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ACCOUNTING PRACTICES AND FINANCIAL PERFORMANCE OF SMEs IN GARISSA TOWNSHIP SUBCOUNTY, KENYA

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ABSTRACT

Research has widely indicated that one of the main sectors that contribute to economic advancement is the Small and Medium Enterprises (SMEs) as it crucially enables provision of employment opportunities as well as facilitate poverty reduction to majority of households. Despite their major contributions to the economy, many of the SMEs don't grow into large scale organizations due to various constraints they experience. Anchored on the Proprietary, Balanced Scorecard Theory, Agency and the Positive Accounting theories, this study interrogated the relationship between accounting practices, that is, budgeting practices, costing practices, internal control practices as well as financial reporting practices and financial performance of the SMEs, focusing on Garissa Township. Out of the 456 registered SMEs, 213 were determined through Yamane formula then sampled through stratified random procedures. Quantitative primary data was collected through structured questionnaires and then a multiple a regression model used to establish the relationship between the variables.

It was indicated that budgeting ($\beta = 0.325$; P-Value < 0.05); costing ($\beta = 0.500$; P-Value < 0.05); internal control ($\beta = 0.536$; P-Value < 0.05) and financial reporting ($\beta = 0.395$; P-Value < 0.05) had a positive and significant effect on financial performance of SMEs in Garissa Township Subcounty. This leads to the recommendations for a need by the SMEs to prioritize important budgeting practices such as basing budgeting process on operational costs, ensuring there is budgeting on sales and preparing investment budgets to monitor investment expenditure. SMEs are also encouraged to consider involving top management and financial accountants in the process of budgeting, focus on budgeting that involves cash operations on a daily basis, long-term goals of the business and budget goal clarity.

Key Words: *Budgeting, Costing, Internal Control, Financial Reporting, Financial Performance*

BACKGROUND TO THE STUDY

Through creation of employment opportunities, SMEs significantly contribute economic growth that also boosts expansion of other related economic activities. Based on the need to speed up growth and expansion of the SME sector, accounting information is useful as it helps in disbursement as well as cash flow which are necessary in providing raw information required for financial evaluation purposes (Ahmad, 2014). Most importantly, there is need for SMEs to be cognizant of the need for effectiveness in addition to efficient application of accounting processes for the purposes of pursuit of firm's objectives based on the resources available. Growth of financial analysis skills to read and comprehend financial statements within the SME is important to discern whether they have forecasting as well as historical information that can be utilized to help the firm attain its financial goals (Smirat & Yousef, 2016). SMEs use accounting practices to review their money related processes. They include break-even examination which helps in arranging, directing as well as controlling operating costs (Horngren et al. 2009).

The concept of accounting among SMEs is global concept as well as issue. In Georgia, most SMEs possess very high standards of financial recordkeeping with majority of them having more than the basic recordkeeping receipts (Khishtovani et al., 2019). In Jordan, Smirat and Yousef (2016) argued that majority of SMEs regularly keep track of payments as well as cash receipts while a larger proportion of SME owners do not have cash control information. Despite the apparent lack of accounting information, cash management processes have been found to positively impact on financial performance (Smirat & Yousef, 2016). Focusing on SMEs in the pharmaceutical industry of Sri Lanka, Uduwaka and Dedunu (2019) argued that most of the SMEs prepare balance sheets as well as income statements at least quarterly. On the same note, majority of the firms also hire external accountants to help in the financial statements preparation with superior financial performance attributed to effective accounting practices as well as quality financial reporting practices.

Regionally, Ezejiofor et al. (2014) indicated that in Nigeria, majority of SMEs pay little attention to accounting systems when it comes to conducting business transactions and this has had a detrimental effect on their performance. This is similar to Ghana where a good proportion of SMEs fail to keep comprehensive book-keeping accounts as they are perceived to be expensive and disclose financial information to competitors (Amoako, 2013; Boame et al., 2014). This is consistent with SMEs in South Africa where most SMEs disregard the need to keep track of accounting information in fear of exposing their financial situation to competitors (Sibanda & Manda, 2016). Locally in Kenya, most SMEs rarely make use of accounting services provided by a qualified accountant which has undesirably affected financial performance (Siekei et al., 2013).

The collapse of majority of SMEs is directly attributable to poor financial management practices (Kamunge et al., 2014). However, apart from the fact that many Kenyan SMEs fail to maintain effective records of accounting, they still perceive its positive role in the financial performance (Chelimo & Sopia, 2014; Ndirangu, 2017). Omagwa (2014) added that despite limited use of accounting practices, SMEs do realize the potential of such processes but seldom apply them as they are deemed expensive. Generally, it has been demonstrated that accounting practices vary across contexts but in SSA, its adoption is very low. Scholars such as Smirat (2016) argue that a properly functioning accounting system is an indication of how well a firm is doing and what decisions are required to be made for the purpose of sustaining the business in the market. Adler et al. (2010) and Kamunge et al. (2014) added that better accounting practices help forge new businesses by enhancing persistence in recording of financial information and its evaluation. Ahmad (2014) linked collapse of SMEs to poor accounting practices. Chelimo and Sopia (2014) also demonstrated that when all the financial processes and accounting practices are effectively applied, an SME develops the capacity to manage risks and make suitable decisions in order to make the most of scarce resources at its disposal thus improving financial performance. Given that literature recommends an immense positive contribution of accounting practices on unparalleled financial performance, and given the high failure rate of SMEs in Kenya, this study sought to link accounting practices to financial performance of SMEs.

STATEMENT OF THE PROBLEM

SMEs are an integral segment of any economy and contribute significantly to its development as they make available several job opportunities thus contributing to poverty reduction (Abdel-Kader & Luther ,2010). However, based on the outcomes of the Kenya Economic Survey report 2016, relative to other sectors of the Kenyan economy, financial performance of the SME sector was found to be comparatively low. This sector generally recorded a relatively slow growth rate of below 5% annually as compared to other sectors which recorded more impressive growth rate statistics. A paltry 30% of SMEs are still operational by the fifth year of their inception with majority collapsing in their second or third year (Uduwaka, & Dedunu, 2019). Moreover, a total of 2.2 million SMEs shut down between the year 2016 and 2020 according to KNBS report (2020) which indicated that most of the SMEs that closed their operations were in retail, wholesale trade and motor vehicles repair as well as motor cycles industry which attributed for 73% of the total closure.

According to Abdel-Kader (2010), dearth of appropriate financial managing structures within these firms coupled with uncertainty of business environment are the chief reasons SMEs contend with difficulties that often result to low financial output and eventually failure. Similarly, well-structured larger firms that have proper accounting systems gain a competitive edge over SMEs as they are able to meet their debt obligations at the expense of their smaller counterparts. In Garissa County, there is slow growth in the financial performance of SMEs due to lack of financial management literacy with more than 60% recording poor income growth (Tawane, 2019). Similarly, Abanis, Sunday, Burani and Eliabu (2013) argued that SMEs are constrained as a result of mismanagement of finances as a result of poor or lack of better financial supervision practices. To this end, this study sought to find out the correlation that exist between financial performance and practices of accounting of SMEs in Garissa township Subcounty, Kenya.

OBJECTIVES OF THE STUDY

i. To find out the impact of budgeting practices on financial performance of SMEs in Garissa Township Subcounty, Kenya.
ii. To examine the effect of costing practices on financial performance of SMEs in Garissa Township Subcounty, Kenya.

iii. To assess the effects of internal control practices on financial performance of SMEs in Garissa Township Subcounty, Kenya.

iv. To find out the effect of financial reporting practices on financial performance of SMEs in Garissa Township Subcounty, Kenya.

THEORETICAL LITERATURE REVIEW

The study was anchored on the Agency theory, Proprietary Theory, Balanced Scorecard as well as Positive Accounting theories as presented and discussed.

Agency Theory

Put forward by Jensen and Meckling (1979). The theory argues that there exists a contractual arrangement between specific holders of economic resources and the management of the firm who are entrusted with the obligation of employing in addition to supervising the resources. Work or responsibilities are often delegated from the principal to the agent who trusts in their judgement and professionalism (Mustapha & Ahmad, 2011). This results to a number of drawbacks which are based on opportunism as well as self-interest of the agent. A scenario may arise where the agent fails to execute activities in the best interest of the principal in which case they might also be obliged do so partially. Another problem that may stem from this relationship is information asymmetry whereby the agent who may possess different types as well as level of information may take advantage of the principal's relative lack of or low level of information. SME owners may delegate responsibilities to the management or hire external accountants to perform different accounting activities and since the owner may not be sufficiently equipped with the relevant skills, they may be disadvantaged. There is thus need to safeguard the interests of SME owners by use of internal controls.

Balanced Scorecard Theory

This theory was put forward by Kaplan and Norton (1992) to organize both financial as well as non-financial performance measurements. According to Davis and Albright (2004), a scorecard is a performance management system that permits management as well as evaluation of strategy implementation by a firm by aligning firm's mission in addition to vision to the needs of the customers. Process progress in also communicated to workers to build organizational capacity by establishing an improvement in operational competencies (Pearce, Robinson & Subramanian, 2000). A balanced scorecard enables measurement of both elements of firm performance through translation of firm strategy to the measures/indicators. With regard to balanced scorecard theory, management control systems as well as operations of SMEs are based on financial performance and financial measures (Al-Najjar, & Kalaf, 2012). Consequently, SMEs apply short-term financial measures that fail to bridge the gap between strategy development and its consequent execution.

Proprietary Theory

The theory was proposed by Husband (1954). According to this theory, a business owned by an individual(s) with a center of interest and is called the proprietor and accounting serves the proprietors' interests and the financial statements contents are stated to be understood by stockholder. The notion of proprietorship initially originates from the logic of the exposition of double- entry bookkeeping: the equation for it can be interpreted that asset are for the proprietor and the liabilities are their obligations. Thus, revenues received by the SMEs increases the proprietor's wealth while the liabilities decrease the proprietors' wealth (Isa, 2009). It is therefore important to make sure that capital assets are used efficiently in order to increase the profit. To do that, accounting practices must be put in place.

Positive Accounting Theory (PAT)

Proposed by Watts and Zimmerman (1986), PAT elucidates as well as forecasts the scope and purposes of firm book-keeping practices. It basically provides explanation for actual accounting practices with regard to intended choice of a firm's management accounting actions in addition to the manner in which delimited standards have varied over time. By setting forth and providing clarifications on what and the manner in which statistics is presented using accounting measures, PAT serves to present descriptions for the motive behind accounting actions in the firm. An individual situation rationalizes reliance upon certain accounting methodologies. The theory provides this study with a guideline for the choice of accounting practices in any business entity. According to the theory, the accounting practices adopted should be guided by the need for the same. In relation to the study, better accounting practices are considered to boost the management of the available resources and in return, improve performance.

EMPIRICAL LITERATURE

Most of the previous studies on the effect of accounting practices on financial performance of SMEs across the globe reflect a positive effect. A study by Osman (2007) assessed SMEs in Kedah to explore their accounting practices and indicated that financial planning & control, budgeting & Working Capital Management (WCM) as well as financial accounting were the most practiced and they positively affected performance. An assessment of the adoption of accounting practices among Malaysian SMEs by Ahmad (2014) gathered information from 160 accountant managers and analyzed the same by use of inferential techniques and found that traditional costing, conventional budgeting as well as conventional financial performance measures were widely applied by the SMEs and they enhanced financial performance.

Similarly, an examination carried out by Reid and Smith (2002) on application of budgeting practices among UK SMEs established that application of management accounting system especially among struggling SMEs can enhance proper monitoring of finances on a daily basis in order to recognize trends in vital variables. Erasmus (2015) examined the relationship between practices of cost management and financial performance of listed deposit money banks in Nigeria and revealed that both Activity-Based Costing and Standard Costing positively and significantly influenced profit before tax of the banks. On the other hand, target costing had negative effect. Likewise, the findings of a study by Adler et al. (2010) showed that some of the accounting practices among manufacturing firms such as full costing, organize costing and standard costing had contributed to better firm performance.

Liaqat (2010) also revealed that in India, firms that practiced Activity-Based Costing (ABC) were some of the bests performing. Julie (2019) studied how the financial performance of Agro-processing firms in Kisumu County, Kenya is affected by internal control practices and found evidence of a positive effect. Elsewhere, Waweru (2009) who investigated the accounting practices and accounting practices systems adopted by SMEs in Kenya indicated that internal control, costing and budgeting had a significant effect on performance. Another study by Abanis et al. (2013) examined financial managing and related practices among SMEs in Western Uganda provided evidence that implementation of practice of financial reporting is still low among SMEs in Uganda.

On the contrary, other studies indicated that adoption of accounting practices among SMEs had been adopted to a small extent and its impact was negligible, if not insignificant completely. In Ghana, Amidu et al. (2011) established the electronic accounting methods used by SMEs and revealed that some of the methods such as internal control, costing and budgeting were frequently employed but didn't significantly affect performance. Similarly, a study by Abdel-Kader and Luther (2010) explored book-keeping activities among SMEs in the sustenance and flavors industry of the U.K and showed that the SMEs had made attempts in practicing accounting practices such as financial reporting and budgeting. However, it was being done to a small extent and its effect on financial performance was negligible.

RESEARCH METHODOLOGY

The study used a descriptive research design. The target population of the study was the registered SMEs in Garissa Township subcounty totaling to 456 which are spread across various sectors as indicated in table 1.

Table 1: Target Population

SMEs Categories	Population	Percentage
Clothes & Fashion	68	14.9
Beauty & Cosmetics	25	5.5
Food & beverages	85	18.6
Jua Kali	28	6.1
Construction companies	13	2.9
Financial and insurance activities	15	3.3
Bookshops	10	2.2
General Wholesale & Retail trade shops	108	23.7
Administrative and support service activities	39	8.6
Electrical & Electronics shops	65	14.2
Total	**456**	**100**

Since the target population was big, the study adopted Yamane's formula to determine the sample size 213 respondents who were randomly selected. To select the SMEs by category/sector, stratified random sampling was applied whereas simple random sampling of the respondents was done. A structured questionnaire was applied for the purpose of gathering the required information, in addition it bears closed-ended questions on the variables of the study. After data collection, it was keyed into excel sheet and checked for completeness The study used Statistical Package for Social Sciences (SPSS) version 22 to determine the descriptive statistics as well as regression analysis.

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Where: Y = Performance of SMEs; X_1 = Budgeting Practices; X_2= Costing Practices; X_3 = Internal Control Practices; X_4 = Financial Reporting Practices; ε = Error term; β_0 = Constant; β_1, β_2, β_3, β_4 = Regression coefficients.

RESEARCH FINDINGS, ANALYSIS AND PRESENTATION

Response Rate

A total of 213 questionnaires were administered to SMEs owners in Garissa Township who were the respondents of the study. A total of 162 questionnaires were completed and returned which gave an overall response rate of 76.06%. The response rate is in accordance with the suggestions of Fincham (2008) that a response rate of above 70% is adequate to conduct statistical analysis of the collected data. Mugenda and Mugenda (2003) also recommends that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This shows that the response rate in this study was adequate for statistical analysis.

Descriptive Findings

Description of Budgeting Practices among SMEs in Garissa Township

The study sought to find out the impacts of budgeting practices on financial performance of SMEs in Garissa Township Sub County. To this end, indicated the degree to which they agreed with various statements regarding budgeting practices on a Likert scale of 1-5 (5= Strongly Agree (SA); 4 = Agree (A); 3= Neutral (N); 2= Disagree (D) and 1= Strongly Disagree (SD)). The average responses are as shown on Table 2.

Table 2: Descriptive Results on Budgeting Practices

Statement	SD	De	N	A	SA	Mean	Std Dev
The business budgeting process is based on operational costs of the firm	22.2%	17.3%	26.5%	17.3%	16.7%	2.89	1.38
The business budgets on its sales, marketing expenditure and cash flows	21.0%	16.7%	20.4%	25.9%	16.0%	2.99	1.39
The business prepares investment budgets to monitor investment expenditure	21.0%	17.9%	22.8%	19.8%	18.5%	2.97	1.40
Top management is usually involved in the process of budgeting.	25.9%	27.2%	21.6%	12.3%	13.0%	2.59	1.34
The budgeting process is usually done by budgeting team comprising of a financial accountant	14.8%	28.4%	19.1%	22.2%	15.4%	2.95	1.31
The budgeting process is usually done by lower-level management	24.7%	24.1%	16.7%	18.5%	16.0%	2.77	1.42
The business usually budgets on its cash operations on a daily basis	19.8%	24.1%	19.8%	19.1%	17.3%	2.90	1.38
The budget is orientated towards long-term goals of the business	19.1%	25.9%	22.8%	18.5%	13.6%	2.81	1.32
The business conducts formal budget planning	15.4%	16.0%	22.8%	27.2%	18.5%	3.17	1.33
There is budget goal clarity	16.7%	19.8%	25.9%	19.1%	18.5%	3.03	1.34
The budget is prepared regularly for sound financial management	21.6%	18.5%	19.8%	18.5%	21.6%	3.00	1.45
Average						**2.92**	**1.37**

The largest proportion of the respondents were neutral when asked whether the business budgeting process is based on operational costs of the firm as represented by a mean of 2.89. However, a standard deviation of 1.38 shows that the responses provided on this statement were highly spread out from the mean. On whether the business budgets on its sales, marketing expenditure and cash flows, the largest proportion of the sample represented by 25.9% agreed. However, as shown by a mean value of 2.99, majority of the respondents provided neutral responses to the above statement while a standard deviation of 1.39 is indicative of polarized distribution of the responses. With regard to the statement that the business prepares investment budgets to monitor investment expenditure, majority of the respondents were also neutral (mean=2.97) while their responses to this statement were highly spread out as shown by a standard deviation of 1.4.

Moreover, majority of the study's respondents disagreed with the statement that top management is usually involved in the process of budgeting (mean=2.59) as a standard deviation of 1.34 indicated divided distribution of responses to the claim. Regarding the statements that the budgeting process is usually done by budgeting team comprising of a financial accountant and that the budgeting process is usually done by lower-level management, majority of the participants of the study disagreed as shown by respective means of 2.95 and 2.77. On whether the business usually budgets on its cash operations on a daily basis, majority of the respondents were neutral (mean=2.9) with a standard deviation value of 1.38 indicative of high spread in the responses. Similarly, the largest proportion of the sample (mean=2.81) was neutral with the claims that the budget is orientated towards long-term goals of the business and that the business conducts formal budget planning (mean=3.17). On whether there is budget goal clarity, most of the respondents were neutral (mean=3.03) with high spread in responses confirmed by standard deviation of 1.34. Lastly, the largest percentage of sample was neutral regarding the statement that the budget is prepared regularly for sound financial management (mean=3). On average, majority of the SME owners in Garissa Township Sub County involved in the study were neutral regarding adoption and use of various budgeting practices as shown by a mean of 2.92.

Description of Costing Practices among SMEs in Garissa

The study also examined the influence of costing practices on financial performance of SMEs in Garissa Township Sub County. A scale of 1-5 was used to assess the level of agreement to various statements on costing practices by respondents. The results are as shown on Table 3.

Table 3: Descriptive Results on Costing Practices

Statement	**SD**	**D**	**N**	**A**	**SA**	**Mean**	**Std Dev**
The business conducts costing of each activity before it allocates resources to it	11.7 %	19.1 %	24.7 %	22.8 %	21.6 %	3.23	1.31
Standard costing practices are adopted by the business	17.9 %	17.9 %	21.6 %	21.0 %	21.6 %	3.10	1.40
The business conducts marginal costing to ensure efficiency	17.3 %	27.8 %	22.2 %	14.2 %	18.5 %	2.89	1.36
Lean accounting is usually conducted to manage costs and ensure efficiency	19.1 %	21.0 %	17.9 %	20.4 %	21.6 %	3.04	1.43
The business conducts life cycle costing before it allocates resources	19.1 %	24.7 %	22.8 %	21.0 %	12.3 %	2.83	1.30
The business conducts cost benchmarking before resource allocation	19.1 %	27.8 %	14.8 %	20.4 %	17.9 %	2.90	1.40
The business has automated its costing systems for efficiency and accuracy	24.1 %	30.9 %	17.9 %	13.0 %	14.2 %	2.62	1.36
Targeting costing is usually conducted to manage costs effectively	16.0 %	23.5 %	19.8 %	24.7 %	16.0 %	3.01	1.33
The business conducts total quality management	16.7 %	14.8 %	25.9 %	16.7 %	25.9 %	3.20	1.41
Average						**2.98**	**1.37**

Table 3 reveals that most of the respondents of the study were neutral with regard to the statement that the business conducts costing of each activity before it allocates resources to it (mean=3.23). A standard deviation value of 1.31 shows that the responses to the above statement had high spread from the mean. Whether standard costing practices are adopted by the business, majority were also neutral (mean=3.1). On this statement, however, the spread of the responses was high as shown by standard deviation of 1.4. With regard to the claim that the business conducts marginal costing to ensure efficiency, most of the participants disagreed (mean=2.89) and high spread of responses was noted as confirmed by standard deviation of 1.36. On whether lean accounting is usually conducted to manage costs and ensure efficiency, majority of respondents were neutral (mean=3.04) as their responses were highly spread out as shown by standard deviation of 1.43. Further, the largest percentage of the study sample disagreed that the business conducts life cycle costing before it allocates resources (mean=2.83) and that the business conducts cost benchmarking before resource allocation (mean=2.9). Anothe statement sought to find out whther the business has automated its costing systems for efficiency and accuracy whereby most of the respondents disagreed (mean=2.62) with high spread out of the responses as shown by SD of 1.36. On whether targeting costing is usually conducted to manage costs effectively, majority were neutral (mean=3.01). The responses to this statement had high spread as shown by SD of 1.33. Lastly, majority of the respondents were also neutral on the statement that the business conducts total quality management (mean=3.2). On average as shown by a mean of 2.98, majority of the respondents were neutral with regard to whether their businesses use various costing practices to improve their financial performance.

Internal Control Practices among SMEs in Garissa Township

The study further sought to assess the impacts of internal control practices on financial performance of SMEs in Garissa Township Sub County. Respondents indicated their agreement or otherwise to various statements regarding internal control practices on a Likert scale of 1-5. The average responses are as shown on Table 4.

Table 4: Descriptive Results on Internal Control Practices

Statement	SD	D	N	A	SA	Mean	Std Dev
The business frequently conducts internal audits to ensure no malpractices are done	17.3 %	14.2 %	23.5 %	28.4 %	16.7 %	3.13	1.33
There is risk assessment to detect financial risks first hand and prevent it	15.4 %	21.0 %	24.7 %	22.2 %	16.7 %	3.04	1.31
The firm conducts periodic reconciliation in accounting systems	13.0 %	28.4 %	25.9 %	16.7 %	16.0 %	2.94	1.27
The business conducts detective controls to ensure no malpractices are conducted by the staff	19.1 %	24.1 %	18.5 %	20.4 %	17.9 %	2.94	1.39
There is monitoring of the business activities on a daily basis	17.3 %	27.2 %	20.4 %	18.5 %	16.7 %	2.90	1.35
The business maintains steady information and communication flow	16.7 %	33.3 %	15.4 %	19.8 %	14.8 %	2.83	1.33
Average						**2.96**	**1.33**

Majority of the sampled respondents as shown in table 4 above were neutral with regard to the statement that the business frequently conducts internal audits to ensure no malpractices are done (mean=3.13). Polarized distribution of responses to the above statement was noted as confirmed by SD of 1.33. On wthere there is risk assessment to detect financial risks first hand and prevent them, the largest proportion of the sample was neutral (mean=3.04) while high variation in the responses was confirmed by a SD of 1.31. Similarly, majority of respondents were neutral regarding the claim that the firm conducts periodic reconciliation in accounting systems (mean=2.94) as responses to this statement highly spread out across the participants as shown by SD of 1.27. A larger percentage of the sample was also neutral when asked on whether the business conducts detective controls to ensure no malpractices are conducted by the staff (mean=2.94). This was the same result on the statement that there is monitoring of the business activities on a daily basis as most participants were neutral (mean=2.9). The last statement sought to find out whether the business maintains steady information and communication flow whereby majority of the respondents were neutral (mean=2.83). On average as shown by a mean of 2.96, majority of the respondents were neutral with regard to whether their businesses use various internal control practices.

Description of Financial Reporting Practices among SMEs in Garissa Township

The impact of Financial Reporting practices on financial performance of SMEs in Garissa Township Sub County was also assessed. Based on a scale of 1-5, respondents indicated their level of agreement to statements on financial reporting and the results are as shown on Table 5.

Table 5: Descriptive Results on Financial Reporting Practices

Statement	SD	D	N	A	SA	Mean	Std Dev
The business guarantees accuracy of financial reports	22.2%	14.2%	22.8%	19.8%	21.0%	3.03	1.44
The business guarantees timeliness of financial reports	19.8%	33.3%	15.4%	16.7%	14.8%	2.73	1.35
The business guarantees frequent preparation of financial reports	14.2%	24.1%	17.3%	26.5%	17.9%	3.10	1.34
The business ensures that accounting principles are followed in development of the financial reports	21.6%	26.5%	15.4%	19.1%	17.3%	2.44	1.41
The business guarantees consistency in preparation of financial reports	16.0%	24.7%	13.6%	25.9%	19.8%	3.09	1.39
Average						**2.96**	**1.39**

Table 5 shows that most of the respondents of the study were neutral with regard to the statements that the business guarantees accuracy of financial reports (mean=3.03) and that the business guarantees timeliness of financial reports (mean=2.73). Similarly, the largest percentage of the sample were neutral when asked on whether the business guarantees frequent preparation of financial reports (mean=3.1). With regard to the statement that the business ensures that accounting principles are followed in development of the financial reports, the largest percentage disagreed (mean=2.44). The final statement sought to establish whether the business guarantees consistency in preparation of financial reports whereby majority were neutral (mean=3.09).

On average, On average, majority of the SME owners in Garissa Township Sub County involved in the study were neutral regarding use of various financial reporting practices as shown by a mean of 2.96.

Description of Financial Performance of SMEs in Garissa Township

Financial performance of SMEs in Garissa Township was assessed. Various statements regarding this variable were provided on the questionnaire and respondents indicated their level of agreement on a Likert scale of 1-5. The average responses are as shown on Table 6.

Table 6: Descriptive Results on Financial Performance

Statement	SD	D	N	A	SA	Mean	Std Dev
The business is recording improving growth and net profit	14.8%	22.2%	42.6%	13.6%	6.8%	2.75	1.08
The business records sufficient sales growth	7.4%	14.8%	22.2%	35.2%	20.4%	3.76	1.19
The business records adequate revenues from operations	21.6%	7.4%	28.4%	28.4%	14.2%	3.06	1.34
The business records declining debt	14.8%	44.4%	20.4%	13.6%	6.8%	2.43	1.11
The business investments are generating good income	7.4%	22.2%	14.8%	35.2%	20.4%	3.59	1.24
The business records sufficient operating income	22.2%	43.8%	13.6%	13.6%	6.8%	2.39	1.17
The business has more assets than liabilities	14.8%	50.6%	14.2%	13.6%	6.8%	2.47	1.11
The business records minimal operational costs	22.2%	49.4%	14.2%	7.4%	6.8%	2.27	1.10
The business records improved inventory turnover	7.4%	14.8%	22.2%	35.2%	20.4%	3.66	1.19
The business records growth in total assets	7.4%	14.8%	22.2%	21.6%	34.0%	3.60	1.29
Average						**2.94**	**1.18**

The largest proportion of the respondents were neutral when asked whether the business is recording improving growth and net profit (mean=2.75). With a SD of 1.08, there was a high spread of the responses provided to this statement. With regard to the statement that the business records sufficient sales growth, majority of the respondents agreed (mean=3.76). However, a SD of 1.19 shows high spread of the responses provided by individual respondents. On whether the business records adequate revenues from operations, the largest fraction of the sample were neutral (mean=3.06) as a SD of 1.34 indicated responses to the statement were highly spread out among respondents. Regarding the claim that the business records declining debt, majority disagreed (mean=2.43). However, most respondents agreed that the business investments are generating good income (mean=3.59). As shown in table 9 above, majority of respondents disagreed that the business records sufficient operating income (mean=2.39), the business has more assets than liabilities (mean=2.47) and records minimal operational costs (mean=2.27). On whether the business records improved inventory turnover, majority of the respondents agreed (mean=3.66). Similarly, majority agreed that the business records growth in total assets (mean=3.6).

Regression Analysis

For the purpose of establishing the significance of the relationship that exists between accounting practices and financial performance of SMEs in Garissa Township Sub County, a multiple regression analysis was conducted. The findings are indicated in subsequent sections, with summary results first presented in table 7.

Table 7: Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.781	0.61	0.6	0.595967
a Predictors: (Constant), Financial reporting practices, Internal control practices, Costing practices, Budgeting practices				

Model summary results in table 7 indicate that the four accounting practices (financial reporting, internal control, costing and budgeting) had a strong positive influence on financial performance of SMEs as depicted by a joint Pearson correlation, R of 0.781. similarly, the coefficient of determination, R-square is 0.61 implying that the four accounting practices considered in this study jointly account for up to 61% of the variation in financial performance of SMEs in Garissa Township subcounty. The results on the predicting power or overall significance of the model used in this study are presented in table 8.

Table 8: Model Significance/ ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	87.122	4	21.781	61.323	.000
	Residual	55.763	157	0.355		
	Total	142.885	161			
a Dependent Variable: Financial performance						
b Predictors (Constant), Financial reporting practices, Internal control practices, Costing practices, Budgeting practices						

The significance of the regression model was confirmed by the F statistic at 5% (Sig < 0.000). The F calculated statistic of 61.323 was greater than F (4, 157) critical value of 2.824 confirming significance of the regression model. This confirms high predicting power of this study's model and implies that account practices of financial reporting, internal control, costing and budgeting are significant predictors of the deviation in the financial performance of SMEs in Garissa Township subcounty. The regression coefficient results are as shown in Table 10.

Table 10: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	**Std. Error**	**Beta**	**T**	**Sig.**
(Constant)	-2.257	0.374		-6.031	0.000
Budgeting practices	0.325	0.097	0.181	3.339	0.001
Costing practices	0.5	0.081	0.32	6.14	0.000
Internal control practices	0.536	0.062	0.451	8.596	0.000
Financial reporting practices	0.395	0.064	0.331	6.177	0.000
a Dependent Variable: Financial performance					

From Table 13 above, the Optimal regression model is:

Financial performance of SME = -2.257 + 0.325budgeting practices + 0.5costing practices + 0.536internal control practices + 0.395financial reporting practices.

i.e $Y = -2.257 + 0.325 X1 + 0.5 X2 + 0.536 X3 + 0.395X4$

The regression results as shown in Table 13 indicate that budgeting practices positively and significantly influence financial performance of SMEs in Garissa Township subcounty as shown by beta value of 0.325 and p-value of 0.001. This implies that all other factors held constant at zero, an improvement in budgeting practices by SMEs in Garissa Township subcounty would result to significant improvement in their financial performance. Similarly, costing practices positively and significantly influence financial performance of SMEs as shown by beta value of 0.5 and p-value of 0.000. This implies that an improvement in costing practices would result to significant improvement in the financial performance of SMEs in Garissa Township subcounty, *ceteris paribus*.

Regression coefficient results further indicate that internal control practices positively and significantly influence financial performance of SMEs in Garissa Township subcounty as shown by beta value of 0.536 and p-value of 0.000. The implication in this case is that other factors held constant at zero, an improvement in internal control practices by SMEs in Garissa Township subcounty would result to significant improvement in their financial performance. Lastly, financial reporting practices positively and significantly influence financial performance of SMEs as shown by beta value of 0.395 and p-value of 0.000. This implies that an improvement in financial reporting would result to significant improvement in the financial performance of SMEs in Garissa Township subcounty, *ceteris paribus*.

CONCLUSIONS

From the findings of the study, it is apparent that the four accounting practices of budgeting, costing, internal control and financial reporting have a positive and significant association with financial performance of SMEs in Garissa township subcounty, Kenya. The study therefore concludes that an improvement in key budgeting practices including operational costs-based business budgeting process, budgeting on sales and preparing investment budgets to monitor investment expenditure and also involving all levels of management in budgeting process improves financial performance. The study therefore concludes that financial performance is positively and significantly associated with budgeting practices.

The study also concludes that costing practices such as adopting standard costing procedures, conducting marginal costing to ensure efficiency and carrying out lean accounting to manage costs, positively and significantly influences financial performance of SMEs. Another conclusion made by this study is that adopting internal controls such as frequent internal audits to ensure no malpractices, risk assessment to detect financial risks first hand and periodic reconciliation in accounting systems positively and significantly impacts financial performance of SMEs. The study also concludes that financial reporting practices significantly improve financial performance of SMEs. These include ensuring accuracy of financial reports, guaranteeing timeliness of financial reports, making sure there is frequent preparation of financial reports and ensuring that accounting principles are followed in development of the financial reports. The study also concluded that majority of SMEs in Garissa township did not practice accounting in their business reason being high cost of hireling qualified accountants and lack of accounting knowledge of some SME owners.

RECOMMENDATIONS FOR PRACTICE

The study results and conclusions have indicated that accounting practices have a positive and significant association with financial performance of SMEs. Based on these conclusions, the study recommends that for the purpose of significantly improving financial performance, there is need for SMEs to prioritize important budgeting practices such as basing budgeting process on operational costs, ensuring there is budgeting on sales, marketing expenditure and cash flows and preparing investment budgets to monitor investment expenditure. Also, they should pay attention to costing practices by adopting standard costing procedures and conducting marginal costing to ensure efficiency.

SMEs should adopt internal controls to monitor and manage financial risks so as to improve financial outcomes by conducting frequent internal audits to ensure no malpractices and carrying out financial risk assessment to detect risks first hand. They should also implement financial reporting practices such as accuracy of financial reports, guaranteeing timeliness of financial reports, make sure there is frequent preparation of financial reports, ensuring that accounting principles are followed in development of their financial reports. There is need for SMEs to higher qualified accountants to assist with accounting functions of the business to ensure their books are in line with ethical standards and law. Also, with advancement of information technology, there is need for them to acquire computer software to improve the accuracy of their record keeping and financial reporting.

AUTHOR CONTRIBUTIONS

Mutua Stephen Mutungi wrote the study concept, collected data and analyzed for the entire project under the guidance of Dr. Christopher Mutembei as the university supervisors. Mutua Stephen Mutungi also sought all the necessary permits from relevant authorities required to conduct the study.

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CONFLICT OF INTEREST

No potential conflict of interest was recorded by the authors.

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