

Influence of Book-Keeping Practices on Financial Performance of Micro Enterprises (MEs) in Informal Settlements of Kisumu City, Kenya

Collins Amimo Lumumba*, Dr. Fredric Aila

Maseno University, Kenya

*Corresponding Author

Abstract: Book keeping practices including the maintenance of sales and purchases books, cash/bank reconciliation practices, and maintenance of cash book among others, are financial control mechanisms relevant for enhancing business performance. However, while Micro Enterprises (MEs) constitute over 80% of total small enterprises across the globe, their rates of failure is also high (at 50 – 70%). In Kisumu city of Kenya where over 60% of the total inhabitants reside in informal settlements served by micro enterprises, over 70% of them collapsed within under 4 years in operation. This questions the effectiveness of book keeping practices in this circumstance. This paper explores the influence book keeping practices on the performance of MEs in informal settlements of Kisumu City, Kenya. Specific objectives were to explore the influences of sales and purchases books, cash/bank reconciliation practices, and maintenance of cash book on performance of MEs in the area. Decision usefulness theory was used to guide the study. Correlational research design was adopted on 360 sampled traders from 3660 targeted traders through Yamane's formula, from whom primary data was collected via structured questionnaire. Regressions analysis was used to compare the relationship between book keeping practices and financial performance of MEs. The study found that book-keeping practices: maintenance of cashbooks ($r=0.431$), sales/purchases books ($r=0.504$) and bank reconciliation ($r=0.491$) have significant relationship with financial performance of MEs in the informal settlements. Cumulatively, approximately 46.9% of financial performance of MEs is attributed to the book-keeping practices under study. It is therefore concluded that with the enhanced book keeping practices, the MEs operating in informal settlements would gain adequate capital to remain solvent over time.

Key Words: Performance of Micro Enterprises; Book keeping Practices; Sales/Purchases Book; Bank reconciliation Practices; Cash Book Maintenance; Informal Settlements

I. INTRODUCTION

The role played by micro enterprises (MEs) towards development of economies cannot be over emphasized. Described as any venture with less than 9 employee (in Africa) of less than 35 employee in developed economies (European Union –EU, 2019), these ventures have been applauded for the growth of economies of different countries across the globe. Micro enterprises have been at the centre of the growth of major economies such as the USA, UK, Germany, China, Brazil, and many more (ILO, 2019). According to European Union (EU, 2019), there were 24.5 million SMEs in Europe in 2017,

representing 99.8% of enterprises, and employing 66.4% of the EU labour force. Muriithi (2018) reports that micro enterprises created 75% of incremental industrial output values in China since the 1990s. Among both South Asia and sub-Saharan Africa countries, micro enterprises account for 80% employment (ILO, 2019). The economic growth of any nation therefore seems to depend on the robustness of operating micro enterprises of that particular country. However, Muriithi (2018) argues that whereas MEs in regions such as Africa accounts for 95% of all businesses, 50% of GDP and 60% of employment, their rate of failure range from 50% to 90%. Similarly, while researchers (Balagobei, 2019; Somathilake & Ranathunga, 2021) have revealed that poor book keeping is a major contributor to the fall of many small and medium size enterprises, the same has not been explored among MEs.

Book keeping forms a source of essential financial information necessary for ensuring financial control (Lisjanto & Darmansyah, 2018). Indeed the success of any business be it small or medium is dependent upon its capability of managing financial control (Balagobei, 2019), hence the importance of book keeping practices cannot be gainsaid. Book keeping refers to the analysis, classification and recording of financial transactions in the books of account (Wanjala et al, 2014). It is basically the recording of financial transactions such as purchase of an asset for cash or credit, receipt or payment of cash money in settlement of a debt, and sale of an asset for cash or credit in a systematic manner (Ahmad, 2016; Haber, 2004, cited in Chelimo & Sopia, 2015). Researchers (Hossain & Rahman, 2019; Rathnasiri, 2014) categorized such book keeping practices as purchase and sales maintenance, cash book maintenance, and reconciliation of the books records. However, the influence of these book keeping practices on performance of MEs seems to remain understudied especially among those businesses operating in informal settlements.

Recording sales and purchases of a business entity enables tracking of outgoing and incoming goods respectively, thereby helping in the control of debtors and creditors (Smith, 2017). This, according to Enow and Kamala (2016), is the essence of inventory management. It has been observed that accurately kept sales records aid in monitoring accounts receivable (Owuor, Agusioma and Wafula, 2021) as well as accounts payable (Enow & Kamala, 2016). Researchers (Dumbrava,

2016; Kumar, 2013) have documented that maintenance of sales and purchases records have significant positive influence on business performance of Small and medium enterprises. However, empirical evidence of how maintenance of sales and purchases records influence performance of micro enterprises operating in informal settlements is still understudied by previous scholars. For instance, Denčić-Mihajlov (2013), using a sample of Serbian firms listed at the Belgrade Stock Exchange to investigate the effectiveness of accounts receivables management during crisis found no significant relationship of the same with the firms' profitability. A study done in Bangladesh by Hossain and Rahman (2019) among small enterprises in the handloom industry found that sales and purchases ledger were not commonly maintained by the operators. These studies provide the notion that focus on micro enterprises with regards to how maintenance of sales and purchases records influence their performance remains understudied.

In the undertaking of business transactions, it is normally prudent to compare sets of two different cash and bank account for the purposes of harmonizing their status, a practice often referred to as cash/bank reconciliation (Maina, Muema & Mutegi, 2021). To this end, the internal accounting system's transactions are compared to the actual bank or credit record statement to ensure that they mirror each other (Soaga, 2012). According to Kanu and Idume (2015), cash or bank reconciliation is the process of matching information regarding cash accounts from accounting records to the corresponding information on bank or credit statements for the enterprise to confirm that it has the cash it thinks it has. Whereas existing studies have applauded cash/bank reconciliation as an effective practice in cash management for businesses, the effectiveness of this practice within the MEs performance endeavors has not been highlighted by previous researchers. For instance, Enow and Kamala (2016) investigated the cash management practices of small, medium and micro enterprises (SMMEs) in South Africa and found that most of them do not conduct bank reconciliation practices. In their study, Kanu and Idume (2015) used a sample of bankers and owners of small scale businesses in Nigeria to examine the relationship between bank reconciliation statement, accountability and profitability. They found that reconciling bank statements improve accountability and impact positively on the profitability of the small scale business entities. The foregoing studies (Enow & Kamala, 2016; Kanu & Idume, 2015) however provide the impetus that a gap in knowledge exists on the relationship between bank reconciliation and performance of MEs.

The problem of cash management among micro enterprises cannot be discussed without highlighting cash held at hand is tracked, a situation necessitating keeping of accurate cash book (Visser, Nieman & Heerden, 2014). Musah (2017) views cash book or cash account as a document where receipts and payment of cash (including cheque) are recorded. Previous studies (see Owusu, Assabil & Asare-Kyire, 2015; Sibanda & Manda, 2016) have revealed that properly kept cash book is a panacea to the success of small and medium size enterprises.

Nonetheless, these studies have not highlighted how such cash book maintenance practices also influence micro enterprises especially the ones operating in informal settlements. In a study by Muchira (2012) investigated the extent to which the owners or managers of Micro and Small Enterprises kept records in their businesses and found that that the MSEs do not keep complete accounting records. In another study, Wanjala et al. (2014) assessed the effect of book keeping management practice on business performance of micro and small butchery enterprises in Kenya and showed that the operators were inadequately keeping their books for lack of knowledge.

In Kenya, MSEs constitute over 90% of all established businesses, accounting for over 75% of all jobs in the economy, according to Kenya Bankers Association (KBA, 2019). However, studies have shown that MSEs are faced with a lot of constraints such as access to credit that hinder the achievement of their full potential (World Bank, 2019). This portrays extreme circumstances especially in cities where over 60% of households reside in informal settlements where these enterprises thrive in such as Kisumu City (Othoo, Dulo, Olago and Ayah, 2020). Micro and small enterprises (SMEs) in informal settlements in Kisumu City provide over 80% of the employment opportunities in the area (KNBS, 2020). However, Kato, Litondo and Ntale (2015) reports that these enterprises often perform poorly and hardly see their fifth anniversary. The Kenya National Bureau of Statistics data shows that between 2016 and 2019, over 70% of MSEs collapsed in their fourth year of operation in Kisumu City. Whereas book keeping practices have been applauded as being effective in enhancing performance of small enterprises, limited information seems to be available with regards to business outcomes of micro enterprises especially in informal settlements of Kisumu City.

1.1 Statement of the problem

Micro Enterprises (MEs) constitute over 80% of the total small enterprises in Kisumu City and provide enormous contribution to the economic growth of this county. However, recent data indicates that the enterprises have been facing decline in performance, with over 70% of them collapsing between 1 and 4 years in operation. While book keeping practices have been identified as a major contributor to the growth and success of these enterprises, past studies have observed that most small and medium enterprises seldom maintain these records. While most research on business record keeping including book keeping has concentrated on small and medium size enterprises, the same vigor has not been directed at micro enterprises despite their contribution to the economic development. Similarly, there has been lack of empirical evidence on how book keeping practices such as sales/purchases book maintenance, bank reconciliation practice, and cash book maintenance affect performance of micro enterprises especially those operating in informal settlements.

1.2 General Objective of the Study

The purpose of the study was to investigate the influence of book-keeping practices on performance of micro enterprises in

informal settlements of Kisumu City, Kenya. Specific objectives were to

- i. Establish how maintenance of sales and purchases records influence performance of micro enterprises in informal settlements of Kisumu City, Kenya
- ii. Investigate the effect of reconciliation of book records on performance of micro enterprises in informal settlements of Kisumu City, Kenya
- iii. Assess the effect of maintenance of cash records on performance of micro enterprises in informal settlements of Kisumu City, Kenya

1.3 Research Hypotheses

- i. There is no significant relationship between maintenance of sales/ purchases records on performance of micro enterprises in informal settlements of Kisumu City, Kenya
- ii. There is no significant relationship between reconciliation of book records and the performance of micro enterprises in informal settlements of Kisumu City, Kenya
- iii. There is no significant relationship between maintenance of cash records and the performance of micro enterprises in informal settlements of Kisumu City, Kenya

1.4 Scope of the Study

The study focused only on micro enterprises run in the informal settlements in Kisumu City. It focused on five main settlement areas with more than 7000 micro enterprises either along the roadside or in established market places designated by the city authority. Medium and large businesses were not covered since besides being able to access loans from financial institutions, they also avoid the settlements due to insecurity and lack of social amenities in such areas. The study investigated how book keeping practices especially cash book records maintenance, sales/purchases records maintenance, and cash book reconciliation practices affect performance of micro enterprises owned and run by entrepreneurs in the informal settlements of Kisumu City. The study was conducted for a period of two months from July, 2022 to September, 2022.

II. THEORETICAL FRAMEWORK AND EMPIRICAL LITERATURE REVIEW

2.1 Theoretical Framework

This paper was guided by the Decision Usefulness Theory pioneered by George Staubus (1999). Decision useful information forms the fundamental objective of financial reporting which is to provide information that is useful for business decisions, according to the International Accounting Standards Board (IASB, 2010). Decision usefulness is defined in terms of relevance, reliability, comparability, and understandability (Wang, 2012). Decision usefulness theory is adopted to satisfy the information needs of the users of accounts namely such as investors and creditors (Dandogo & Hassan, 2013). The usefulness of accounting information is based on

such factors as timeliness, reliability, relevancy, materiality of the presented accounting data, understandability, comparability and verifiability (Soyinka et al., 2017). Micro enterprises are often guided singularly by the proprietor hence decisions made with regards to accounting information are single –person decision based: this was the vital part of this study. Proprietors of micro enterprises are often forced to make diverse decisions under conditions of uncertainty such as which financial books to keep and maintain and for what purposes. Thus, the micro enterprise trader would decide whether to maintain sales/purchases book, cash/bank reconciliation book, and cash book (among others) based on their usefulness to the venture.

2.2 Empirical Literature Review

The reviewed studies are related to study variables, focusing on research articles by authors across the globe. The review is arranged in the sequence of the study objectives.

2.2.1 Sales/ Purchases Records Maintenance and Performance of MEs

Denčić-Mihajlov (2013) investigated how public companies listed at the regulated market in the Republic of Serbia manage their accounts receivables during the recession times. A sample of 108 firms is used, which are the most successful Serbian firms listed at the Prime and Standard Listing as well as the Multilateral Trading Platform of the Belgrade Stock Exchange. The accounts receivables policies are examined in the crisis period of 2008-2011. In order to explore the relation between accounts receivables and firm's profitability, the short-term effects are tested. The study shows that between accounts receivables and two dependent variables on profitability, return on total asset and operating profit margin, there is a positive but no significant relation

Somathilake and Ranathunga (2021) sought to identify the effect of accounting record keeping practices on financial performance of SMEs in Anuradhapura district. The research was based on the quantitative research method and the data were collected from 152 SMEs in Anuradhapura district. Descriptive analysis, correlation analysis and multiple regression analysis used to analyze collected data. Results revealed that accounting record keeping practices show a positive effect on financial performance of SMEs and preparing financial statements have a significant effect on SMEs financial performance.

Aladejebi and Oladimeji (2019) analysed the extent to which accounting information is being used to measure the financial performance of SMEs in Nigeria. Questionnaires were administered to 200 SMEs owners and analysed using Likert scale. It was observed that while respondents agree that major benefits of keeping proper records is to know the performance of the business and that record keeping is key to the success of the business, majority of the SMEs owners lack basic accounting knowledge and decry the cost involved in preparing financial statement hence they keep the records themselves manually.

Owuor et al. (2021) examine the effect of accounts receivable management on the financial performance of chartered public universities in Kenya. Descriptive and inferential research designs were applied to analyze data. The target population was all the 31 chartered public universities in Kenya, and as such, the census survey method was adopted to collect data. Secondary panel data was extracted from the respective institutions' audited annual reports for 2017, 2018, and 2019. The study found that accounts receivable management had an indirect and significant effect on the financial performance of chartered public universities in Kenya. The study concluded that accounts receivable management has a substantial effect on the financial performance of chartered public universities in Kenya.

2.2.2 Reconciliation of Book Records and Performance of MEs

Soaga (2012) examined the basics of cash management for financial management and financial reporting purposes in the UK. The study made use of descriptive research method to examine the importance, essence, influence, relationship, and impact of cash management on financial management and financial reporting. It established the strong impact of cash management on corporate survival, linkage to practically every account on financial report, maximization of shareholders' wealth, fraud prevention and detection, and liquidity enrichment. It also ascertained the need for the use of net cash flows as a measure of performance. The study established that cash/bank reconciliation was used as part of good cash management.

Onoh and Okoro (2017) investigated the business attitude of Nigerian private sector businesses towards formal preparation of bank reconciliation in the course of their business operations. Data was collected through questionnaires and interviews. Most businesses did not embark on periodic bank reconciliation hence lost a lot of money to fraud and professional negligence. For the few who actually did reconcile bank statements many outsourced the bank reconciliation duties to consultants and even then many businesses were only compelled to embark on bank reconciliation to make their businesses eligible to benefit from bank loans or attract investments and contracts.

Maina et al. (2021) sought to establish the influence of cash reconciliation on the performance of MEs in the manufacturing sector of Nairobi County, Kenya. The study was descriptive, the population for the study included 95 MEs in the areas of the food processing sector: flour milling, milk processing, and cooking oil manufacturing. The sample for the population was 77 MEs obtained through the Yamane formula at a margin error of 5%. Data for the study was collected using a questionnaire through the in-person drop and pick method. Collected data was analyzed through descriptive analysis and inferential analysis. The study found that food manufacturing companies in Nairobi County utilize cash reconciliation, segregation of duties, inventory audit, cost management, and risk assessment as the internal controls. The study further revealed on cash. The study concluded that cash reconciliations had a positive and

significant influence on the financial performance of MEs in Nairobi County.

Onwonga (2017) examined the effect of cash reconciliation on the financial performance among commercial banks operating in Kenya using a descriptive survey design on 43 banking institutions. Data was collected via questionnaire and analysed using linear regression. Findings showed that there exists positive correlations between cash reconciliation and financial performance of the banks. Cash reconciliation was positively and significantly related to both ROE and ROA.

2.2.3 Cash Records Maintenance and Performance of MEs

Ahmad (2016) explored the extent of cash management practices applied by small and medium size firms operating in the service sector on Malaysia. A total of 200 firms participated in the study where data was collected through questionnaires. The study revealed that cash management practices among these firms were high, although internal control measures were poorly implemented.

Enow and Kamala (2016) investigated cash management practices among small, medium and micro enterprises in South Africa. The authors used a sample of 200 traders, managers and accountants operating in the first-moving consumer goods in Cape Town using closed-ended questionnaire. The study showed that most of the sampled SMMEs manage their cash effectively. However, only a minority of these entities hold cash for speculative purposes or even invest their surplus cash gainfully, thus, they fail to optimize on their scarce cash resources. Likewise, only a minority of the SMMEs employ computers for managing their cash.

Adeoti and Asabi (2018) examined the effects of record keeping practices on performance of micro enterprises in Lagos State, Nigeria. Structured questionnaire was used to obtain data from 367 sampled respondents out of 10,593 registered micro enterprises through random sampling method. Data collected was analysed using multiple regression analysis to examine the effect of independent variable, record keeping practices (cash daybook, sales daybook and purchase daybook), on dependent variable, micro enterprise performance (profitability). The result showed that record keeping practices have significant effect on micro enterprises' performance. The result also revealed that cash daybook has higher beta score than either of the other practices with micro enterprise performance.

Chelimo and Sopia (2015) investigated the effects of bookkeeping on the growth of small and medium business enterprises in Kabarnet. The study was based on a descriptive survey design and targeted all SME operators. A sample of 72 respondents was selected through stratified random sampling techniques. The data was analyzed using descriptive statistics and analyzed using percentages. The results were presented using tables and figures. The study findings show that many SME operators maintain sales record books using the double entry system. The study also shows that book keeping positively enhanced SMEs growth as measured by profitability and increased business expansion.

III. METHODOLOGY AND MATERIALS

3.1 Research Design

This study adopted a correlational design. Crawford (2014) explains that Correlational design enables a quick and easy way to see whether or not there is a relationship between two variables that is worth exploring further. The correlational design was used as the study seeks to examine the effect of microfinance services on performance of MSEs.

3.2 Research Area

The study was conducted among Kisumu City's informal settlements in Kenya. Informal settlements cover approximately 19% of Kisumu City (Othoo et al, 2020), with approximately 60,000 households and a population density of between 6,000 and 21,000 persons per km² (Kenya National Bureau of Statistics [KNBS, 2020]). It is estimated that 60% of the City's urban population live in informal settlements, making Kisumu City to have the highest proportion of residents living in informal settlements among Kenyan cities (Simiyu, Cairncross and Swilling, 2019). The study was carried out in the informal settlements of Obunga, Nyalenda, Manyatta, Kaloleni, Bandani and Kibos. The location of the study area by longitude and latitude is (0.0917° S, 34.7680° E).

3.3 Target population, Sample Size and Sampling procedure

The target population comprised of 3,660 SME operators in five (5) informal settlements in Kisumu. These include Obunga, Manyatta, Nyalenda, Bandani and Kibos. The study focuses on the five areas because they have more than 70 micro and small enterprises either along the roadside or in established market places designated by the city authority. This study adopted Yamane's (1967; cited in Israel, 2013) formula to calculate the sample size as:

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

For instance, the sample size of MSEs was calculated as:

$$n = \frac{3660}{1 + 3660(0.05)^2} = 360$$

The sample size for the ME operators was 360 respondents (enterprise owners). Stratified technique was used to distribute the sample size based on the population in each of the informal settlement. Simple random sampling technique was used to select the respondents (ME owners) who participated in the study. According to Rahi (2017), in simple random sampling, every subject stands an equal chance to be selected as a study participant. Table 3.1 presents the distribution of target population and sample size.

Table 3.1: Distribution of Target Population and Sample Size

Settlement	Population (enterprises)	Sample Size	Percent
Nyalenda	1056	103	28.6
Obunga	956	94	26.1
Manyatta	1216	120	33.3
Bandani	78	8	2.2
Kibos	354	35	9.7
Total	3660	360	100

Source: KNBS (2022)

3.4 Instrumentation, Validity and Reliability

The study used self-administered structured questionnaires to collect data. The questionnaire consisted of the study variables: effect of sales/purchases records maintenance, effects of reconciliation of books, and maintenance of cash records' effects. Questionnaire was adopted because it enabled the researcher to obtain a lot of information faster.

Content validity index (CVI) was used in this study to enhance the validity of the study instrument. In this regard, ratings of four experts based on item relevance were used to measure constructs of the study variables (Dawadi, Shrestha & Giri, 2021). The ratings adopted a 4-point ordinal scale of 1 – 4 for not relevant to highly relevant. The calculated rating of the four experts generated a CVI of 0.88. This was considered to be highly relevant by the researchers.

On the other hand, the study used data collected from a pilot study involving randomly selected 36 ME operators who were excluded from the final data collection exercise to check reliability of the study instrument. With the aid of Statistical Package for the Social Sciences (SPSS) version 21 tool, split-half method was used to calculate correlation coefficients of 0.83, 0.88, 0.91, and 0.84 for financial performance of MEs, sales/purchases records maintenance, reconciliation of book records, and maintenance of cash records respectively. The instrument was therefore considered as reliable in collecting the required data since the reliability coefficient surpassed the threshold of 0.70 espoused by reliable scholars (Akhtar, 2016).

3.5 Data Analysis and Presentation

Data obtained using questionnaire was analysed via descriptive and inferential statistics with the aid of SPSS version 21. Descriptive statistics enabled generation of mean (M) and Standard Deviation (SD) which was essential for interpretation of quantitative results. On the other hand, inferential statistics generated data which helped in explaining the relationship demonstrated in the model:

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \epsilon_i$$

(Source: Adopted from Hair, Babin, Money & Samouel, 2003).

Where;

Y_i = Performance of MEs

X_1 = Sales/purchases records maintenance

X_2 = Reconciliation of books

X_3 = Cash book maintenance

β_0 = Constant representing the fixed performance of MEs

ϵ_i = Error term representing factors affecting performance of MEs not included in the study

IV. RESULTS AND DISCUSSIONS

4.1 Response Rate

To achieve the study objectives, a total of 360 questionnaires were printed and administered on the MSE owners of which 282 questionnaires were satisfactorily filled up. This accounted for 78.3% response rate. Owing to busy schedule of the MSE

operators, any further attempts to administer the remaining questionnaires did not materialize and therefore the 282 questionnaires were deemed adequate for analysis. Table 1 presents the questionnaire return rate.

Table 1: Questionnaire Response Rate

Settlement	Prepared Questionnaire	Administered Questionnaire	Response Rate (%)
Nyalenda	103	83	80.6
Obunga	94	71	75.5
Manyatta	120	92	76.7
Bandani	8	8	100
Kibos	35	28	80
Total	360	282	

Source: Study Data (2022)

4.2 Influence of Book Keeping Practices on Performance of MEs

4.2.1 Effect of Cashbook on Financial Performance

As seen in Table 2, majority of the respondents were in agreement that only valid cash payments are made (94%), all cash payments that are incurred are recorded (87%), cash payments are charged to the correct accounts (93%), cash payments posted to correct payable accounts and to the general ledger (79%), cash payments are recorded in the correct accounting period (94%).

Table 2: Cash book records maintenance and Performance

		N	SA	A	N	D	SD	M	SD
1	Only valid cash payments are made	282	71%	23%	1%	1%	5%	4.19	.163
2	All cash payments that are incurred are recorded	282	70%	17%	2%	3%	8%	4.21	.142
3	Cash payments are charged to the correct accounts	282	60%	33%	0%	2%	5%	4.37	.129
4	Cash payments posted to correct payable accounts and to the general ledger	282	55%	24%	5%	8%	8%	4.08	.125
5	Cash payments are recorded in the correct accounting period	282	60%	34%	2%	2%	2%	4.29	1.31
	Overall Mean							4.23	.145

4.2.2 Effect of Ledgers on Financial Performance

The second objective of the study was to examine the effect of Sales/purchases records maintenance on the financial performance of MEs. Descriptive statistics presented in Table 3 illustrates that majority of the respondents were in agreement that all the business income are recorded in revenue account (79%), all expenditures are recorded in the expense account (81%), purchases ledger shows all the unpaid dues of the business (74%), purchases ledger shows all purchases returns of the business (79%), sales ledger shows all the amounts owed

to the business (94%), sales ledger shows all returns to the business (73%)

Table 3: Purchase and Sales Book maintenance and Performance

		N	SA	A	N	D	SD	M
1	All the business income are recorded in revenue account	282	50%	29%	8%	3%	10%	4.01
2	All expenditures are recorded in the expense account	282	65%	16%	4%	6%	9%	4.03
3	Purchases ledger shows all the unpaid dues of the business	282	54%	20%	6%	2%	8%	4.04
4	Purchases ledger shows all purchases returns of the business	282	52%	25%	9%	5%	9%	4.28
5	Sales ledger shows all the amounts owed to the business.	282	60%	29%	7%	1%	3%	4.12
6	Sales ledger shows all returns to the business	282	51%	22%	9%	5%	7%	4.00
	Overall Mean							4.08

4.2.3 Effect of Maintaining Bank Reconciliation on Financial Performance

The third objective of the study was to examine the effect of maintaining bank reconciliation on the financial performance of MEs. Table 4 indicates that majority of the respondents were in agreement that maintaining bank accounts improves the businesses' chance of being given a loan (90%), bank reconciliations have a positive effect on the financial performance of SME(s) (80%), bank statements are prioritized in making major financial decisions (84%), Maintaining bank reconciliations attracts investors and eligibility for contracts (99%).

Table 4: Bank Reconciliation Maintenance and Financial Performance of MSEs

		N	SA	A	N	D	SD	M
1	Maintaining bank accounts improves the businesses chance of being given a loan	282	65%	25%	2%	5%	3%	4.55
2	Bank reconciliations have a positive effect on the financial performance of SME(s)	282	59%	21%	3%	7%	10%	4.34
3	Bank statements are prioritized in making major financial decisions	282	70%	14%	4%	6%	6%	4.22
4	Maintaining bank reconciliations attracts investors and eligibility for contracts	282	67%	22%	1%	4%	5%	4.21
	Overall Mean							4.33

4.3 Relationship between Book Keeping Practices and Financial performance of MEs

To measure the relationship between book-keeping practices (cash book maintenance, sales/purchase book maintenance, bank reconciliation maintenance) and financial performance of MEs, the researcher ran a regression analysis. Table 5 presents

regression results of the model summary indicating that the R square value was 0.469 indicating that 46.9% of financial performance of MEs is influenced by the book-keeping practices under study.

Table 5: Regression model summary

R	R Square	Adjusted R ²	Std. Error
.660 ^a	.469	.407	.2293

To check how well the model ($Y_i = \beta_0 + \beta_1 x_{1i} + \beta_2 x_{2i} + \beta_3 x_{3i} + e_i$) could predict the relationships between the dependent and independent variables, an analysis of variance (ANOVA) was carried. Table 6 presents the ANOVA.

The ANOVA table 4.6 shows that the F statistic was 43.284. The reported probability was less than the conventional probability of 0.05 (5%) significance level

Table 6: Analysis of Variance for Bank reconciliation

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	178.506	3	59.502	195.249	.000 ^b
	Residual	23.857	278	.086		
	Total	202.063	281			
a. Dependent Variable: Performance of MSEs						
b. Predictors: (Constant), cash book maintenance, sales/purchase book maintenance, bank reconciliation maintenance						

Table 7 further shows that there was a positive significant relationship ($p=0.000$ or <0.05) between financial performance and maintenance of cashbooks ($r=0.431$), sales/purchases books ($r=0.504$) and bank reconciliation ($r=0.491$). The hypotheses that there is no significant relationship between: cashbook maintenance, sales/purchases book maintenance, bank reconciliation maintenance were therefore rejected.

The equation: $Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + e$ can therefore be substituted as: $\text{Performance} = 2.218 + 0.936X_1 + 1.188X_2 + 0.721X_3 + e$

Table 7: Model of prediction using Multiple Regressions

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	2.218	.173		12.8201	.000
	Cashbooks	.936	.102	.431	9.1765	.000
	Sales/purchases books	1.188	.198	.504	6.0000	.000
	Bank reconciliation	.721	.137	.491	5.2628	.000
a. Dependent Variable: Performance of MEs						

Predictors: (Constant), cash book maintenance, sales/purchase book maintenance, bank reconciliation maintenance

4.4 Discussions

The study findings illustrate that that an estimated 46.9% of financial performance of MEs is attributed to predictors of

book-keeping practices investigated in this study: maintenance of cashbooks, maintenance of sales/purchases books, and maintenance of bank reconciliation. These book keeping practices seem to satisfy information needs of the traders upon which they rely for making decisions. This seems to resonate positively with the Decision Usefulness Theory pioneered by George Staubus (1999). Looked at under the lenses of Decision Usefulness Theory, these book keeping practices satisfy information needs of the micro enterprise traders for their timeliness, reliability and relevance to their businesses.

This paper has also revealed that maintenance of cash books, sales and purchases books, as well as bank reconciliation have positive and significant relationships with performance of MEs. This finding tends to concur with previous studies (see Adeoti & Asabi 2018; Denčić-Mihajlov, 2013; Onoh & Okoro, 2017; Owuor et al., 2021; Somathilake & Ranathunga, 2021) which also came up with familiar outcomes. In Adeoti and Asabi (2018), it was revealed that maintenance of cash daybook, sales daybook and purchase daybook all have significant influence on enterprise performance in a study done in Nigeria. Similarly, maintenance of financial statements were found to have a significant effect on SMEs financial performance in a study by Somathilake & Ranathunga (2021) in India. In addition, Owuor et al. (2021), while analyzing the effect of accounts receivable management on the financial performance of chartered public universities in Kenya, found an indirect and significant effect.

However, the findings in this paper seems to contradict Denčić-Mihajlov (2013) which found no significant relationship between maintenance of sales books and profitability, return on total asset as well as operating profit margin among selected Serbian firms listed at the stock exchange. It therefore seems that while maintenance of sales and purchases books may be significant to MEs, the same may be contrary among big companies listed at the stock exchange. Similarly, Onoh and Okoro (2017) observed in a study done in Nigeria that most businesses did not embark on periodic bank reconciliation and the few who adopted the practice outsourced the duties from consultants. This seems to highlight the fact that some of these book keeping practices require specific knowledge beyond the abilities of the traders.

V. CONCLUSIONS, RECOMMENDATIONS AND LIMITATIONS

5.1 Conclusions

The study concludes that book keeping practices have significant relationship with performance of MEs operating in informal settlements of Kisumu City. Practices such as maintenance of cash book, sales/purchases books, and bank/cash reconciliation explain significant changes in the performance of MEs. It is also concluded that while the practices especially bank reconciliation are significant, a number of businesses seldom do it due to lack of adequate knowledge and skills.

5.2 Recommendations

The study therefore recommends that MEs owners should be sensitized on the significance of adopting book keeping practices such as maintenance of cash book, sales/purchases books, and bank/cash reconciliation. This in turn will lead to informed decision-making with regards to business operations such as control of credit and debits. It is also recommended that the traders should be equipped with book keeping knowledge through short training exercises so as to improve the skill base in these areas.

5.3 Limitations

Data for this study was gathered from MEs operating in informal settlements. This excluded traders from rural areas who also face deprivations such as lack of social amenities faced by inhabitants of informal settlements.

ACKNOWLEDGMENT

The researcher acknowledges the contributions of ME owners who volunteered the data which enabled the accomplishment of this paper. Without such data, the information generated in this paper might not have been a success.

REFERENCES

- [1] Adeoti, J. O. and Asabi, M. O. (2018). Effect of Record Keeping Practices on the Performance of Micro Enterprises in Lagos State, Nigeria. *Amity Journal of Corporate Governance*, 3 (2), 1-10.
- [2] Ahmad, N. N. (2016). Cash management practices in micro and small businesses in Malaysia. *Journal of Education and Social Sciences*, 4 (June), 331 – 335.
- [3] Aladejebi, O. and Oladimeji, J. A. (2019). The impact of record keeping on the performance of selected small and medium enterprises in Lagos Metropolis. *Journal of Small Business and Entrepreneurship Development*, 7(1), 28-40.
- [4] Balagobei, S. (2019). Impact of record keeping practices on business performance of small and medium scale enterprises in Sri Lanka. *International Journal of Accounting and Financial Reporting*, 9(4), 439 – 451.
- [5] Chelimo, J. K. and Sopia, I. O. (2015). Effects of bookkeeping on growth of small and medium business enterprises in Kabarnet Town, Baringo County, Kenya. *International Journal of Science and Research*, 3(12), 432 – 437.
- [6] Crawford, M. A. (2014). Strengths and Limitations of Correlational Design. *Understanding Forensic Psychology Research*. Walden University
- [7] Dandago, K.I & Hassan, N.I. B. (2013). Decision usefulness approach to financial reporting: a case for Malaysian inland revenue board. *Asian Economic and Financial Review*, 3(6), 772-784.
- [8] Dawadi, S., Shrestha, S., & Giri, R. A. (2021). Mixed-Methods Research: A Discussion on its Types, Challenges, and Criticisms. *Journal of Practical Studies in Education*, 2(2), 25- 36.
- [9] Denčić-Mihajlov, K. (2013). Impact of accounts receivable management on the profitability during the financial crisis: evidence from Serbia. *UDC: 658 (155), 497- 511*.
- [10] Dumbava, M. (2016). Manual Vs Computerized Accounting. Retrieved June 18, 2022, from <http://www.simplexpayroll.com/blog/2016/02/manual-vs-computerized-accounting/>
- [11] Enow, S.T. and Kamala, P. (2016). The accounts payable management practices of small, medium and micro enterprises in the Cape Metropolis, South Africa. *Investment Management and Financial Innovations*, 13(1), 77 – 84.
- [12] European Union (2019). EU Policy framework on SMEs: State of play and challenges. The European Union and the Committee of the Regions, available at: <http://www.europa.eu> and <http://www.cor.europa.eu> respectively.
- [13] Hossain, M. I., & Rahman, M. M. F. (2019). Accounting information system (AIS) practices and its effects on SMEs: The Bangladesh Handloom Industry Experience. *Mist International Journal of Science and Technology*, 7(1), 29 – 40.
- [14] International Accounting Standard Board (IASB, 2010). The conceptual framework for financial reporting. Retrieved from <http://eifrs.iasb.org/eifrs/bnstandards/en/framework.pdf>.
- [15] International Labour organization (ILO, 2019). Small matters: Global evidence on the contribution to employment by the self-employed, micro-enterprises and SMEs. International Labour Office, CH-1211 Geneva.
- [16] Israel, G. D. (2013). Determining sample size. University of Florida.
- [17] Kanu, C. and Idume, G. I. (2015). Bank reconciliation statements, accountability and profitability of small business organisation. *Research Journal of Finance and Accounting*, 6(22), 21 – 30.
- [18] Kato, C., Litondo, K. O. and Ntale, J. F. (2015). Women micro and small enterprises as a platform for human development in Kenya: A case of Kisumu City. *Strategic Management Quarterly*, 3(4), 23-37
- [19] Kenya Bankers Association (KBA, 2019, November 6). Banking sector unveils credit platform for small and medium enterprises. Kenya Bankers Association. <https://www.kba.co.ke/news97.php>.
- [20] Kenya National Bureau of Statistics (KNBS, 2020). 2019 Kenya Population and Housing Census: Volume II-Distribution of Population by Administrative Units. ISBN: 978- 9966-102-11-9. <https://www.knbs.or.ke/?wpdmpro=2019-kenya-population-and-housing-census-volume-ii-distribution-of-population-by-administrative-units> (Accessed on July 25, 2022)
- [21] Kumar, V. (2013). Difference between Manual Accounting and Computerized Accounting. Retrieved June 14, 2022 from <http://www.svtuition.org/2013/11/difference-between-manual-accounting.html>
- [22] Lisjanto, F. G. and Darmansyah, A. (2018). Comparative analysis of bookkeeping at sole proprietorship and partnership small and medium enterprises: Study on Culinary Sector in Greenville, Jakarta. *Scientific Research Journal (SCIRJ)*, VI (VI), 1 – 14.
- [23] Maina, C. W., Muema, W., and Mutegi, D. (2021). Cash reconciliations and the financial performance of medium enterprises in manufacturing sector in Nairobi County. *International Academic Journal of Economics and Finance*, 3(7), 72-82.
- [24] Muchira, B.W. (2012). Record Keeping and Growth of Micro and Small Enterprises: A Case Study of Thika Municipality in Kenya. Unpublished submitted to Kenyatta University.
- [25] Muriithi, S. M. (2018). Small and medium enterprises (SMEs), the heart of Chinese economic development: What can African governments learn? *European Journal of Research and Reflection in Management Sciences*, 6(3), 27 – 40.
- [26] Musah, A. (2017). Benefits and Challenges of Bookkeeping and Accounting Practices of SMEs and Its Effect on Growth and Performance in Ghana. *Journal of Accounting – Business & Management*, 24 (2), 16-36.
- [27] Onoh, J. O. and Okoro, O. U. (2017). Bank statement reconciliation in the Nigerian private sector: Implications of non-adherence to procedures. *International Journal of Economics and Business Management*, 3 (3), 1 – 17.
- [28] Onwonga, M. (2017). Effect of cash reconciliation on the financial performance of commercial banks in Kenya. *International Journal of Finance*, 2(7), 13 – 33.
- [29] Othoo, C. O., Dulo, S. O., Olago, D. O. and Ayah, R. (2020). Proximity density assessment and characterization of water and sanitation facilities in the informal settlements of Kisumu City: Implications for public health planning. *J UOEH*, 42(3), 237 – 249.
- [30] Owuor, G., Agusioma, N., & Wafula, F. (2021). Effect of Accounts Receivable Management on Financial Performance of Chartered Public Universities in Kenya. *International Journal of Current Aspects in Finance, Banking and Accounting*, 3(1), 73-83. <https://doi.org/10.35942/ijcfa.v3i1.182>.

- [31] Owusu, E. E., Assabil, E. N., & Asare-Kyire, S. (2015). Assessing the impacts of proper book-keeping on the performance of small and medium scale enterprises (SMEs) in Kwaebibirem district of Ghana. *The International Journal of Science & Technology*, 3(7), 84-91.
- [32] Rahi, S. (2017). Research design and methods: A systematic review of research paradigms, sampling issues and instruments development. *International Journal of Economics & Management Sciences*, 6(2), 1-5.
- [33] Rathnasiri, U.A.H.A. (2014). Financial reporting practices of small and medium enterprises (SMES) In Sri Lanka. *South East Asia Journal of Contemporary Business, Economics and Law*, 4, 15-23.
- [34] Sibanda, J. J., & Manda, D. C. (2016). Symptoms of accounting practices that contributes to small business failures in South Africa. *Problems & Perspectives in Management*, 14(4-1), 194-202.
- [35] Simiyu, S., Cairncross, S. and Swilling, M. (2019). Understanding living conditions and deprivation in informal settlements of Kisumu, Kenya. *Urban Forum*, 30, 223-241 <https://doi.org/10.1007/s12132-018-9346-3>
- [36] Smith, Carrie. (2017). Cash vs. Accrual Accounting: What's Best for Your Small Businesses. Retrieved June 14, 2022 from <https://quickbooks.intuit.com/r/bookkeeping/cash-vs-accrual-accounting-whats-best-small-business/>.
- [37] Soaga, H. G. (2012). Basics of Cash Management for Financial Management and Reporting. Available at: <https://ssrn.com/abstract=2200432> or <http://dx.doi.org/10.2139/ssrn.2200432>
- [38] Somathilake, H. M. D. N. and Ranathunga, K. G. K. D. (2021). The effect of accounting record keeping practices on financial performance: Special reference to Small and Medium Enterprises in Anuradhapura District. *International Journal of Research and Innovation in Social Science (IJRISS)*, V(VIII), 258 – 265.
- [39] Soyinka, K. A.M., Fagbayimu, M.O., Adegrooye, E. & Ogunmola, J.O. (2017). Decision usefulness and financial reporting: the general public perspective. *International Journal of Academic Research in Accounting, Finance And Management Sciences*, 7(4), 160-168.
- [40] Staubus, G.J. (1999). *The decision-usefulness theory of accounting: A limited history*. New York and London: Garland Publishing, Inc.
- [41] Visser, T., Nieman, G., & van Heerden, E. (2015). Financial Administration and Small and Medium Enterprises: A Study Conducted in South Africa. *Athens Journal of Business & Economics*, 1(3), 181-192.
- [42] Wang, H. (2012). The decision usefulness of fair value accounting in the debt market. Unpublished Thesis submitted to Post Graduate School, University of Concordia, Canada.
- [43] Wanjala, S. N., Bwisa, H. M., Wandera, R. W., Wanyama, K. W. and Wanjala, A. S. (2014). Effect of bookkeeping management practices on business performance of micro and small butchery enterprises in Kimilili Sub-County, Bungoma, Kenya. *The international journal of business & management*, 2(9), 30 – 41.
- [44] World Bank. (2019). World Bank SME finance: Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital. The World Bank. <https://www.worldbank.org/en/topic/sme/finance>.