SMEs to conceptualise and measure (Ross, Westerfield & Jaffe, 1999). Generally, the difference between revenues and costs is considered as profit in accounting. The impact of financial performance however, ignores risk. From economics point of view, “a firm is performing only if its profit is greater than investors can achieve independently in the capital market” (Ross et al., 1999). On this basis, Ross and others propose some means to quantify financial performance. These are: profit margin or return on sales, return on assets, and return on equity. According to Ross et al (1999), Profit margins are computed by dividing profits by total operating revenue and thus express profits as a percentage of total operating revenue. Return on assets is the ratio of income

to average total assets, both before tax and after tax, and measures managerial performance. Return on equity is defined as net income divided by average stockholders' equity, and shows profit available for stockholders. Another and a more commonly used indicator is the Return on Capital Employed (ROCE). The ratio is an accounting ratio used in finance, valuation, and accounting. The ROCE is computed as net profit before interest and tax (NPBIT) divided by capital employed (CE). The proportion is used to demonstrate the value the business gains from its liabilities. The return on capital employed is a better measurement of financial performance than return on equity for instance because ROCE shows how well a company is using both its equity and debt to generate returns (Ross et al., 1999).

### **Challenges facing the SMEs in the competitive environment**

Global competition confronts the majority of purely domestic SMEs, whose products and sales are extremely localized and/or segmented. Trade liberalization increases the capacity of well-established foreign businesses and retailers to penetrate both remote and underdeveloped markets (Berrell & Wrathall, 2007). Against this development, local SMEs find it increasingly difficult to survive or even maintain their current business position in their respective markets. In such a demanding environment, the capacity of an SME to maintain reliable and continually improving business processes is critical to ensure long-term sustainability, according to (Denis & Bourgault, 2003).

In a similar vein, Vos (2005) observed the management skills of SME managers and suggested that these managers were weak in their ability to reflect strategically on their current business position especially in the area of developing competitive strategies (Singh et al, 2006). Moreover, SMEs are



frequently oriented towards serving local niches or developing relatively narrow specializations. These enterprises often operate under the constraints of scarce resources, a flat organizational structure, a lack of technical expertise, a paucity of innovation, reduced intellectual capital and the likes (Xiong et al., 2006; Singh, 2010). Owing to the globalization of markets, technological advances and the changing needs and demands of consumers forced the nature of competitive paradigms to change continuously (Singh et al, 2010). These changes drive firms to compete along different dimensions such as designing and developing new products, adopting smart approaches to manufacturing, implementing quick-to-market distribution, purchasing cutting-edge communication and developing appropriate marketing strategies (Vargas & Rangel, 2007). Because of such measures, SMEs are now exposed to the pressures from the competitive international business environment. Lee (2008) notes that while larger firms, often multinational enterprises, have been developing the capabilities needed to achieve the triple bottom line over the last decades, small and medium-sized enterprises (SMEs) often lack the knowledge, expertise, skills, finance and human resources to make the desired changes within organizations. Additionally, some scholars have observed that the approaches are narrowly focused to specific features of the production process or the product when the SMEs attempted to change. Thus, SMEs often have a limited view on the direction of future organizational stance and tend to tackle competitive strategy issues in an ad hoc manner (Lee, 2008; Nawrocka, 2008). In line with Enz (2008), SMEs with strong resources can distinguish themselves from their competitors and survive in a competitive environment. SMEs can outperform rivals only if they can establish a difference that can be

preserved. This will ensure the delivery of greater value to customers or creation of comparable value at a lower cost or both (Porter & Kramer, 2007).

### **Management accounting practices on SMEs' finances**

The accounting practices and the underlining accounting policies of small and medium enterprises should follow generally accepted accounting standards and policies. Their account should be easily understood by interested parties. Majority of the small and medium enterprises may decide not to follow the normally accepted rules especially where the cost of employing additional accounting staff would outweigh any benefit (Larson, 2005). Some of these accounting practices have been outlined below:

**Receipt and handling cash:** Procedures and responsibilities for the receipt and handling of cash are clearly defined. For example only the proprietor or cashier is authorized to receive cash. Pre-numeral receipts bearing the names of the enterprise are issued for all cash receipts. Unusual receipt books are kept properly and the proper procedures are regard to their issues.

**Recording payment:** All payment in the small scale enterprise is supported by payment vouchers with adequate documentations and explanation. Small and medium enterprise also has an adequate system in place to prevent duplication of payment to suppliers and employees with payment properly allocated to the correct account.

**Bank account:** Most of the bank account is authorized in the name of the owner of the business. The bank account is also included in the account of the owner of the enterprise. Proper control over use and safe keeping of cheques are practiced by the enterprise owners.

**Cash books:** Cash book are kept for all cash and bank transactions. The cash books additions and cross addition are correct. Also, entries in the cash book are all in ink and written up to date.

**Petty cash records:** Most small business need to use petty cash money withdrawn from the bank and use it to buy sundry items. Approved procedures are required and expenses correctly recorded in the system. Petty cash is also known as an imprest fund, whereby the fund is replenished in exactly the amount that is taken from it. The petty cash imprest (float) is established at reasonable level. Petty cash expenses are supported by adequate documentation. The petty cash is always checked when the cash floats are replenished.

**Ledger:** Postings are done of amount from the cash book to the account in the ledger which are kept up to date. Additions and postings to individual ledger accounts are done and ensured that they are accurate and correct. An up to date chat of account together with the account reference numbers are held by the owner of the enterprise.

**Journal:** Transfer between one ledger account and another are recorded in the journal. Transfer of account between one account and another account are supported by a journal voucher showing the reason for the transfer with supporting documentation where appropriate.

**Account payable and creditors:** Suitable records are maintained showing amount due to suppliers. These records are regularly reconciled to statement and account received from suppliers.

### **Management accounting practices and loan acquisition**

Lack of knowledge of the rights that women have and how to enforce them is a challenge. Women may not be aware of the legal issues that they need to address to start a business, and they can find it difficult to navigate the complex array of laws and regulations. Education equips women with the knowledge and skills they need to more effectively manage and succeed in their businesses. Research shows that the level of formal entrepreneurial activity among women increases as their education rises, and there a major jump in business ownership among those who go beyond secondary education. Education and skills are needed to run a business. Majority of people carrying out SME's in Ghana are not quite well informed in terms of education and skills (King & McGrath, 2002). According to King and McGrath (2002), those with more education and training are more likely to be successful in the sector. The literacy level was reflected in their ability to carry out managerial routines. The routine includes making decisions on financial investment and management. This influences the decision on the external funding of his enterprise.

According to ILO (2009) most of the Entrepreneurs have Low literacy levels as majority of them drop from the primary level or they have acquired primary level. . ILO (2009) observed that an entrepreneur's level of education is directly correlated with his ability to make financial decisions of his business. ILO (2009) noted that declining level of education had negative influence on entrepreneur's ability awareness on how and where to get loans to improve their businesses. With low ability to read and write, therefore an entrepreneur is at a disadvantage in the loans market. Information on

availability of loans, and the rate of interests charged, is communicated through newspapers, in which a good level of literacy is required to read and interpret.

Ndubi and Karanja (2008) noted that; complete, accurate and precise information is necessary for financial decisions including obtaining business loans. The literacy level is again observed in the ability to have appropriate book keeping skills. The banks often demand cash flows and other financial records as a prerequisite for approving of credit. Due to low literacy levels most SME traders are unable to differentiate the loan products offered by the financial institutions. Also since most of these services are offered in banking jargons, most traders are discouraged from applying for the loans (Ayodele, 2006). Further inadequacy in financial management skills and strategic planning put the SME's in a disadvantaged position in competing with a large firms which are run by well-educated professional managers. Most lenders advertise their services on the print media. Since the literacy levels among the small scale traders are low they may not access the information. Others may have general literacy but are not well informed, on the effect of credit facilities on business growth, and therefore may fail to ask for the services. The literacy level may therefore be a constraining factor in the access to, among traders.

### **Summary of the chapter**

The chapter has reviewed four theories of management accounting practices of SMEs. The chapter has also reviewed findings of various scholars in relation to management accounting practices on financial performance of SMEs. The importance and challenges of management accounting practices has also been reviewed as well as the methods of management accounting.

The previous researchers in the area on management accounting practices identified key issues that reflected that it occurred as result of different factors affecting the SMEs.

## CHAPTER THREE

### RESEARCH METHODS

#### **Introduction**

This chapter outlined the research methods of the present study. The chapter comprises the study area, research design, population, and sample and sampling procedure, data collection instruments, data collection methods and data analysis.

#### **Study area**

According to Sarantakos (1998), the study area is the boundary where the research work is to be carried out. Cape Coast Metropolis is the study area and is bounded to the north by Twifu-Heman-Lower-Denkyira, to the south by Gulf of Guinea, to the east by Abura-Asebu-Kwamankese District and to the west by Komenda- Edina-Ebirim-Aguafo. The study was conducted with 338 registered SMEs in the Cape Coast Metropolis in the Central region of Ghana. There are seven Micro-financial institutions that mainly dealt with the SMEs in the Metropolis. The banks were GCB Bank, Uni-Bank, Prudential Bank, Fidelity Bank and Kakum Rural Bank. The registered non-financial institutions were Multi-Credit and Christian Rural and Network (CRAN).

#### **Research design**

This study adopted a descriptive design with cross sectional survey with mixed methods. According to Churchill (2011), cross sectional survey affords the researcher to capture the relevant information from almost all the key stakeholders within the SMEs across the Metropolis to be able to do a critical assessment. The study sought to collect data from the SMEs at one point in

time and determine the impact of management accounting practices on financial performance of SMEs in in the Cape Coast Metropolis in Ghana.

Creswell (2012) argues that cross-sectional survey design has the advantage of measuring current attitudes or practices. It also provides information in a short amount of time, such as the time required for administering the survey and collecting the information. Cross-sectional survey was preferred as a method of data collection over others in this particular study due to the fact that many questions will be asked and it will be possible to reach the entire respondents within a short period of time (Fowler, 2002).

To Ary, Jacobs and Rezavieh (2002), survey allows researchers to gather information from a sample of people, comparatively quicker and cheaper. This is used to identify and assess the factors that influence or control the growth of Small and medium scale enterprises (SMEs). The descriptive survey is further considered the most apt design for carrying out this research since it is the approach which deals with things as they currently are (Creswell, 2012). Information obtained from the descriptive survey research could be meaningful in analyzing a situation since it involves describing, recording, analyzing and interpreting conditions that exist.

The study as well used mixed-method approach where it combined both qualitative and quantitative methods of research. Tashakkori and Teddlie (2003) argue that multiple methods are useful if they provide better opportunities for a researcher to answer research questions and where the methods allow a researcher to better evaluate the extent to which the research findings can be trusted and inferences to be made from them. The study



employed concurrent mixed methods where the researcher united or merged quantitative and qualitative data in order to provide a comprehensive analysis of the research problem, but here both forms of data are collected at the same time.

### **Population of the study**

The target population comprised of all the licensed SME's by National Board for Small Scale Industries (NBSSI) in the Cape Coast Metropolis as well as the management of financial and non-financial institutions. The research targeted those SMEs registered by the Metropolitan Council, because their number and locations will be known. The study population involves 2,170 SMEs in the Metropolis and seven managers of both banks and micro-financial institutions (MFIs). SMEs engaged in the areas of agriculture and agro-processing, artisans, soaps and detergents making; cloth designing and tailoring; food processing and baking; wooden/furniture processing; food vendors/restaurants, chemical based products and retail shops which form the population for the study. According to Parahoo (1997), research population is defined as the total number of units from which data can be collected. The total population is 2177.

### **Sample size determination**

The selection of a sample size depends on a number of factors such as time and money available to the researcher and the statistical analysis that the researcher intends to use. The sample size that was used for the study was determined using the formula postulated by Yamane (1967). According to him, the sample size for any study can be determined using the relation;

$$n = \frac{N}{1 + Ne^2}$$

Where the parameters;

$n$  represents the sample size

$N$  represents the SMEs total population= 2170

$e$  is the margin of error (usually 0.05).

Substituting these values into the formula yields a sample size of;

$$n = \frac{2170}{1 + 2170(0.05)^2}$$

$$n=338$$

### **Sampling technique**

The study used a multistage sampling technique to select the sample size of 338. In the first place, a stratified sampling technique was used to divide the SMEs into homogeneous groupings of the population. Respondents were stratified into sectors such as agriculture and agro-processing, artisans, soaps and detergents making; cloth designing and tailoring; food processing and baking; wooden/furniture processing; food vendors/restaurants, fish mongers, chemical based products and retail shops that they operated and random sampling technique was used to get the intended respondents in each stratum. At the SME sector level, simple random sampling technique was used to select the participants using the lottery approach. The simple random sampling technique is operationalised by assigning 'yes' and 'no' on pieces of papers, folded and put them in a container and reshuffled for the SMEs owners to pick without replacement. Those who picked yes were included as

participants for the study. This method of sampling gave each and everybody equal chance of being selected.

The proportional allocation of sample size is adopted to assign sample sizes to each SME sector. This technique is usually applied when no other information except the stratum size is available.

Table 1: *Sample Size Determination Using 10% Proportional Sampling*

SMEs	SMEs target	Sample Size
	Population	
Agriculture / agro-processing	300	$300/2170 \times 338 = 47$
Artisans	200	$200/2170 \times 338 = 31$
Fish Mongers	200	$200/2170 \times 338 = 31$
Soaps and detergents manufacturing	50	$50/2170 \times 338 = 8$
Cloth designing and tailoring	100	$100/2170 \times 338 = 16$
Hairdressing	200	$200/2170 \times 338 = 31$
Wooden /furniture processing	80	$80/2170 \times 338 = 12$
Food vendors/ Restaurants	300	$300/2170 \times 338 = 47$
Chemical based products	40	$40/2170 \times 338 = 6$
Retail shops	200	$200/2170 \times 338 = 31$
Traders	300	$300/2170 \times 338 = 47$
Services	200	$200/2170 \times 338 = 31$
Total	2170	338

Source: Field Survey, Yeboah-Mantey (2017)

Seven managers of banks and MFIs were purposively sampled because they had adequate knowledge and experience in the management accounting practices of SMEs that operate with them and also based on the objectives of the study. Creswell (2002) stated that, in purposive sampling, researchers intentionally select individuals and sites to learn or understand a phenomenon. According to Cohen, Manion and Morrison (2003) purposive sampling enables researchers to handpick the cases to be included in the sample on the basis of their judgment and typicality. Given that Cape Coast Metropolis has renowned banks and MFIs that provide credit facilities and so the managers of those institutions were purposively chosen to participate in the study. The total sample size is 345.

#### **Data collection instruments**

Structured Questionnaire and semi-structured interview schedule were used as instruments for data collection.

#### **Questionnaires**

The questionnaire was administered to SMEs owners. Best and Khan (1993) observe that questionnaire enable the person administering them to explain the purpose of the study and to give meaning of the items that may not be clear. The questionnaire was used for data collection because offered considerable advantages in the administration. It presented an even stimulus potentially to large numbers of people simultaneously and provided the investigation with an easy accumulation of data.

Gay (1992) maintains that questionnaires give respondents freedom to express their views or opinion and also to make suggestions. It is also anonymous. Anonymity helps to produce more candid answers than is not

possible in an interview. A set of 50 closed ended questions were administered to the SMEs respondents. The questionnaire for SMEs owners was in six sections. Section A is on demographic background of the respondents, Section B is on management accounting practices on SMEs performance, section C is on the impacts of management accounting practices on SMEs finances, section D is accounting information is used to overcome financial challenges, Section E is on the management accounting practices and SMEs' financial performance and Section F is on management accounting practices and loan acquisition.

### **Interview schedules**

Interviews were conducted with seven managers from banks and MFIs in the Cape Coast Metropolis in the Central region of Ghana. Interviews were semi-structured to allow the managements to shift the agenda and contribute their own line of thought whenever they wish (Thomas, Walker & Webb 1998). The aim of the semi-structured interview was to obtain accurate uninhibited accounts from informant that would base on their personal experience and knowledge. The interview guides contained 15 items of questions covering all the research questions raised to guide the study. The interviewer initiated contact with the interviewee consent where the interviewer established the right to ask questions and the interviewee agreed to answer these questions (Miller & Brewer 2003, p.166. The interview was made up of five sections. Section A is on management accounting practices on SMEs performance, section B is on the impacts of management accounting practices on SMEs finances, section C is accounting information is used to overcome financial challenges, Section D is on the management accounting

practices and SMEs' financial performance and Section E is on management accounting practices and loan acquisition.

### **Data collection methods**

An introductory letter was obtained from the Department of Management in the School of Business, College of Humanities and Legal Studies and copied to the various banks to permit me collect the data. As a researcher, I visited the places, introduced myself and sought authorization from the management. On the part of the SMEs, letter of introduction was shown to them before the researcher had an encounter with them. The researcher then administered the questionnaire and conducted the interview to the respective respondents personally on appointed dates. Respondents were assured of confidentiality of the data collection on the basis that information collected would strictly be used for academic purposes. The researcher was available throughout to offer assistance to the respondents and made any necessary clarifications. A day was set aside for the data collection. The researcher recorded and took down notes during the interview sessions. Primary data were administered and collected At the SME sector level, simple random sampling technique was used to select the participants using the lottery approach. The simple random sampling technique is operationalised by assigning 'yes' and 'no' on pieces of papers, folded and put them in a container and reshuffled for the SMEs owners to pick without replacement. Those who picked yes were included as participants for the study within a period of twelve (12) weeks.

### **Ethical considerations**

According to Saunders (2007), research ethics are the appropriateness of behaviour of the researcher in accordance with the rights of those who become the subjects of the study. It is undisputable that every research conducted has the potential of affecting the subjects in one way or the other. The effect could be psychological or physical. The researcher sought permission to carry out the study in the Cape Coast Metropolis from the appropriate sectors. Other ethical procedures included ensuring anonymity of the respondents and selected organisations that participated in the study. Finally, the researcher ensured that names of respondents did not appear on the questionnaires for the sake of confidentiality.

### **Data processing and analysis**

The data collected were screened, coded and keyed into statistical product for service solutions (SPSS) computer software version 20.0 for easy analysis. Data analysis included the use of descriptive and inferential statistics. Descriptive statistics involved the use of frequency tables and percentages as well as bar charts. The inferential statistics involved using regression and correlational analysis.

The socio-demographical data were analysed using frequencies and percentages. Research Questions 1 was analysed using frequency counts and percentages as well as bar charts on the management accounting practices on SMEs performance. Research Questions 2 was analysed using multiple regression to help predict the impacts of management accounting practices on SMEs finances, Research Question 3 was analysed using charts to give a clear visual impression of the challenges SMEs face, Research Question 4 was

analysed using correlation analysis to determine the relationships between management accounting practices and SMEs' finances while Research Question 5 was also analysed using frequencies and percentages on management accounting practices and loan acquisition. Five-point Likert-scale is drawn starting from Strongly Disagree (1), Disagree (2), Uncertain (3), Agree (4) and Strongly Agree (5) to analyse some of the variables.

Qualitative data was analyzed through development of data categories and themes, recognizing relationships to produce well-grounded conclusions. The researcher immersed himself in the data collection in order to become familiar with the information. A content analysis was performed. Data gathered from the interviews were organized, transcribed, segmented under themes. Themes were established inductively to facilitate interpretation and presentation of findings.

### **Chapter's summary**

The study used descriptive survey and cross-sectional design with mixed methods. The units of analysis surfaced from the data related to the impact of management accounting practices on financial performance of SMEs in the Cape Coast Metropolis in The Central Region of Ghana. Questionnaire and interview schedule were used for the data collection. It examined the study area, the research design, procedures followed in sampling, collecting and analysing the data as well as the challenges encountered on the field.



## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### Introduction

This chapter analyses and discusses the research findings of the study. In this context the chapter analyzed data with reference to the research objectives and questions. Issues covered include demographic characteristics of the respondents namely, sex, year of operations, nature of SMEs, number of employees, annual sales turnover, level of education and level of accounting skills were discussed. The main data were quantitatively and qualitatively analyzed.

#### Demographic information of respondents

This section discussed the background information of the respondents such as sex of the respondents; year of operation; level of education etc. which were collected on the field.

Table 2: *Demographic information of SMEs and MFIs staff*

Variables	SMEs	
	Number	%
<b>Sex</b>		
Male	172	50.9
Female	166	49.1
Total	338	100.0
<b>Year of Operation</b>		
1-3 years	34	10.1
4-6 years	36	10.6
7-9 years	53	15.7
10+ years	215	63.6
Total	338	100

Table 2 continued

Nature of SMEs		
Agriculture / agro-processing	70	20.7
Artisans	83	24.5
Fish Mongers	79	23.4
Retail shops	50	14.8
Services	56	16.6
Total	338	100
Number of employees		
None	79	23.4
1-2	95	28.1
3-4	77	22.8
5-6	47	13.9
7+	40	11.8
Total	338	100
Annual sales turnover		
GHS 1500	32	9.5
GHS 2000	79	23.4
GHS 3000	87	25.7
GHS 4000	57	16.7
GHS 5000	49	14.5
GHS 6000+	34	10.0
Total	338	100
Level of Education		
JHS/MSLCE	46	13.6
SHS/GCE	166	49.1
Diploma	83	24.6
Degree	43	12.7
Total	338	100
Level of Accounting Skills		
Low skills	113	33.4
High skills	225	66.6
Total	338	100

Source: Field Survey, Yeboah-Mantey (2017)

From Table 2, the characteristics of the respondents according to sex showed that there were more males of 50.9% among the SMEs respondents and 49.1% were found to be females. These results implied that males dominated in SMEs in this study. This situation is attributed to the fact that men take more risk in doing businesses than their female counterpart.

Year of operation of SMEs is a factor which can influence the viability of a business. Regarding the year of operation, 215 (63.6%) of SMEs had been in the work for more than 10 years as per Table 2. Only 34(10.1%) of the SMEs had been in operation between 1-3 years. This result suggests that a large number of SMEs have worked for a longer period which implied that these SMEs are sustainable in creating job for some unemployed youth.

The study showed that 80 of the respondents, representing 24.5% were artisans as per Table 2. This is followed by fishmongers with a percentage point of 23.4 percent. This means that the nature of SMEs are dominated by artisans and fishmongers. It implied that there is increased in demand for vehicles hence various shops for such industry.

Table 2 again indicates that the number of employees of the SMEs were between 1-2 workers representing 28.1 percent. Only a minority of 11.8% SMEs had employees more than seven workers. The implication is that most SMEs are cash trapped and are unable to employ many workers.

From Table 2, the annual turnover showed that 25.7% of the respondents had a profit of three thousand Ghana cedis (GHC 3000.00) which represented the highest responses. Those who had annual turnover of more than 6000 Ghana cedis were only 10.0%. It means that the annual profit margin of most SMEs is small due to insufficient startup capital.

Table 2 shows that 166(49.1%) of the respondents had senior high school education which represent the highest responses. Only 12.7% of the respondents had a university education. This suggests that graduate from higher learning institutions are not willing to create their own businesses.

The level of accounting skills showed that 66.6% of the respondents were skillful as per Table 2. This means that most SMEs owners are educated and can do basic arithmetic. The implication is that the SMEs have the potential of expanding in the near future due to better accounting management.

### **Main data**

This data comprises the assessment of impacts of management accounting practices on financial performance of SMEs in the Cape Coast Metropolis. The study sought to assess the management accounting practices on SMEs performance, impacts of management accounting practices on SMEs financial performance, using management accounting information to overcome financial challenges, management accounting practices on SMEs' finances and management accounting practices and loan acquisition.

### **Uses of MAPS on SMEs performance**

The first objective is to find out how the management accounting practices undertaken by the SMEs is useful to their performance in Cape Coast Metropolis.

### **SMEs performance and the level of productivity**

The SMEs clients were asked their level of productivity. Table 3 indicates the result.

Table 3: *SMEs performance and the level of productivity*

SMEs		
	Frequency	Percent
Decreased	53	15.7
No change	36	10.7
Increased	113	33.4
Increased significantly	136	40.2
Total	321	100

Source: Field Survey, Yeboah-Mantey (2017)

Table 3 indicates that, majority of the SMEs respondents representing 40.2% said that the level of productivity increased significantly but only 10.7% indicated that there was no change in productivity. It therefore means that the SMEs performance increased in terms of their average productivity. It can be concluded that management accounting practices help to boost SMEs performance. To buttress the point raised, (Jacobs, 2001) indicated that management accounting transactions cover various objectives start with cost calculation, cost control, sales & profit maximization, attaining the highest productivity and overall endurance of the firm.

#### **SMEs performance and product quality**

The respondents were asked whether SMEs achieve product quality. The responses were indicated in Table 4.

Table 4: SMEs performance and product quality

SMEs		
	Frequency	Percent
Decreased significantly	42	12.4
Decreased	40	11.8
No change	53	15.7
Increased	71	21.0
Increased significantly	132	39.1
Total	338	100

Source: Field Survey, Yeboah-Mantey (2017)

Table 4 shows that majority of the SMEs owners, 132 (39.1%) said there was significant increase in their product quality. However, only 40(11.8%) of the respondents said that there was a decreased in product quality. The implication is that there is a competition among SMEs which ensure that they must produce good quality products. It can be concluded that SMEs produced good products of high quality in order to remain in the business. The discussion is in support of Singh et al. (2010) who asserted that owing to the globalization of markets, technological advances and the changing needs and demands of consumers forced the nature of competitive paradigms to change continuously. These changes drive firms to compete along different dimensions such as designing and developing new products, adopting smart approaches to manufacturing, implementing quick-to-market distribution, purchasing cutting-edge communication and developing appropriate marketing strategies (Vargas & Rangel, 2007).

### SMEs performance and number of delivery on time

The respondents were required to indicate whether the number of delivery of goods were on time. The following were the responses as per Table 5.

Table 5: *SMEs performance and number of delivery on time*

SMEs		
	Frequency	Percent
Decreased significantly	77	22.8
Decreased	95	28.1
No change	80	23.7
Increased	33	9.8
Increased significantly	53	15.6
Total	338	100

Source: Field Survey, Yeboah-Mantey (2017)

From Table 5, 95 (28.1%) of the SMEs respondents indicated that the number of goods delivery on time had decreased but only 9.8% of the respondents said delivery on time had increased. It can be inferred that goods delivery to SMEs have not been done on time and that can decreased their profit margin. In reference to the analysis, Bokea, Dondo and Mutiso (1999) indicated that Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SME's goods delivery. Physical infrastructure is the totality of basic physical facilities upon which goods are delivered on time to the SMEs (Ukpong & Iniodu, 1991).

**SMEs performance and sales growth rate**

Regarding the issue of SMEs sales growth rate, the following results were presented in Table 6.

Table 6: *SMEs performance and sales growth rate*

SMEs		
	Frequency	Percent
No change	53	15.7
Increased	183	54.1
Increased significantly	102	30.2
Total	338	100

Source: Field Survey, Yeboah-Mantey (2017)

Table 6 shows that 183(54.1%) of the respondents said that sales growth rate had increased indicating the highest responses. This was followed by 30.2% of the respondents that the sales growth rate had increased significantly. The fact of the matter is that SMEs sales growth rate is dependent on the appreciable level of their goods and services demanded. To buttress this point, Levy (1993) asserted that the role of finance has been viewed as a critical element for the development of small and medium-sized enterprises. His Studies highlighted the limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development.

**SMEs performance and operating profit growth rate**

As to whether the SMEs operating profit growth rate had increased or not, the following results were obtained as per Table 7.



Table 7: *SMEs Performance and operating profit growth rate*

SMEs		
	Frequency	Percent
Decreased significantly	26	7.7
Decreased	53	15.7
No change	47	13.9
Increased	136	40.2
Increased significantly	76	22.5
Total	338	100

Source: Field Survey, Yeboah-Mantey (2017)

Regarding the operating profit growth rate, 40.2 % of the respondents indicated that there was increased in profit. Only 7.7% of the respondents said that their profit growth rate had decreased. It means that the SMEs are doing well in terms profit maximization. It can be concluded that SMEs profit growth rate is robust and that gives an urge to increase production capacity. The finding is consistence with Meredith (1986) who asserted that management accounting practices are the central activities for the success of small business since financial profitability is the conceived result of management accounting practices (Dess, et al 1997)

#### **SMEs improved by organising training for its owners**

Regarding the organization of training for SMEs owners, the following results were obtained as per Table 8.

Table 8: *SMEs improved by organising training for its owners*

SMEs		
	Frequency	Percent
Never	89	26.3
Rarely	79	23.4
Occasionally	102	30.2
Frequently	34	10.1
Very Frequently	34	10.1
Total	338	100

Source: Field Survey, Yeboah-Mantey (2017)

Table 8 indicates that, 102 (30.2%) of the SMEs owners received training occasionally while only 10.1% receives training frequently. The implication is that SMEs need capacity building through workshops and seminars to equip their business acumen. The discussion is consistent with King and McGrath (2002) who indicated that education and skills are needed to run a business. Majority of people carrying out SME's in Ghana are not quite well informed in terms of education and skills. According to King and McGrath, those with more education and training are more likely to be successful in the sector.

#### **SMEs hire consultants for financial statement analysis**

Regarding whether the SMEs hire consultants for financial statement analysis, the results were indicated in Table 9.

Table 9: *SMEs hire consultants for financial statement analysis*

SMEs		
	Frequency	Percent
<b>Never</b>	106	31.4
<b>Rarely</b>	128	37.9
<b>Occasionally</b>	68	20.1
<b>Very Frequently</b>	36	20.1
<b>Total</b>	338	100

Source: Field Survey, Yeboah-Mantey (2017)

Table 9 shows that 128(37.9 %) of the respondents said SMEs rarely hired consultants for their financial statement analysis. This was followed by 31.1% who said that SMEs' owners never hired any consultants services for their financial statement analysis. This analysis imply that SMEs do not keep any standard financial statement for analysis. It can be concluded that SMEs owners rarely engaged consultants to analyse their financial statement for them. The discussion is inconsistence with Ghosh and Ray (2011) as they indicated that the issue of business management encompasses activities such as consultancy services, monitoring, planning, organising, leading, controlling, business reengineering and dissemination of information. Consultancy services are the cornerstone of any business success leading to the profitability, competitiveness and survivability of the business in the long run.

#### **SMEs make mandatory use of accounting records**

As to whether it is mandatory for SMEs make the use of accounting records.

Table 10 shows the results.

Table 10: *SMEs make mandatory use of accounting records*

SMEs		
	Frequency	Percent
Never	53	15.7
Rarely	128	37.9
Occasionally	34	10.1
Frequently	36	10.7
Very Frequently	87	25.6
Total	338	100

Source: Field Survey, Yeboah-Mantey (2017)

Table 10 indicates that 128 (37.9%) of respondents said the SMEs rarely made mandatory use of accounting records. Few, 34(10.1%) said they occasionally made mandatory use of accounting records. It imply that most SMEs do not keep permanent records of their goods and finances. It can be concluded that SMEs do not engage expert hands to keep financial records and update inventories. The discussion is consistence with Kamla-Raj (2009) whose question was: “do you agree that poor accounting and book keeping practices lead to SMEs failure in businesses?” and the results showed that 68 percent and 57 percent of the respondents in the UK and Nigeria respectively agreed that poor accounting and book keeping influenced SMEs failure.

### **SMEs strengthen monitoring and supervision**

Regarding the level of monitoring and supervision by SMEs, the results were indicated in Table 11.

Table 11: *SMEs strengthen monitoring and supervision*

SMEs		
	Frequency	Percent
Never	53	15.7
Rarely	128	37.9
Frequently	157	46.4
Total	338	100

Source: Field Survey, Yeboah-Mantey (2017)

Responses from the SMEs indicated that, 157 (46.4%) of the respondents said they frequently strengthen their monitoring and supervision of their employees as per Table 11. This was followed by 128(37.9%) of the respondents who indicated that they occasionally strengthen their monitoring and supervision of their employees. It stands out to reason that monitoring and supervision is a key in private enterprises. It can be concluded that monitoring and supervision enhances business growth rate. In conformity with Sultan (2010); Kadosca and Francsovics (2011), they believed many scholars in the area of entrepreneurship that the success of the SMEs is dependent on the performance of the supervisor who often monitors the business activities.

### **Qualitative Analysis on Research Objective 1**

According to McMillan and Schumacher (2010, p.367) qualitative data analysis is primarily an inductive process of organizing the data into

categories and identifying patterns among the categories through face-to-face interactions. The interviews were tape-recorded and transcribed verbatim.

Interviews on research objective one was to find out how the management accounting practices undertaken by the SMEs affect their performance in Cape Coast Metropolis.

The managements of the banks were interviewed on how management accounting practices affect the performance of the SMEs in the Cape Coast Metropolis. The analysis of the transcriptions indicated three important themes of research objective one.

Theme 1: Education and Training

Theme 2: Management of Credit Facilities

Theme 3: Reduction of Interest Rate and Inflation

### **Education and training**

Education and training equip SMEs with the knowledge and skills they need to more effectively manage and succeed in their businesses. Majority of people carrying out SMEs in Ghana are not quite well informed in terms of education and skilled training (King & McGrath, 2002). The responses given by the interviewees were as follows:

Banks 1, 2, 6 and 7 managers indicated that: *“We organize trade conference to educate our customers through training”*.

Banks 3 and 4 manager said that: *“The banks guide the customers how to use appropriate books of accounts and also keep records”*.

Bank 5 said: *“The bank gives the customers’ business advisory services”*.

It can be concluded that education and training help the SMEs to equip themselves with the necessary skills to maximize business profit. The

interview discussion is not in conformity with ILO (2009), indicating that most of the entrepreneurs have low literacy levels as majority of them drop from the basic level or they have acquired basic education. ILO (2009) observed that an entrepreneur's level of education is directly correlated with his ability to keep financial records of his business.

### **Management of credit facilities**

The interviewees indicated that management of credit facilities is essential to keep the SMEs businesses running and to avoid any form of liquidation. This can be achieved if they remove their personal sentiment from business orientations. The following were the responses given during the interview:

Banks 1 and 4 managers said that: *“the SMEs need to increase their deposit with the bank in order to access enough credit for better management”*.

Banks 2 and 3 managers indicated that: *“SMEs need to strengthen their monitoring and supervision techniques on the job and sensitize their workers on effective management of resources.*

Banks 5, 6 and 7 managers said that: *“SMEs should be abreast with the use of book keeping to help manage their funds.*

It is clear from the analysis that SMEs need to manage their credit by keeping books of accounts and proper supervision. In conformity with Larson, (2005), he postulated that the accounting practices and the underlining accounting policies of small and medium enterprises should follow generally accepted accounting standards and policies. However, majority of the small and medium enterprises may decide not to follow the normally accepted rules

especially where the cost of employing additional accounting staff would outweigh any benefit.

### **Effects of interest rate and inflation**

The rate of interest charged on the credit and inflation determine the cost of credit. The cost of credit is the amount the borrower is obligated to pay above the principal sum of the money lent. The interviewees' responses were as follows:

Banks 1, 6 and 7 managers affirmed that: *“High interest rate on loan and unstable inflationary trend tend to affect SMEs businesses so the banks give their customers' loan at reasonable interest rate and flexible terms of repayment.*

Banks 2,3,4 and 5 managers affirmed that: *“the interest rate is not fixed but it ranges between 2% to 10% monthly and is dependent on the changes in economic variables such as inflation and exchange rate instability”.*

It is deduced that the interest rate charged on the SMEs loan affect their business performance, but it is dependent on economic conditions like inflation, exchange rate and cost of living prevailing in the economy. According to Stutely (2003), banks have often been criticized for having high interest rate charged on loans. But sometimes there are factors beyond their control. For example the amount of interest payable on loans depends on interest rate charged which is driven by the base lending rate of interest set by the central bank of Ghana.

Conclusion from Research Objective One indicated that management accounting practices enable the SMEs to produce and sell goods of high quality and promote increased productivity and growth in profit in order to



remain in business. Again, SMEs engaged in consultancy services for capacity building through workshops and seminars to equip them in their financial statement analysis and record keeping for monitoring business activities. Also, education and training helped SMEs to manage their credit by keeping books of accounts and proper supervision and equipped them the necessary skills to maximize business profit

### Impacts of MAPs on SMEs financial performance

Research objective two was to assess the impacts of management accounting practices of SMEs on their financial performance.

Multiple regressions were used to determine the level of prediction of the independent variable.  $Y = .886 + .357X_1 - .006X_2 + .158X_3 + .758X_4 + 1.125X_5$ . The analysis of variance of the multiple regression data yielded a t-ratio of -2.647 and it was statistically significant at the  $p = .009$  of 0.05 alpha level.

Table 12: *Regression Analysis of MAPS on SMEs Financial Performance*

Model	Unstandardized		Standardized	t	Sig
	Coefficients				
	B	Std. Error	Beta		
Constant	-.660	.249		-2.647	.009
Costing	.451	.094	.357	4.780	.000
Budgeting	-.005	.092	-.006	-.056	.956
Performance	.166	.076	.158	2.190	.029
Evaluation					
Information for	-.625	.077	.758	-8.064	.000
Decision Making					
Strategic Analysis	1.170	.079	1.125	14.842	.000

$R = .870$ ,  $R^2 = .756$ , Adjusted  $R^2 = .752$

Source: Field Survey, Yeboah-Mantey (2017)

Information in Table 12 yielded a multiple regression ( $R^2$ ) of .756. Results showed that the coefficient of determination  $R^2 = .756$ , predicting that 75.6% of the total variations on the impacts of MAPs on costing (.357), impacts of MAPs on financial performance on budgeting (-.006), impacts of MAPs on performance evaluation (.158), impacts of MAPs on information for decision making (.758), impacts of MAPs on strategic analysis (1.125). This means that other factors not explained in the model accounted for only 24.4%. The value of  $R=.870$  in this model indicated a very high level of prediction. The results showed that analysis of variance of the multiple regression data yielded a t-ratio of -2.647 was statistically significant at  $p = .0091 < 0.5$  alpha level.

#### **ANOVA model on multiple regression analysis**

Analysis of variance was conducted to find out the significance of the variables. The results are shown in Table 13.

Table 13: *ANOVA Model on Multiple Regression Analysis*

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	303.199	7	50.533	171.113	.000
Residual	97.751	331	.295		
Total	400.950	338			

Source: Field Survey, Yeboah-Mantey (2017)

Table 13 indicates that there was a significant relationship among factors on the impacts of management accounting practices of SMEs financial performance, ( $F= .171.113$ ;  $p=.000 < 0.05$ ;  $df = (7, 331)$ ). The results suggest that the variables in the model had a significant impact of MAPs of SMEs

financial performance. It means that there is significant impact of independent variables such as costing, performance evaluation, and information for decision making and strategic analysis all on SMEs financial performance.

The discussion is consistent with Byoun (2007) who postulated that the arrangements and optimal utilization of financial resources for current and future opportunities provides to organization by management accounting practices. The feature of optimum capital structure practices as function of management accounting practices provides efficient way and quick cost effective decisions (Temtime & Pansiri, 2007).

### **Qualitative Analysis on Objective 2**

Interview on research objective two was to assess the impact of management accounting practices of SMEs on their financial performance.

The management were interviewed based on banks contribution to the growth of SMEs in the Metropolis. The following theme emerged from the analysis:

Theme: Access to Credit Facilities

#### **Access to credit facilities**

In line with Enz (2008), SMEs with strong capital based can distinguish themselves from their competitors and survive in a competitive environment. The interviewees' responses are indicated as follows:

Bank 1 and 7 managers affirmed that: *“access to credit is enhanced by providing loan timely and advising SMEs to also access overdraft and other securities to expand their businesses.*

Banks 2, 3 and 6 managers said that: *“SMEs are advised to follow procurement standard and manage inventories so that it would ensure value*

*for money of their loan with processing and disbursement taking exactly two weeks”.*

Banks 4 and 5 managers affirmed that: *“SMEs must utilize their loan by buying bulk purchases of their goods from cheaper sources to ensure profit maximization”.*

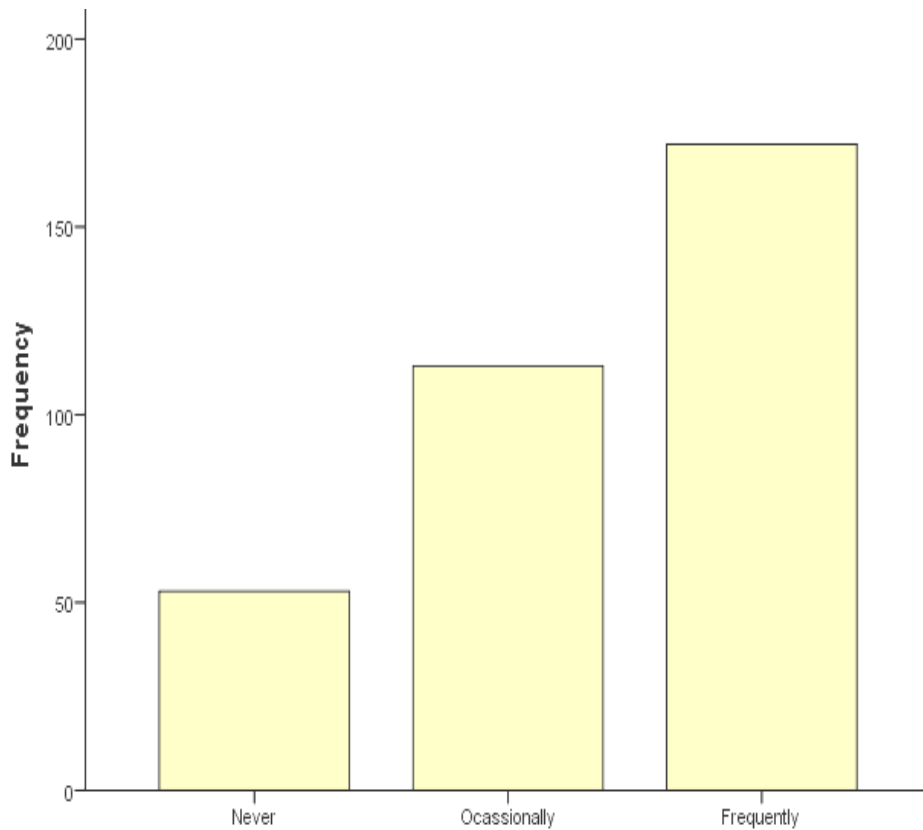
It can be inferred that access to credit and buying bulk purchases from cheaper sources enhances business prospects in maximizing profit. According to Adjei (2012), access to finance will provide start-up capital for the business as well as funds to meet operational costs. Entrepreneurs may face lack of start-up financing as one of the difficulties in assessing start-up finance, there are other factors that come into play such as ignorance of sources of finance and lack of a saving culture which is quite unfortunate that the problem with access to financial capital has been long due though there seems to be a little improvement.

Conclusion from Research Objective Two showed that analysis of variance of the multiple regression data yielded a F-ratio of 171.113 was statistically significant at  $p = .000 < 0.5$  alpha level. The results suggest that the variables in the model had a significant impact of MAPs of SMEs financial performance. Access to credit and buying bulk purchases from cheaper sources enhances business prospects in profit maximization and smoothen SMEs financial performance. SMEs used books of account for their transaction entries to ensure business success.

### **SMEs use strategic costing in determining financial challenges**

Research objective three was to find out the extent of analyses do accounting information help SMEs to overcome financial challenges.

In response to the issue SMEs use strategic costing in determining financial challenges. Figure 1 showed the results.



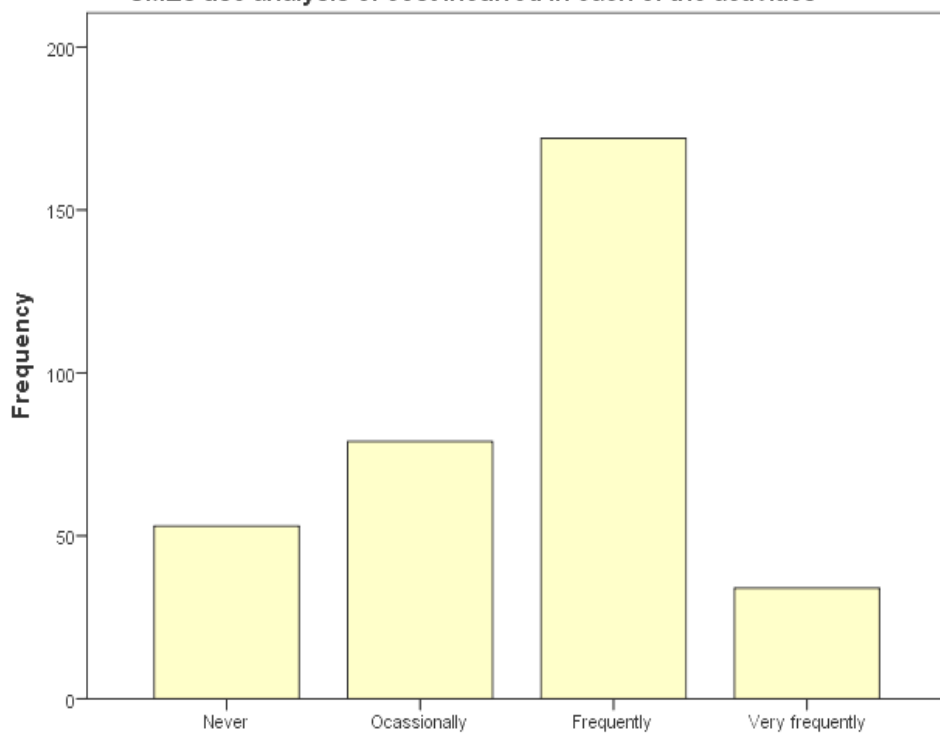
*Figure 1: SMEs Use Strategic Costing in Determining Financial Challenges*  
Source: Field Survey, Yeboah-Mantey (2017)

In Figure 1, a greater number, 172 (50.9%) of the respondents indicated that SMEs frequently used strategic costing in determining financial challenges. The results indicated that SMEs' cost is minimized by frequent cost analysis in order to reduce unforeseen bottlenecks in their businesses. To support this assertion, Vos (2005) observed the management skills of SME managers and suggested that these managers were weak in their ability to reflect strategically on their current business position especially in the area of developing competitive strategies (Singh et al, 2006). Moreover, SMEs are frequently oriented towards serving local niches or developing relatively narrow specializations.

#### **Analysis of cost incurred in determining financial challenges**

In response to the statement "SMEs analyse their cost incurred in

determining financial challenges, Figure 2 showed the results.

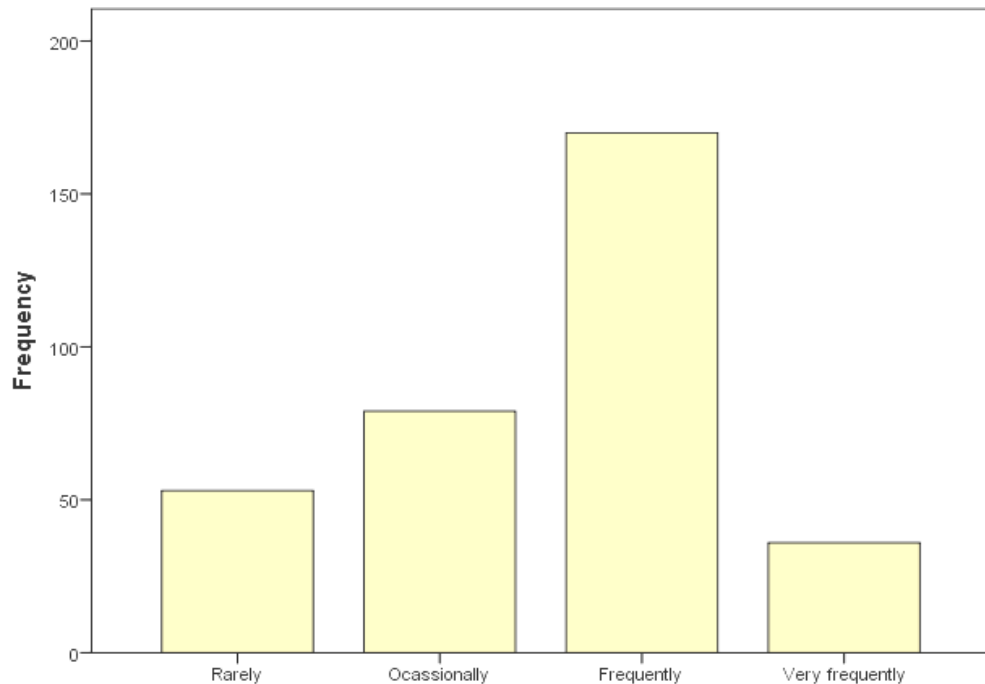


*Figure 2: Analysis of Cost Incurred in Determining Financial Challenges*  
Source: Field Survey, Yeboah-Mantey (2017)

Out of the total 338 respondents, 172 (50.9 %) said that SMEs frequently analyzed their cost incurred in determining financial challenges as per Figure 2. It can be inferred that SMEs expenditure is frequently analysed to avoid any financial crises. In line with ILO (2009), most of the entrepreneurs have low literacy levels as majority of them fail to do cost benefit analysis of their businesses.

### **SMEs take into account strategic factors when setting price decision**

The issue of whether SMEs take into account any strategic factors when setting price decision, the following responses were obtained as per Figure 3.



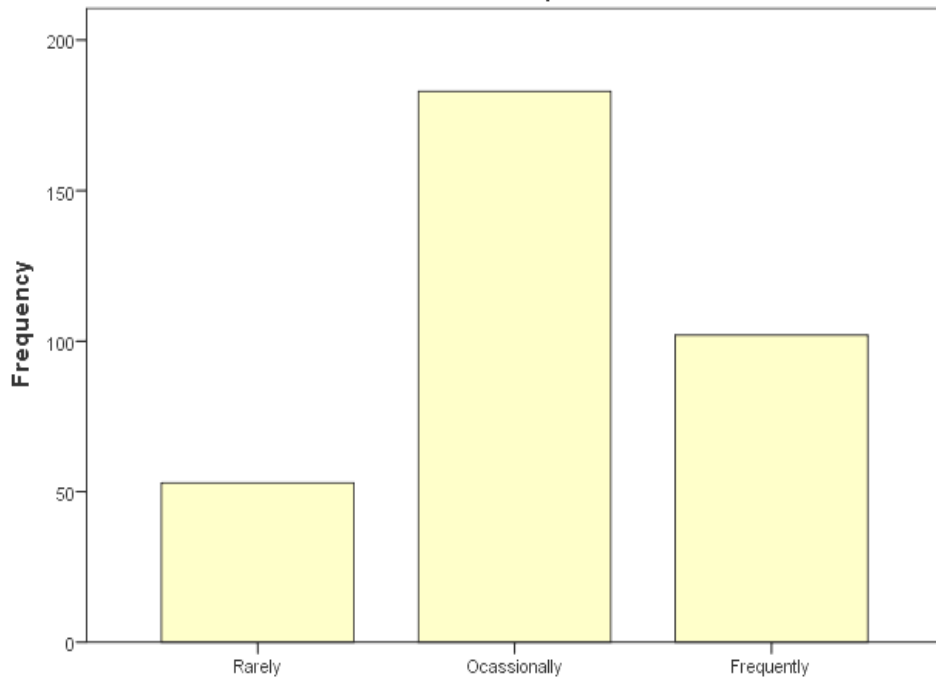
*Figure 3: SMEs take into account any strategic factors when setting price decision*

Source: Field Survey, Yeboah-Mantey (2017)

In Figure 3, it can be seen that the SMEs frequently take into account strategic factors when setting price decision in solving financial challenges with a percentage point of 50.3. It can be deduced that SMEs make informed decision about the ruling market prices in order to price their goods and services. Ndubi and Karanja (2008) noted that; complete, accurate and precise information is necessary for financial decisions including obtaining business loans.

### **Collection of data on competitive price, demand reactions and marketing position**

The researcher enquired from the respondents whether there is systematic collection of data on competitive price reaction, demand reaction and marketing position, the following were the responses obtained as per Figure 4.



*Figure 4: Collection of data on competitive price, demand reactions and marketing position*

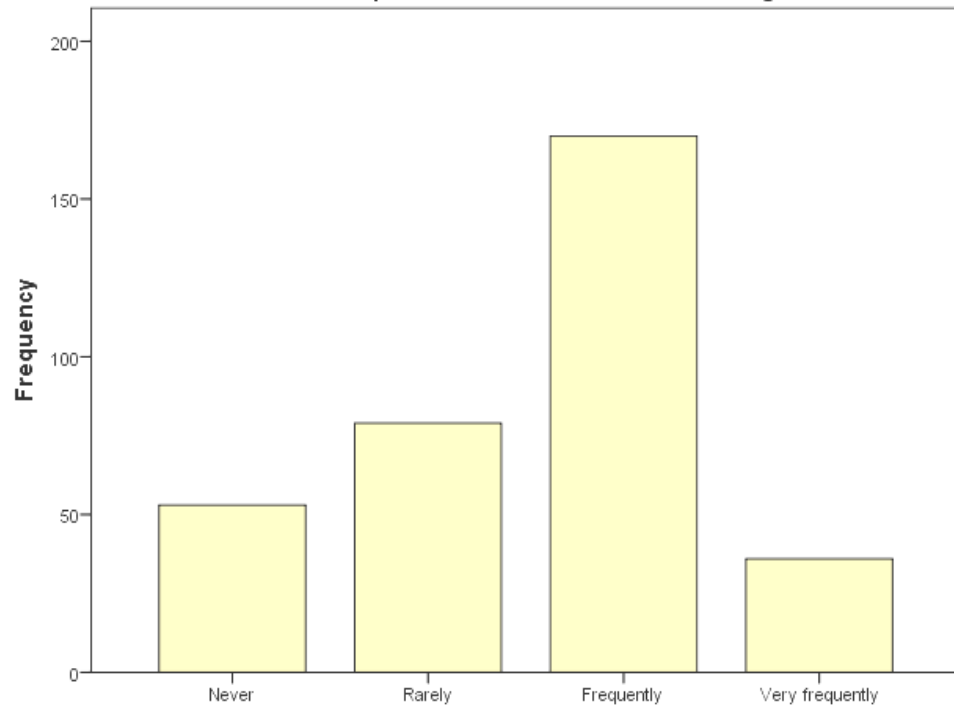
Source: Field Survey, Yeboah-Mantey (2017)

Figure 4 shows that 183 (54.1%) of the respondents indicated that SMEs occasionally collected data on competitive price reaction, demand reaction and marketing position. This means that data collection and their analysis were not done on regular affair by SMEs owners. It can be concluded that there is occasional with no systematic way of collecting data on competitive price reaction, demand reaction and marketing position which impede SMEs financial progress. In support of Meredith (1986), management accounting practices cover all implications of finances to various activities includes, production, investment, personnel and marketing decision particularly to calculate overall financial performance.



### There is intense competition for SMEs to market their goods

Regarding the statement there is intense competition for SMEs to market their goods, the following were the responses obtained as per Figure 5.



*Figure 5: There is intense competition for SMEs to market their goods*  
Source: Field Survey, Yeboah-Mantey (2017)

In Figure 5, it can be seen that majority, 170(50.3%) of SME owners indicated that there were frequently intense competition for SMEs to market their goods. It can be inferred that competitions among SMEs make it difficult to market their goods if it is not of good quality. In conformity with Zindiye (2008), it is quite difficult in the contemporary business environment that is characterised by stiff competition for the owners and managers of SMEs to manage these businesses competitively with inadequate management knowledge and skills. If managed with people with inadequate management knowledge and skills, the firms may be successful in the short run but will not be in a position to realise their full potential in the long run.

### **Qualitative Analysis on Research Objective 3**

Interviews on research objective three was to find out the extent of analyses do accounting information help SMEs to overcome financial challenges. The managements were interviewed on the operational challenges faced by SMEs in the Metropolis. Analysis of this issue showed two underlying themes from the interviewees.

Theme 1: Information Accessibility from the banks

Theme 2: Seeking Expert Hands in Financial Analysis

#### **Information accessibility from the banks**

Information accessibility from the banks ensures smooth lending process to the SMEs owners. Banks still remained cautious because not every customer needed to have collateral security or asset registers before they could access loan from the bank. The following discussions ensued:

Bank 1, 3 and 5 managers affirmed that: *“Most of the SMEs do not get access to either collateral securities or guarantors and that disqualify them from accessing loan but available information indicates that if the customer has an account with the bank, the said customer can access loan without any obstacle.*

Banks 2 , 4, 6 and 7 managers said that: *“ Information about customers history on loan repayment either facilitate or impede loan accessibility from the banks. Most SMEs must provide their business plan to facilitate loan accessibility which they fail to do”.*

It can be concluded that information accessibility is a key to help SMEs to access loan from the bank and by meeting bank requirements. Supporting this statement, Collis and Jarvis (2002) stated that SMEs’ function

of management accounting practices is concerned only with cash based information, particularly for effective use of financial resources and control of allocation of funds. According to Ghosh and Ray (2011), the issue of business management encompasses activities such as monitoring, planning, organising, leading, controlling, business reengineering and dissemination of information.

### **Seeking expert hands in financial analysis**

Expert hands in financial analysis are very crucial in providing relevant accounting information to business owners. Management accounting transactions cover various objectives with cost calculation, cost control, sales and profit maximization, attaining the market share and overall endurance of firm and that need expert hands (Jacobs, 2001). Interviewees' responses were as follows:

Bank 1, 3, 4 and 7 managers stated that: *“Most SMEs fail to keep proper book of account and do not prepare their financial statement regarding profit and loss account because they do not have the expertise to do so.*

Banks 2, 5 and 6 managers asserted that: *“Many SMEs owners do not engage in efficient management in terms of prudent usage of their loans they do not take training and advise from the banks seriously.*

It is inferred that SMEs must employ qualify persons to prepare their books of accounts and also ensure careful utilization of resources.

This assertion is supported by the study conducted by Kamla-Raj (2009) as having the variable that was measured with the question: “Do you agree that poor accounting and book keeping practices lead to SMEs failure in your country?” and the results showed that 68 percent and 57 percent of the respondents in the UK and Ghana respectively agreed that it influenced SMEs

failure. This reflects that in both countries, the respondents quite agree that poor accounting and book-keeping practices influenced SMEs failure.

Conclusion from Research Objective Three indicated that SMEs make informed decisions on the ruling market prices in order to price their goods and services due to the competitions existing in the market. SMEs are to find a systematic way of collecting data on competitive prices and demand and ensuring market position that would enhance their financial progress.

Information accessibility is also a key to help SMEs to access loan from the bank and by meeting bank requirements. SMEs must employ qualify persons to help prepare their books of accounts and ensure careful utilization of resources.

### **Management accounting practices on SMEs and financial performance**

Research objective four was to assess the relationship between management accounting practices and SMEs' finances.

Table 14: *Correlation Analysis*

		Correlations								
		1	2	3	4	5	6	7	8	9
Break even analysis (1)	Pearson	1	.893**	.927**	.813**	.923**	.649**	.892**	.308**	.557**
	Correlation									
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000	.000	.000
	N	338	338	338	338	338	338	338	338	338
Control models (2)	Pearson	.893**	1	.921**	.666**	.949**	.348**	.936**	-.048	.582**
	Correlation									
	Sig. (2-tailed)	.000		.000	.000	.000	.000	.000	.379	.000
	N	338	338	338	338	338	338	338	338	338
product profitability analysis(3)	Pearson	.927**	.921**	1	.861**	.922**	.639**	.965**	.160**	.705**
	Correlation									
	Sig. (2-tailed)	.000	.000		.000	.000	.000	.000	.003	.000
	N	338	338	338	338	338	338	338	338	338
customer profitability analysis(4)	Pearson	.813**	.666**	.861**	1	.795**	.759**	.767**	.386**	.646**
	Correlation									
	Sig. (2-tailed)	.000	.000	.000		.000	.000	.000	.000	.000
	N	338	338	338	338	338	338	338	338	338
payback period(5)	Pearson	.923**	.949**	.922**	.795**	1	.496**	.900**	.070	.497**
	Correlation									
	Sig. (2-tailed)	.000	.000	.000	.000		.000	.000	.200	.000

Table 14 continued

	N	338	338	338	338	338	338	338	338	338
accounting rate of return(6)	Pearson	.649**	.348**	.639**	.759**	.496**	1	.570**	.700**	.414**
	Correlation									
	Sig. (2-tailed)	.000	.000	.000	.000	.000		.000	.000	.000
	N	338	338	338	338	338	338	338	338	338
net present value(7)	Pearson	.892**	.936**	.965**	.767**	.900**	.570**	1	.205**	.730**
	Correlation									
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000		.000	.000
	N	338	338	338	338	338	338	338	338	338
internal rate of return(8)	Pearson	.308**	-.048	.160**	.386**	.070	.700**	.205**	1	.256**
	Correlation									
	Sig. (2-tailed)	.000	.379	.003	.000	.200	.000	.000		.000
	N	338	338	338	338	338	338	338	338	338
improvement in financial performance (9)	Pearson	.557**	.582**	.705**	.646**	.497**	.414**	.730**	.256**	1
	Correlation									
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000	
	N	338	338	338	338	338	338	338	338	338

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

Source: Field Survey, Yeboah-Mantey (2017)

### **Relationship between break even analysis and SME financial**

#### **Improvement**

From Table 14, the correlation analysis was to determine whether break even analysis lead to SME financial improvement. The findings revealed a significant positive relationship between break even analysis and SME financial improvement ( $r = .557$ ,  $P < 0.01$ ) as indicated in Table. This means that when break even analysis improves, it may result into improvement in SME finances. The study further revealed that break even analysis only contributed 31.0% to SME financial improvement leaving 69.0% to other factors not included in this study and needed further studies to reveal them and their contributions.

### **Relationship between control models and SMEs financial improvement**

The study also sought to determine whether there existed a significant relationship between control models and SMEs financial improvement. From Table 14, it is revealed that there is a statistically significant positive relationship between control models and SMEs financial improvement, ( $r = .582$ ,  $P < 0.01$ ) was found. This implies that SMEs should establish a sound and clean control models if financial improvement is to be attained. The study further revealed that control models only contribute 33.9% to SMEs financial improvement leaving 66.1% to other factors not included in this study.

### **Relationship between product profitability analysis and SMEs financial**

#### **Improvement**

From Table 14, a statistically significant positive relationship between product profitability analysis and SMEs financial improvement ( $r = .705$ ,  $P < 0.01$ ) was found. This means that if product profitability analysis is adhered

to, SMEs would definitely attain financial improvement. The study further indicated that product profitability analysis only contributed 49.7% to SMEs financial improvement leaving 50.3% to other factors not included in this study.

#### **Customer profitability analysis helps improves SMEs finances**

There is a statistically significant positive relationship between customer profitability analysis and SMEs financial improvement ( $r = .646$ ,  $P < 0.01$ ) was found as per Table 14. This implies that SMEs should carry out regular customer profitability analysis to be able to identify customers' weaknesses and strengths that will help to attain their set goals. The study also revealed that customer profitability analysis only contributed 41.7% to SMEs financial improvement leaving 58.3% to other factors not included in this study.

#### **Payback period and SMEs financial improvement**

From Table 14, it is revealed that there is a statistically significant positive relationship between payback period and SMEs financial improvement, ( $r = .497$ ,  $P < 0.01$ ) was found. This implies SMEs should establish a sound and clean payback period if financial improvement is to be attained. The study also revealed that payback period only contributed 49.7% to SMEs financial improvement leaving 50.3% to other factors not included in this study.

#### **Relationship between accounting rate of return and SMEs financial improvement**

The accounting rate of return was found to be a significant factor that influences SMEs financial improvement. The study therefore measures its



contribution to SMEs financial improvement and sees whether some relationship exists between them which could guide SMEs to improve their business finances.

From Table 14, the correlation coefficient of accounting rate of return and SMEs financial improvement is ( $r = .414$ ) was statistically significant at 1% level. The result indicates that there is a positive relationship between accounting rate of return and SMEs financial improvement. When the accounting rate of return increases, the SMEs finances improves, and if the accounting rate of return decreases, SMEs finances deteriorate.

#### **The impact of net present value on the SMEs financial improvement**

Table 14 shows that there is statistically significant and positive relationship between net present value and SMEs financial improvement, ( $r = .730$ ,  $P < 0.01$ ) was found. The study further revealed that net present value contributed 53.3% to SMEs financial improvement leaving 46.7% to other factors not included in this study.

#### **Internal rate of return and SMEs financial improvement SMEs financial improvement**

The findings revealed from Table 14 that there was a significant positive relationship between internal rate of return and SMEs financial improvement ( $r = .256$ ,  $P < 0.01$ ). This means that when internal rate of return improve, it may result into improvement in SMEs finances. The study further revealed that internal rate of return only contributed 6.6% to SMEs financial improvement leaving 93.4% to other factors not included in this study and needed further studies to reveal them and their contributions.

In line with the discussions, Ross et al. (1999) propose some means to quantify financial performance. These are: profit margin or return on sales, return on assets, and return on equity. According to Ross et al. (1999), profit margins are computed by dividing profits by total operating revenue and thus express profits as a percentage of total operating revenue. Return on assets is the ratio of income to average total assets, both before tax and after tax, and measures managerial performance. Return on equity is defined as net income divided by average stockholders' equity, and shows profit available for stockholders. The return on capital employed is a better measurement of financial performance than return on equity for instance because it shows how well an SME is using both its equity and debt to generate returns.

Conclusion from the Pearson product-movement correlation analysis indicated a significant and strong positive relationship among variables such as net present value ( $r = .730$ ), product profitability analysis ( $r = .705$ ), customer profitability analysis ( $r = .646$ ), control models ( $r = .582$ ) and break even analysis ( $r = .557$ ) all related highly on SMEs' financial performance .

#### **Qualitative Analysis on Research Objective 4**

Interview on research objective four was to assess the relationship between management accounting practices and SMEs' finances. The managements were interviewed based on the banks contribution to the SMEs financial performance in the Cape Coast Metropolis. The following two themes emerged from the analysis:

Theme 1: Provision of Financial Advice to SMEs

Theme 2: Engagement of Experienced Professionals

### **Provision of financial advice to SMEs**

The prospective capital provider, for example, the bank, may want to know the extent the proprietor's equity covers the financial need of the business. The proprietor's equity is no doubt the collateral for further funds that can be accessible by the SME operator. Management of the banks advice the SMEs on the innovative ways to become successful in their businesses.

The underlying responses ensued:

Banks 1, 4 and 6 managers stated that: *"We guide SMEs to draw a scale of preference of goods mostly demanded in the market and consider their price list"*.

Banks 2, 3 and 5 managers maintained that: *"We provide financial advice to the SMEs to keep savings and currents account with the bank"*.

Bank 7 manager said that: *"SMEs must put in place monitoring mechanism to supervise their employees in order to enhance the performance in the business"*.

It can be concluded that banks provide financial advice to SMEs to sell goods that are highly marketable and from cheaper sources. In support of the discussion, Adjei (2012) maintained that financial advice is one of the life wires of every business economic activity. Access to finance advice provides an impetus to use start-up capital for the business wisely as well as minimizing operational costs of buying goods and services.

### **Engagement of experienced professionals**

The experienced level was reflected in SMEs ability to carry out managerial routines. The routine includes making decisions on financial investment and management and employing professionals. This influences the

decision on the external funding of SMEs. The following were the responses given by the managers:

Banks 1, 2, 5, 6 managers said that: “*SMEs must employ qualified personnel to handle their books of accounts*”.

Banks 3, 4 and 7 managers indicated that: “*We advise SMEs to engage employees with professional background since that will reduce the cost on further training.*”

It can be deduced that engagement of experienced professionals are necessary to manage the SMEs books of accounts and further train other co-workers.

Conclusion from Research Objective Four showed Pearson product-movement correlation analysis with a significant and strong positive relationship among variables such as net present value ( $r = .730$ ), product profitability analysis ( $r = .705$ ), customer profitability analysis ( $r = .646$ ), control models ( $r = .582$ ) and break even analysis ( $r = .557$ ) of the firms all related highly on SMEs’ financial performance. Again, banks provide financial advice to SMEs to sell goods that are highly marketable and from cheaper sources. SMEs needed experienced professionals to manage their books of accounts and offer training to other workers. In connection with the discussion, (Liedholm, MacPherson & Chuta, 1994) indicated that poor management and accounting practices have hampered the ability of smaller enterprises to raise finances. Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to smaller enterprises. In spite of these claims however, a large number of small enterprises fail because of non-financial reasons.

### Management Accounting Practices and Loan Acquisition

Research objective five was to find out how the management accounting practices of SMEs inform the financial and non-financial institutions to give loans to the SMEs in the Cape Cost Metropolis. The respondents were required the source of finance for their business. The following were the responses as per Table 15.

Table 15: *The source of finance for SMEs business*

SMEs		
	Frequency	Percent
Own savings	170	50.3
Bank	89	26.3
Family source	79	23.4
Total	338	100

Source: Field Survey, Yeboah-Mantey (2017)

From Table 15, 170 (50.3%) of the respondents indicated that their source of finance was their own savings. This was followed by sources of fund from the bank with a percentage point of 26.3. It implies that the SMEs owners generate capital through their personal savings.

It can be concluded that many of the SMEs owners were unable to access the startup capital from the banks due to lack of collateral securities. The finding is consistence with Yankson, (2004) who asserted that small firms usually do not require huge initial capital and any high technology and therefore mostly apt to finance start-up through personal savings or credit from relatives and friends. He went on to state that initial capitals outlays in developing countries are mostly wholly financed from personal savings and

subsequent investments are financed largely from retained earnings. His findings are consistent with that of the World MFI report (1994) which established that “small entrepreneurs begin with very small amounts of capital from personal savings

**Mode of loans repayment**

Regarding the question “how is the mode of loans repayment”? The results were presented in Table 16.

Table 16: *How is the mode of loans repayment?*

SMEs		
	Frequency	Percent
Weekly	176	52.0
Monthly	128	37.9
Yearly	34	10.1
Total	338	100

Source: Field Survey, Yeboah-Mantey (2017)

Table 16 shows that out of 338 SMEs owners, 176(52.0%) said the mode of loan repayment was done on weekly basis. A sizeable number, 128(37.9%) of the respondents indicated that their mode of loan repayment was on monthly basis. It can be inferred that the banks preferred their loan repayment on weekly basis to avoid any likelihood of default payment.

**Maximum amount of credit to the SMEs**

As to whether the SMEs had the maximum amount of credit they required, the following results were obtained as per Table 17.

Table 17: *The maximum amount of credit to the SMEs*

<b>Amount</b>	<b>Frequency</b>	<b>Percent</b>
GHC2,000	166	49.1
GHC3,000	36	10.7
GHC4,000	83	24.5
GHC5,000+	53	15.7
<b>Total</b>	<b>338</b>	<b>100</b>

Source: Field Survey, Yeboah-Mantey (2017)

Regarding the maximum amount of credit SMEs ever got from the banks, Table 17 indicated that 166(49.1%) of the respondents said they received GHC2000 as the maximum. Only 53(15.7%) of the respondents said they received the maximum loan of GHC 5000 and above from the banks. The implication is that most of the SMEs owners have not been able to expand their businesses due to insufficient capital.

In conformity with the analysis, Beaver (2002) explains that the historical development and the associated culture, of the banking system under pin the problem of the emphasis on the provision of collateral security as a primary condition in lending. Banks have always adopted a risk averse stance towards small firms, with an accompanying inability to access huge loan due to low income generating potential of the venture and when analyzing the likelihood of loan repayment.

### **Problems relating to the provision of finance**

Regarding the problems of provision of finance, the following results were obtained as per Table 18.

Table 18: *Problems relating to the provision of finance*

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
Insufficient working capital	33	9.8
Provision of collateral security	132	39.0
High interest rate	138	40.8
Locking up savings till loan repayment	35	10.4
Total	338	100

Source: Field Survey, Yeboah-Mantey (2017)

From Table 18, 138 (40.8%) of the SMEs owners said that the problems relating to the provision of finance from the banks is high interest rate. An appreciable number of 132(39.0%) said the problem related to the provision of collateral security to the banks. It can be inferred that the SMEs owners do not have the requisite collateral securities to warrant them for accessing loan from the banks.

According to Maina (2012), banks had come up to address the gap in finance requirements for SMEs. Microfinance institutions specifically focused on big businesses only, thus implying lack of access to finance for small and medium enterprises so the smaller SMEs depend on self to accumulate capital for their businesses.

### **Improving the credit scheme**

To the question “In your view what can be done in order to improve the credit scheme”? The following results were obtained as per Table 19.



Table 19: *Improving the credit scheme*

Credit Scheme	Frequency	Percent
Withdrawing savings and acquiring loan	34	10.0
Educating the clients	53	15.7
Reducing interest rate	181	53.6
Removal of collateral security	70	20.7
Total	321	100

Source: Field Survey, Yeboah-Mantey (2017)

Regarding the way of improving the credit scheme, Table 19 shows that 181(53.6%) of respondents said there should be a reduction of interest rate. An appreciable number, 70(20.7%) of the respondents said that the removal of collateral security is their most priority. It can be concluded that most of the SMEs owners have issues in dealing with excessive interest rate and collateral securities which they cannot comply.

#### **Interviews on Research Objective Five:**

The managements of the banks were interviewed on how the management accounting practices of SMEs informed financial institutions to give loans to the SMEs in the Cape Cost Metropolis. The analysis of the transcriptions of the answers of all the participants indicated three important themes relating to research objective five.

Theme 1: Analysis of Financial Statement

Theme 2: Bank Loans and overdraft for Customers

Theme 3: Poorly Managed Businesses

### **Analysis of financial statement**

Financial statement assists in the analysis of accounting information provided by the banks. Romney (2009) argues that the biggest benefit of financial statement is that they help in mechanise and rationalise reporting. The managers explained that financial statement was very helpful when planning strategically with emphasis on activities such as outstanding balance, profits, costs, production outcomes and customer service. The responses given by the interviewees were as follows:

Banks 1 and 3 managers said: *“We give our clients their monthly statement of account to show their savings made and amount owing to the bank”*.

Banks 2 and 7 managers indicated that: *“SMEs must separate their business life from their personal life to ensure effective management of their loan”*.

Banks 4, 5 and 6 said: *“We request SMEs owners to have an audited annual statements and cash flow to help interpret their financial standing”*.

It can be concluded that financial institutions assess SMEs financial statement before giving them loan and other facilities. In support of this analysis, Codjia (2010) indicated that financial performance is the analysis of financial statement which include the account summary based on fixed tenure the desire of daily, monthly, quarterly, yearly and it pertains revenues, expenses, profit / loss, changes into assets and liabilities.

### **Bank loans and overdraft for customers**

The sources of financing of SMEs constitute bank finance and other forms of institutional credit. Sources of SMEs finance include credit unions and commercial banks which play an equally important role in the provision of

external finance asserted by (World Bank 1995). The following were the responses given during the interview:

Banks 1, 5 and 6 managers affirmed that: *“the SMEs will be in good standing with the bank if they pay off their loans and overdraft contracted”*.

Bank 2, 3, 4, and 7 managers indicated that: *“We advise SMEs to retain their profit earnings and complement it with the loan they receive from the banks in order to help expand their business”*.

It is clear from the analysis that SMEs creditworthiness paves way for them to receive both bank loan and overdraft.

### **Poorly managed businesses**

An interview with the management of the bank managers revealed that poor management and accounting practices have hampered the ability of smaller enterprises to raise finances from the banks. Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to smaller enterprises. A large number of small enterprises fail to get access for loan because of non-performance (Liedholm, MacPherson & Chuta, 1994). The following discussions ensued:

Bank 1 and 4 managers indicated that: *“Some SMEs are not creditworthy and lack proper management with their loan which disqualifies them from accessing further loan from the bank”*.

Banks 2, 3, and 6 managers said that: *“SMEs determine business risk factors and macroeconomic variables like inflation and exchange rate before accessing loan from the bank, taking into consideration the profit margin they would receive”*.

Bank 5 and 7 managers asserted that: “We advise the poor managed businesses to access their loan in groups so that repayment would be easier for them.

It can be concluded that the banks operations with SMEs is based on track records of both parties but the services extended to businesses is dependent on their creditworthy, records of proper management of their businesses and their ability to off pay their loan. In support of the discussion, Sultan (2010); Dumbu and Chadamoyo, (2012) asserted that managerial deficiencies are therefore a key factor in the failure of SMEs internationally. On the other hand Sultan (2010); Kadosca and Francsovics (2011) believed many scholars in the area of entrepreneurship that the success of the SMEs is dependent on the performance of their management who are often the owners or managers.

Conclusion from Research Objective Five indicated that most of the SMEs owners were unable to access the startup capital from the banks due to lack of collateral securities and strict weekly repayment periods. Most of the SMEs owners have issues with excessive interest rate which they cannot comply. Financial institutions also assess SMEs financial statement and based on their creditworthiness before giving them loan and other facilities.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### Introduction

The previous chapters have assessed the impacts of management accounting practices on financial performance of SMEs in the Cape Coast in the Central Region of Ghana. This chapter outlines the summary of major findings and conclusions and makes policy recommendations.

The study adopted a descriptive design with cross sectional survey and is both quantitative and qualitative in nature. The study used SPSS statistical procedures to analyze the data collected through the administration of questionnaires and used content analysis for the interview guide. The qualitative data collected were analyzed using open-coding session of what Corbin and Strauss (2008) referred to as a “line-by-line analysis” (p. 72) in order to detect prominent concepts.

A multistage sampling technique consisting of stratified, proportional and simple random sampling techniques were used to select the SMEs owners. Purposive sampling technique was used to select the bank managers. The sample for the study consisted of 338 SME owners and seven banks and micro-finance managers. Triangulation was a technique used to strengthen the robustness of the qualitative and quantitative study.

#### Key findings

The main findings of the study are summarized below:

1. The first objective of the study was to find out how the management accounting practices undertaken by the SMEs affect their performance in Cape Coast Metropolis.

- a. The main finding was that management accounting practices enabled the SMEs to produce and sell high quality goods and that promoted increased productivity and profit growth rate through workshops and seminars and that boosted SMEs performance level.
2. The second objective of the study was to assess the impacts of management accounting practices of SMEs on their financial performance.
  - b. The main finding showed that analysis of variance of the multiple regression data yielded an F-ratio of 171.113 was statistically significant at  $p = .000 < 0.5$  alpha level. The results suggest that the variables in the model had a significant impact of MAPs of SMEs financial performance.
3. The third objective of the study was to find out the extent of analyses do accounting information help SMEs to overcome financial challenges.
  - c. The main finding showed that access to credit and buying bulk purchases from cheaper sources with informed decisions on systematic way of collecting data on the ruling market prices enhanced business prospects in profit maximization and smoothened SMEs financial performance.
4. The fourth objective of the study was to assess the relationship between management accounting practices and SMEs' finances.
  - d. The result showed that the Pearson product-movement correlation analysis had a significant and strong positive relationship among variables such as net present value ( $r = .730$ ), product profitability

analysis ( $r = .705$ ), customer profitability analysis ( $r = .646$ ), control models ( $r = .582$ ) and break even analysis ( $r = .557$ ) of the firms as they all related highly on SMEs' financial performance. Banks provided financial advice to SMEs to sell goods that are highly marketable and from cheaper sources.

5. The fifth objective of the study was to find out how the management accounting practices of SMEs inform the financial and non-financial institutions to give loans to the SMEs in the Cape Cost Metropolis.
- e. The main finding showed that most of the SMEs owners were unable to access the startup capital from the banks due to excessive interest rate and lack of collateral securities coupled with strict weekly repayment periods.

### **Conclusions**

Based on the findings obtained after analyzing the various responses from the questionnaires, it can be concluded that:

1. SMEs consultancy services and capacity building increased their productivity level and profit margin due to effective monitoring and financial assessment.
2. The significant impact of MAPs on SMEs financial performance was based on prudent financial management and best accounting practices and that increased in their profit margin
3. SMEs did not employ qualify and knowledgeable personnel in the preparation of their books of account and that affected the sustenance of their businesses and decreased profit.

4. The Pearson product-movement correlation analysis had a significant and strong positive relationship among variables but did not exceed .750 due to extraneous factors that had not been accounted for.
5. SMEs owners inability to access their startup capital from the banks because of non-availability of collateral securities and strict weekly repayment abilities had a dire consequence on business activities and the expected profit.

### **Recommendations**

Based on the findings, the researcher wish to make the following recommendations:

Effective monitoring and financial assessment must be done by the SMEs on regular affair since it has the tendency to reduce any bottleneck in businesses.

The variables that led to significant with high positive relationship must be strengthened by SMEs owners and those with low positive relationship must be rectified.

SMEs should employ qualified persons who are knowledgeable in the preparation of their books of account and that would sustain their businesses.

SMEs must minimize the margin of errors associated with non-performing businesses in the variables that led to decrease profit.

SMEs owners should search for easy and cheaper sources of acquiring the startup capital.



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**APPENDICES**

**APPENDIX A**

**UNIVERSITY OF CAPE COAST**

**DEPARTMENT OF MANAGEMENT, SCHOOL OF BUSINESS**

**QUESTIONNAIRE FOR SMEs OWNERS**

I am an MBA student at the Department of management of School of Business University of Cape Coast. This questionnaire is part of my study aimed at assessing the the impacts of management accounting practices on financial performance of SMEs and how to ensure their sustainable growth in Ghana.

I, therefore, solicit your cooperation and consent to participate in this study. The confidentiality of your responses is guaranteed.

**SECTION A: Demographic information of the respondents**

1. Sex : Male [ ] Female [ ]
2. Year of operations: 1-3 years [ ] 4-6 years [ ] 7-9 years [ ]  
10+ years [ ]
3. Nature of SMEs: Agriculture / agro-processing [ ] Artisans [ ]  
Fish Mongers [ ] Retail shops [ ] Traders [ ] Services [ ]  
others Specify.....
4. Number of employees: None [ ] 1-2 [ ] 3-4 [ ] 5-6 [ ] 7+ [ ]
5. Annual sales turnover : GHS 1000 [ ] GHS 1500 [ ] GHS 2000 [ ]  
GHS 3000 GHS 4000 GHS 5000 GHS 6000+ [ ]
6. Level of Education: No formal education [ ] JHS/MSLCE [ ]  
SHS/GCE [ ] Diploma [ ] Degree [ ] Others Specify.....

7. Level of Accounting Skills: No skills [ ] Low skills [ ] High skills [ ]

**Section B: Management Accounting Practices on SMEs Performance**

Please tick the following on the Likert scale: Decreased significantly, 1; Decreased, 2; No change, 3; Increased, 4; Increased significantly, 5.

S/N	Performance of SMEs	1	2	3	4	5
1.	Level of productivity					
2.	Product quality					
3.	Number of delivery on time					
4.	Sales growth rate					
5.	Operating profit growth rate					

Please tick the following on the Likert scale: Never, 1; Rarely, 2; Ocassionaly, 3; Frequently, 4; Very frequently, 5.

S/N	SMEs Improvement in accounting practices	1	2	3	4	5
6.	Organise training for SMEs owners					
7.	Hire consultants for SMEs for financial statement analysis					
8.	Make the use of accounting records is mandatory					
9.	Strengthen monitoring and supervision					
10.	Educate owners on the need to keep accounting records					

**Section C: Impacts of Management Accounting Practices on SMEs**

**Financial performance**

Please tick the following on the Likert scale: Never, 1; Rarely, 2; Occasionally, 3; Frequently, 4; Very frequently, 5.

S/N	Impact of MAPs on financial performance	1	2	3	4	5
<b>Costing</b>						
11.	Separation of variable cost, incremental costs & fixed costs					
12.	Activity- based costing (ABC)					
<b>Budgeting</b>						
13.	Budgeting for controlling costs					
14.	Budgeting for planning					
15.	Activity- based budgeting					
<b>Performance Evaluation</b>						
16.	Financial measures					
17.	Non-financial measures(s) related to operation and innovation					
18.	Non-financial measure(s) related to customers					

<b>Information for Decision Making</b>						
19.	Customer profitability analysis					
20.	Product profitability analysis					
21.	Evaluation of major capital investments based on payback period and/ or accounting rate of return					
22.	break-even analysis for major products					
<b>Strategic Analysis</b>						
23.	Analysis of competitors' strengths and weaknesses					
24.	Long-range forecasting					
25.	integration with suppliers "and/or customers" value chains analysis					



**Section D: Using Management Accounting Information to Overcome Financial Challenges**

Please tick the following on the Likert scale: Never, 1; Rarely, 2; Occasionally, 3; Frequently, 4; Very frequently, 5.

S/N	Overcoming financial challenges	1	2	3	4	5
26.	Strategic costing in determining SMEs finances					
27.	An analysis of the costs incurred in each of the activities of the SMEs					
28.	Taking into account any strategic factors when setting price decision					
29.	There is systematic collection of data on competitors' price reaction, demand reaction, and market position					
30.	There is intense competition for SMEs to market their goods					

**Section E: Management Accounting Practices on SMEs' Finances**

Please tick the following on the Likert scale: Never, 1; Rarely, 2; Ocassionaly, 3; Frequently, 4; Very frequently, 5.

S/N	EMEs Finances	1	2	3	4	5
31.	The SME does Break-even analysis					
32.	The SME uses Stock control model					
33.	The SME does Product profitability analysis					
34.	The SME does Customer profitability analysis					
35.	The SME considers Payback					
36.	The SME computes Accounting rate of return					
37.	The SME computes Net present value					
38.	The SME computes Internal rate of return					

**Section F: Management Accounting Practices and Loan Acquisition**

39. What is/are the source(s) of finance for your business?

Own Saving [ ] Traditional Money Lender [ ] Bank [ ] Family Source [ ]

Inheritance [ ] Co-operative [ ] Others (Specify).....

40. What are the problems relating to the provision of Finance?.....

.....

41. How is the mode of repayment of loans? 1= daily [ ] 2= Weekly [ ] 3=

Monthly [ ] 4 = yearly [ ] 5 = other, specify [ ]

42. What is the maximum amount of credit that you ever get?.....

43. What in your view, what can be done in order to improve the credit

scheme(s)?.....

.....

## APPENDIX B

### UNIVERSITY OF CAPE COAST

#### DEPARTMENT OF MANAGEMENT SCHOOL OF BUSINESS

#### INTERVIEW FOR MANAGERS OF MFIs

I am an MBA student at the Department of Management of School of Business University of Cape Coast. This questionnaire is part of my study aimed at assessing the the impacts of management accounting practices on financial performance of SMEs and how to ensure their sustainable growth in Ghana.

I, therefore, solicit your cooperation and consent to participate in this study. The confidentiality of your responses is guaranteed.

#### **Section A: Management Accounting Practices on SMEs Performance**

1. How do you help the SMEs to plan, organize, lead and control their businesses?
2. List any three ways in which your contributions have positive effects on the performance of your clients SMEs?
3. Suggest any business environment factors that may impact on the performance of the SMEs?

#### **Section B: Impacts of Management Accounting Practices on SMEs**

##### **Financial performance**

4. What books of accounts do you train your clients to keep in their SMEs operations?
5. How do you help in the training of the SMEs clients to employ qualified personnel for marketing their products?

6. How do you help in making the purchases plans for your SMEs clients?

### **Section C: Using Accounting Information to Overcome Financial**

#### **Challenges**

7. What hinders your SMEs clients to have reliable credit facilities from your financial/non-financial institution?
8. What business challenges do your SMEs clients have in dealing with you?

### **Section D: Management Accounting Practices and SMEs' Finances**

9. In what ways do you help your SMEs clients to keep written budgets and plans for their firm to manage their finances?
10. How do you help employ a qualified accountant to manage the books of your SMEs clients?

### **Section E: Management Accounting Practices and Loan Acquisition**

11. How do you assist your SMEs to keep their financial statements for assessment of their loan repayment?
12. What are the current financial position of your SME/clients and their source of funding activities?
13. What are the alternative sources of capital for your SMEs clients other than bank loans?
14. Under what conditions are you given assistance by your clients?
15. In your opinion, what are the effects of these conditions and processes on SMEs inability to access assistance from your bank?