Exploring the presence of accounting amongst petty traders in Ghana

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Abstract: This paper seeks to investigate the presence of accounting among petty traders in Ghana. The methodology applied was the mixed method under the multiple methods choices. Both qualitative and quantitative techniques were used. The findings were that formal education is not a pre-requisite requirement to the operations of a petty trading business. However, the study revealed the presence of accounting in petty trading; thus confirming the assumption that accounting is a universal good and is present in the petty trading business. Findings on the three major factors that influenced the present or absent of accounting among petty traders revealed that: there were no state institutions or pressure groups in Ghana to influence or oblige private entrepreneurs (petty traders) to prepare financial statements; the literacy of the petty trader though was found to be a necessary factor, it was not sufficient to explain the accountancy presence or absence in the traders' businesses. The usefulness of the accounting information to the petty trader influenced the presence of accounting in the traders' business. Finally, the level of trust - social capital in the community, and its influence on the presence of accounting, was relatively insignificant in the context of urban Ghana. No study of this kind has been conducted in the field of accounting presence or absence in Ghana.

Key words: accounting; pretty trades; Ghana

1. Introduction

Accounting is critical for the development of any business entity in the world inclusive of petty traders in Ghana. Ironically, unless a petty trader in Ghana is hard pressed under some kind of authority or a compelling element that makes the preparation of accounts mandatory, most petty traders do not usually keep written accounting records. The study sought to determine whether, from the perspective of the Ghanaian petty trader, the assumption that "accounting is a universal good and therefore is inevitable in every business entity" could be challenged. The problem statement identified in the aforementioned sentence has set the scene for the review of relevant literature, which is the focus of the next section.

2. Review of relevant literature

The present section is dedicated to review literature by first looking at the history of accounting, traders understanding of accounting, usefulness of accounting records, and many others in their relevant sub-section.

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2.1 History of accounting

Double-entry bookkeeping began in the commercial city-states of medieval Italy and was well developed by the time of the earliest preserved double-entry books, from 1340 AD in Genoa (Encyclopaedia Britannica, 1999). According to the same source the first published accounting work was written in 1494 AD by the Venetian Monk Luca Pacioli.

2.2 Traders understanding of accounting

Fagerberg (1954) challenged accounting academics to take interest in "personal accounting" because he saw the literature on the area as virtually a blind spot. Early researchers in accounting, mostly focused on macro-cultural perspectives such as humour (Bougen, 1994), "the movies" (Bear, 1994), and architecture (McKinstry, 1997). Walker (1998) is one of the few authors who focused on individual concerns and perspectives in his historical work. After concluding that the maintenance of accounting records was part of the "private sphere", Walker (1998) called upon researchers to examine accounting as a social practice.

2.3 Usefulness of accounting records to the petty trader

In these views, the contemporary functions of accounting are to accumulate capital through manipulation in financial disclosure in the relation of capital ownership, and to pursue monopolist profits by intensifying labour process and by reducing manufacturing costs in the relation of production. One of the key uses of accounting is to offer a basis of predicting and planning (Spiceland, Sepe & Tomassini, 2004). The presence of accounting records such as debtors' records, creditors' and bills paid or payable among others, offer a degree of certainty for one to remember the amounts associated with the various transactions and/or commitments.

2.4 Definition of concepts

Bookkeeping is a process of recording financial transactions: the activity or profession of recording the money receive and spent by a person, business, or organisation (Frank & Alan, 1999). Spiceland et al. (2004) also defineded accounting as the art of systematically identifying, measuring, recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial nature, and communicating, analysing, and interpreting the results thereof. Horngren, Forster & Datar (1997) and Spiceland et al. (2004) included financial, costing and management accounting. Spiceland et al. (2004) also identified other types of accounting. These include accounting for "not-for-profit", government, tax assessment, auditing (internal/external), international, social and behavioural.

2.5 Accounting information

Double Entry System demands that "for every debit entry, there must be a corresponding equivalent credit entry and vise versa" (Frank & Alan, 1999). This equation is stated as:

$$\text{Assets} = \text{Capital} + \text{Liabilities} \tag{1}$$

Figure 1 presents a diagrammatical flow of the accumulation and communication of accounting and its feedback impact on the company's economic activity.

2.6 Objectives of accounting information

The overriding objectives of accounting or financial reports as identified by Spiceland et al. (2004) advance the argument that accounting provides information that are useful for decision making, helps to predict cash flows, and the transactional effect on the economic resources of the business.

2.7 Qualities of accounting information

Spiceland et al. (2004) identified five qualitative characteristics of accounting information which are further group into three categories. These are decision usefulness, relevance and reliability, and comparability and consistency for the overriding, primary and secondary objectives respectively.

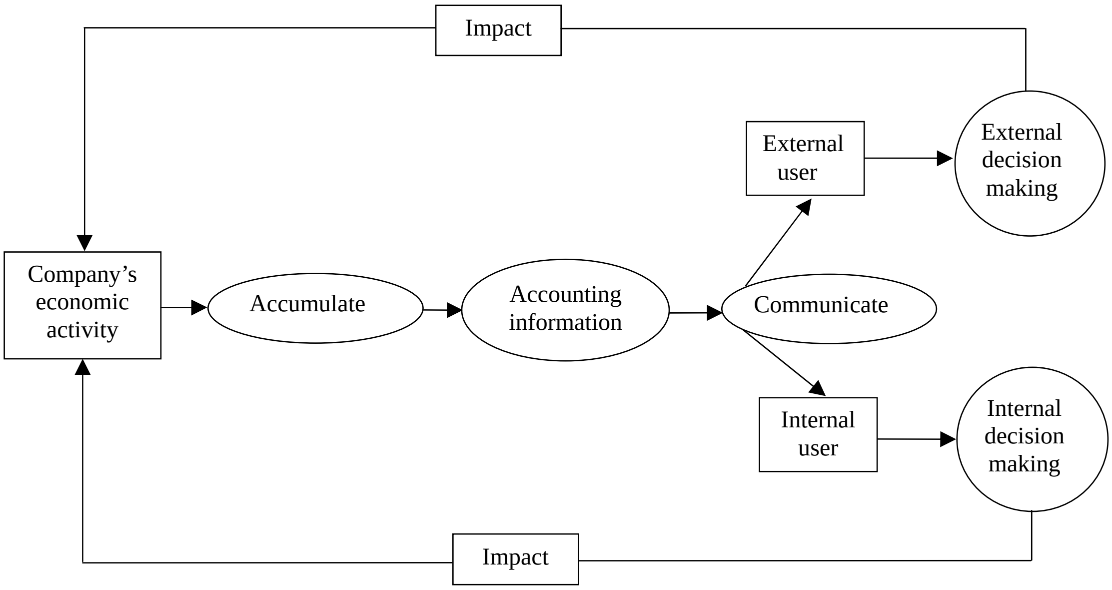

Figure 1 Accumulation and communication of accounting information

Source: Spiceland et al. (2004).

2.8 Users of accounting information

The decision makers or users of accounting information can be divided into two major categories, external users and internal users (Weetman, 1996). These two user-groups according to Weetman (1996) have somewhat dissimilar information needs because of their different relationships to the company providing the economic information.

2.9 Factors that influence the presence or absence of accounting

Boden (1999) focused on the individual in her study of financial reporting and accountability among the self-employed. Her study showed that organizations such as internal revenue, customs and excise and child support agency have the ability to require self-employed individuals in the UK to produce financial information. This leads us to our first research question that, whether the presence or absence of these institutions explains the presence or absence of accounting in this study.

Ghana offers an interesting alternative to the UK-base studies of Walker (1998) and Boden (1999). On the level of literacy, UK far back in 1996 had an adult literacy rate of 99 percent compared to Ghana that had about 46 percent in the same year in the urban areas (Encyclopaedia Britannica, 1999).

Considering the traditional view that literacy was a necessary antecedent to the emergence of bookkeeping (Littleton, 1933) and the contrasting contemporary evidence that some form of accounting predate writing and abstract numbers (Keister, 1963; Baxter, 1994), we come to our second research question: Does literacy or illiteracy explain the presence or absence of accounting? The present section has prepared the grounds for the methodology of the present study which is the focus of the next section.

3. Methodology adopted for the study

The methodology adopted involved the conduct of interviews and/or interrogation; preparation of a number of questionnaires and their administration. This section would be addressed chronologically as follows: the research design, the population, the sample, the data collection and data analysis.

3.1 The research design

The research design is the mixed method under the multiple methods choices (Curran & Blackburn, 2001; Tashakkori & Teddlie, 2003). The researchers used quantitative and qualitative techniques and procedures in combination. Specifically, the techniques applied in this study are an anthropological exploration and a statistical survey.

3.2 The population of the study

The study population covers the entire petty traders in Ghana. It is estimated that more than 40% of the population of Ghana are, in one way or the other, engaged in petty trading (Ghana Statistical Services, 2002). As a pilot study the researchers for the purpose of convenience decided to use petty traders in the Kumasi Metropolis as a case study. Further the countless number of petty traders in the case study zone necessitated that those at the Kumasi Central and Asafo Markets must be used.

3.3 The sample of the study

A sample size of 84 respondents was chosen for the study. Out of the 84 total sample size, 4 (hereafter refer to as informants) were selected for the anthropological study through the researchers' prior acquaintance and familiarity with them. The selection of the informants was purely on purposive sampling. This method of selecting the informants became necessary so as to ensure that the informants effectively participated in the study.

Of the remaining 80 respondents, 20 were randomly selected from each of the four broad areas of edible product sellers: Foodstuffs and cooked food vendors; grocery sellers; butchers; and vegetables and seasonal fruit sellers.

3.4 The data collection techniques

The use of both quantitative and qualitative research design methods necessitated the collection of both qualitative and quantitative data. The data mainly covered the following areas: the profile of the informant or respondent; the mode and manner in which business transactions are recorded; mechanism the trader applies to control his or her cash and inventory; information used in making business decision; and the trader's basis of determining the bottom line of his or her operations.

In the anthropological approach, each informant was visited three days in a week for seven weeks. During these visits the researchers made certain personal observations and conducted informal interviews with the informants, field notes were taken on each visit. The researchers spent a minimum of two hours on each visit to an informant, thus no questionnaires or structured interviews were employed for this aspect of the data collection.

The remaining eighty respondents were interviewed using structured questionnaires. The researchers administered the questionnaires to the respondents to elicit answers covering the above issues. The questions were both close and open ended. In general, the response rate was quite high as only a few people actually refused to take part in the survey.

3.5 Method of data analysis

The deduction approach was applied in the data analysis. Under this approach, hypotheses generated from the study objectives were expressed in operational terms and tested (Robson, 2002). Due to the nature of the research, the descriptive statistics approach was employed in the presentation and analysis of results, which is the focus of the next section.

4. Research findings, analysis and discussions

The present section is dedicated to discuss and present the research data in line with the research objectives and literature by first looking at the background of the respondents, traders understanding of accounting, usefulness of accounting records, and many others in their relevant sub-section.

4.1 Background characteristics of the respondents and their businesses

The eighty respondents for the quantitative element of the study were made up of 39% males and 61% females. The majority of the respondents (52.5%) were within the age range of 36 and 45 years while (2.5%) were aged 55 years and above. Traders within ages 16-25 constituted 5%, 26-35 years was 27.5% and 46-55 years represented 12.5% (Figure 2).

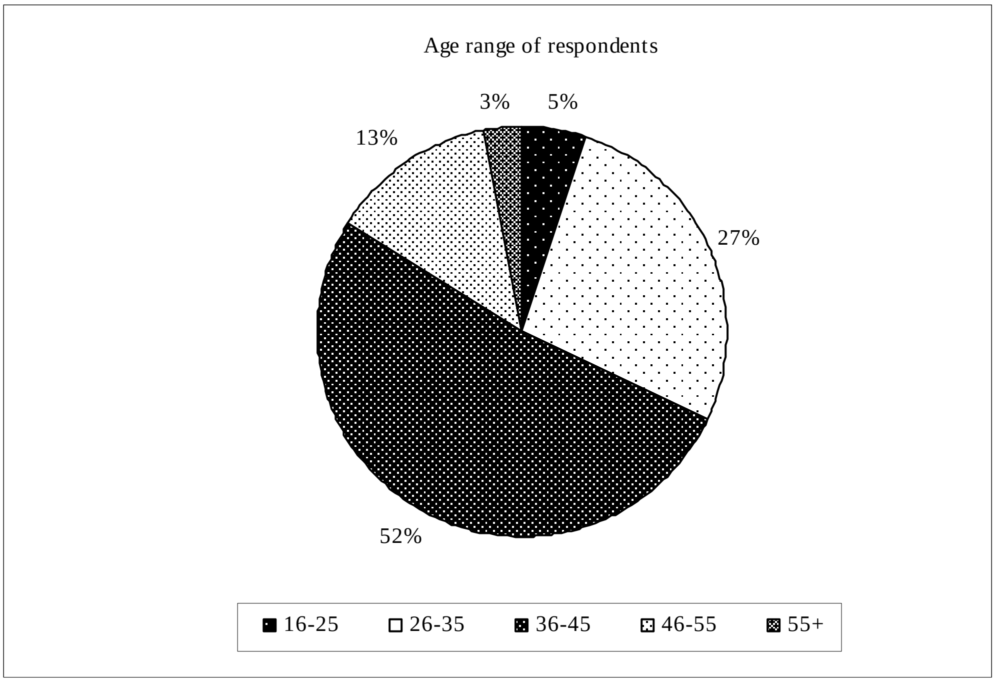

Figure 2. Percentage of respondents at the various age ranges

Source: Field Survey (2007)

The educational background of the respondents revealed that 2.5% had tertiary education while 22.5% had secondary and teacher training education and as high as 39% had no formal education. These are presented in Figure 3.

Among the 80 respondents, 81% of them were engaged in trading as their full time occupation. Out of the remaining 19% engaged in petty trading as a supplementary source of income, teachers constitute the majority (60%) followed by other government employees (27%), with commissioned sales agents trailing with 13%. Figure 4 illustrates the part-time petty traders among the respondents.

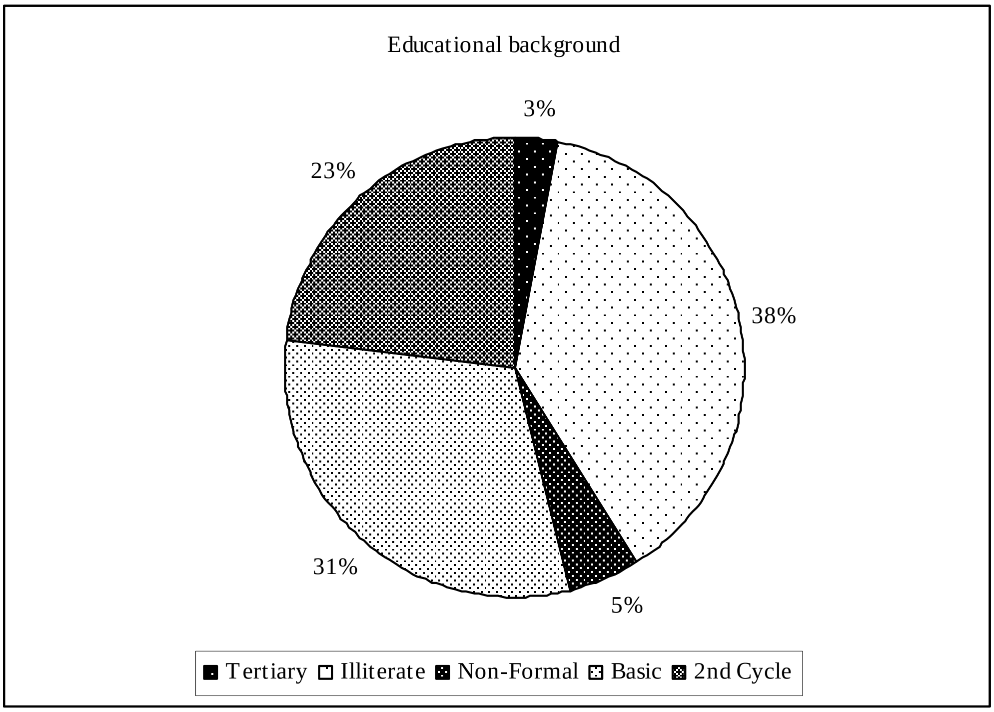

Figure 3 Percentage of respondents at the various educational levels

Source: Field Survey (2007).

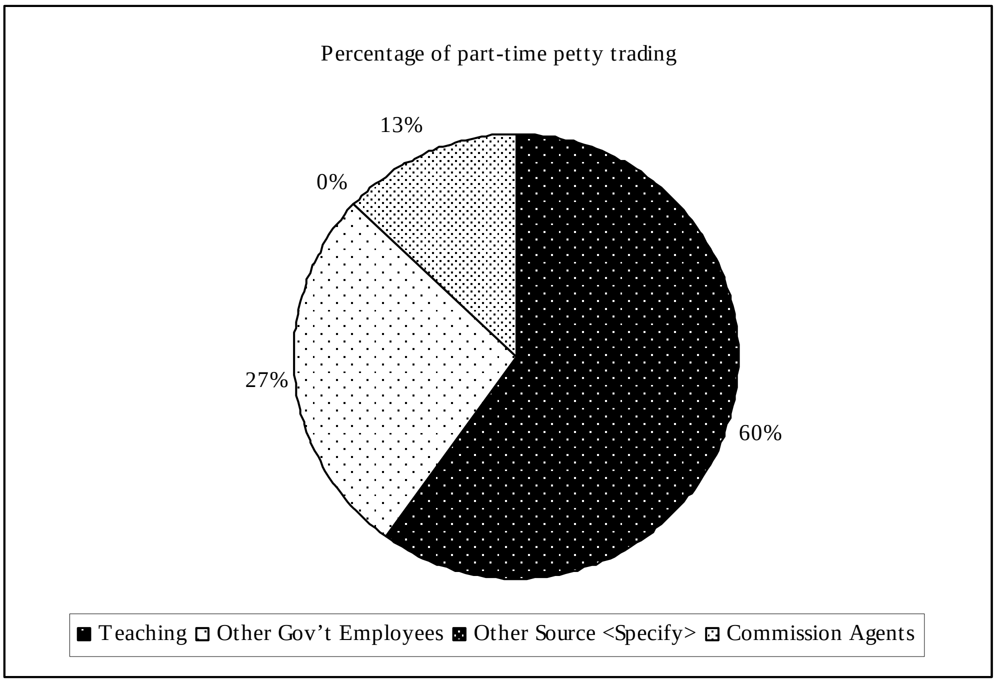

Figure 4 Main source of income for part-time petty traders

Source: Field Survey (2007).

The background characteristics of the informants' share similarities with the quantitative survey respondents as presented in Table 1. They are mostly females and have low level or no formal education. The specific background characteristics of the four informants are described in detail in the proceeding paragraphs.

Table 1 Background characteristics of the informants

Name	Age (Years)	Gender	Trade	Location
Informant 1	57	F	Fresh vegetable seller	Asafo market
Informant 2	45	M	Butcher	Central market
Informant 3	56	F	Groceries seller	Central market
Informant 4	48	F	Cooked food seller	Central market

Source: Field Survey (2007).

5. Summary of findings

5.1 Findings on traders understanding of accounting

There was evidence of the traders having a good knowledge of the concept of accounting. Ninety eight percent (98%) of the 80 respondents indicated that they understood accounting. All the traders also had a good appreciation of the term profit. They all rightly described profit with reference to revenue and the explicit cost of generating the revenue. On the issue of inventory control and valuation, all the sampled traders exhibited some knowledge of stock-taking and stock valuation. Majority of the traders do not normally take inventory of their products at regular intervals, but if at any time they do, most of them used the replacement method in valuing the inventories. The group of traders who normally count their products at regular intervals are the butchers, and the cooked food vendors.

5.2 Findings under the qualitative analysis

All the four informants had good knowledge of accounting and do appreciate its value to a business enterprise. Except for one, whose policy on profit is cash-based, all the other three recognized profit to under the accrual concept. The traders knew what stock taking is and how it can help them in controlling pilfering of their products inventory. The grocery seller was the only trader who applied lock and key to physically deprive the shop attendants from freely accessing the whole stock of her wares in the shop. All the others apply stock taking and valuation of opening and closing inventories on daily bases. It is evident from the analysis that the petty traders do understand the concept of accounting and appreciates its applications except that they are not able to cope with the technicalities so as to effectively incorporate it into their operations.

5.3 Findings on record keeping of business transactions

Out of the 80 respondents for the quantitative study, 90% kept written records of the business transactions. The most common records kept were debtors and creditors schedules and cash books. The 10% who did not keep written records of their business transactions traded mostly in cash with very few debtors and creditors whom they conveniently keep in memory. A critical look on the 10% respondent above revealed an interesting discovering at this point of the research, thus the educational status of the petty trader was identified as a necessary factor that influenced written record keeping of the traders' business transactions. Nonetheless, it was not sufficient on its own since some of the illiterate petty traders kept written records of their business transactions. From the qualitative element of the study, it was found that only one did not keep written records of her business transactions. This was basically because her sales and purchase transactions were on 'cash-and-carried' basis.

5.4 Findings on the usefulness of accounting information to petty traders

The petty traders used their accounting information mainly to remind them of how much they owe and are owed. About half of the respondents who kept written records of their business transactions, used the information as guide for tax clearance and also to determine which of their customers among their customers should be granted or denied future credit. Thus, in a way they performed credits aging analysis and applied it in planning their credit policies. Six and a quarter percent (6.25%) representing five respondents used their accounting information to source credit facilities from their bankers.

5.5 Findings under the qualitative element of the study

The first one out of the four maintains a schedule of debtors to guide her to effectively implement her 24-hours credit float to the cooked food vendors. The second pointed out that record on debtors has been a beneficial memory aid in determining his resources with customers. The third on the other hand, applies her VAT purchases and sales records to file her monthly vat returns. Also all the informants, except one, maintained a relatively good internal control system to safe guard their inventory and cash. This is another core element of responsible accounting.

5.6 Findings on factors influencing the presence of accounting in petty trading

Three major influencing factors were identified; namely institutional or group pressure on petty traders, literacy or educational background of entrepreneur, and the influence of social capital. Generally, it was found that, in Ghana there are no pressure groups that compel or police the self-employed to prepare financial reports on any periodic basis. The Internal Revenue Services (IRS) and the VAT services are the only government institutions that empowered to assess and tax the income of all residents of Ghana and amount spent on some good and services. The IRS is particularly not able to enforce the power vested in it and hence the self employed are not compelled to file any returns for his income tax assessment.

Only 1.25%, representing one respondent prepared her financial statements and filed for tax assessment and clearance. It was thus identified that there was little direct interest from government agencies on the accounting practices of a petty trader. Regarding the influence of literacy, the analysis revealed that the entrepreneur’s educational background is a necessary but not sufficient factor for the presence of accounting in the petty trader’s business. These were evident in both the quantitative and qualitative analysis where educated traders did not keep any written records of their business transactions while illiterate traders hired the services of clerks to keep written records of their operations. The influence of social capital on accounting presence was found to have insignificant effect. The business society accepts accounting information as bases for the settlement of disputes and/or business liabilities.

6. Recommendations

Considering the critical role accounting plays in the development of a business entity, and the contribution of petty trading in the Ghanaian economy, as well as the research findings the following recommendations made to the various stakeholders must be embrace by all concern.

6.1 Stakeholders and authorities

Micro-finance workshops and seminars should be organized to educate the traders on the importance of accounting to their businesses. This can be implemented by the various Micro-financing companies with support from Business Sector Advocacy Challenge (BUSAC), National Board for Small Scale Industries (NBSSI) and

Community Based Rural Development Project (CBRDP).

The Internal Revenue Services (IRS) should reconsider the fixed monthly income tax rate levied on the petty trader and encourage traders to file their income tax returns for proper assessment. This can be effectively implement by, the IRS first simplifying the Income Tax Filing system and educating the public on the available tax relieves and exemptions.

6.2 Petty traders

Petty traders may form groups and create a pool of accounting personnel to keep their individual accounts for them. This is most likely to be cheaper than each trader hiring the service of an accounting officer.

7. Conclusions

The findings show that formal accounting is generally not a pre-requisite requirement to the operations of a petty trading business. Nonetheless the study confirmed the assumption that accounting is inevitable in any business entity and therefore a universal good of business. The study presented a better understanding of the fundamental question of “why we do accounting” in the petty trading business.

Debtors’ schedules are used to monitor the aging of debts and control the increasing cost of working capital resulting from credit sales. From the perspective of usage of accounting information, this is a good indication of accounting presence in the petty trading. It is however worth mentioning that the decision usefulness of accounting in a cash orientated trading environment seemed to be limited.

The evidence of written records kept by petty traders is another indication of accounting presence amongst the petty traders. This satisfies, Frank et al. (1999) definition of bookkeeping as the foundation of accounting, with about 90% of the sampled traders keeping records of the business transactions.

This study did not offer a single answer to the presence/absence of accounting as well as the question regarding why we do accounting. Four different factors were also identified. They include:

First, the absence of state and institutional demand for petty traders to account for their operations seems to contribute to the absence of accounting. However, it was also possible that the presence of certain institutions could also lead to the absence of accounting.

Second, literacy/illiteracy seemed to provide some explanation for the presence and absence of accounting. This is a relevant but not sufficient factor as per the study.

Third, the decision usefulness of accounting in a cash orientated trading environment seemed to be limited.

The fourth explanation was the social context—the presence or absence of social capital. Social capital, defined as norms of reciprocity and trust, seemed to reduce the need for accounting. Unfortunately in the Ghanaian urban communities, this does not seem to hold.

Clearly, further explanations could be advanced and each of these could be further developed, hence the need for further research, particularly of the relationship between accounting and trust under the Ghanaian context is imperative.

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