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The Correlation between Accounting Systems of Small and Micro Enterprises and Tax Revenue Assessment in Ghana

Joseph Kofi Nkuah[1*] --- Appiah- Kusi Frederick[2] --- Kwame Asamoah[3]

[1]School of Business and Law, University for Development Studies, WA, Ghana
[2] Department of Accountancy, Wa Polytechnic
[3] Department of Purchasing and Supply, Wa Polytechnic

Abstract

The purpose of the study was to find out the correlation between accounting systems of Small and Micro Enterprises and tax revenue assessment. The study was be based on descriptive research survey using questionnaires and interviews as main tools to gather both primary and secondary data to establish the correlation between sound financial record keeping by small /micro and tax revenue assessment. The study showed that most small and micro enterprises have registered with the Registrar General's Department and that most of them have Tax Identification Numbers (TIN) generated by the Internal Revenue Service. The study further revealed that most small and micro enterprise owners do not have basic knowledge in bookkeeping. From the findings small and micro enterprises spend about half of all cash receipts on cash basis before they are put into bank accounts. Finally, it was established that most of the enterprises cooperate with tax authorities when tax officials come for tax inspection, assessment and collection. It is recommended that, the Internal Revenue Service should ensure effective communication, outreach, monitoring and education of small and micro enterprises on regular basis, to enable the service ensure tax compliance and enhance tax revenue mobilisation from the informal sector in Ghana. Small and micro enterprises should also be encouraged to set up Accounting systems using simple computer software that ensures prompt preparation of financial statements and reporting for tax assessment purposes.

Keywords: Tax assessment, Accounting systems, Financial records, Small and micro enterprises. Informal sector, Tax revenue.

Contents

** Corresponding Author*

1. Introduction

Developing economies such as Ghana have many businesses mostly on small/micro levels and in the informal sector. Such businesses have most often limited resources to have standard accounting systems put in place, not even the ability to engage professional accountants or partly qualified professional accountants. Many small and micro enterprises in Ghana have non existing accounting systems put in place and if they exist at all, they do not have uniform accounting systems and practices that meet their formal needs. The problem of tax assessment and revenue generation becomes more compounded when small and micro enterprises usually do not keep proper set of accounting records that indicate the revenue realized and the expenses charged against it. According Frederick (2002) "ignoring record keeping is inviting disaster". He further states that "If the Internal Revenue Service ever audits you or your business and finds insufficient records or significant mistakes it can disallow significant deductions. The Internal Revenue Act 2000, ACT 592 provides that, a person liable to tax under this Act other than an employee with respect to his employment income shall maintain in Ghana the necessary records in a return or in any other document to be furnished to the commissioner under this Act or to enable an accurate determination of the tax payable by the person. Section 122 of Internal Revenue Act 2000 (ACT 592) further states that, "for the purposes of this section, the records to be maintained by a business shall include a record of all receipts and payments, all revenue and expenditure, and all assets and liabilities of the business". Financial reporting therefore becomes a key determinant for accurate tax assessments in Ghana. "Good records serve as an early warning system to let the business know whether changes need to be made in the enterprise. Indeed, operating without records is like flying in dense fog with no instruments: Frederick (2002). It is in the light of the above, that this study is of relevance to ensure effective revenue mobilisation.

2. Theoretical Framework

2.1. Small Scale Enterprises

This may be defined according to its characteristics involving in individual self -employment, serving small markets, traditional technologies, limited capital start-ups, home based enterprise and labour intensive.

2.2. Micro Enterprises

Micro enterprises may also be defined according to its characteristics that evolve from developing through small to growth stages with improved capital level, expanded employment modernized technological application and financial management. According to the World Bank Programme of financial assistance, it refers to those less than 10 employees and assets value less than $10,000 (GH¢ 14,500).

2.3. Informal Sector

According to Duncan (2009) the economy of Ghana is dominated by the activities of enterprises in the informal sector with the following characteristics;

i. 60% of all business operators are in the informal sector.
ii. The informal sector employs conservatively 93.1%
iii. The informal sector contributes about 40% of Ghana's Gross National Income
iv. The informal sector accounts for about 22% of real Gross Domestic Product"

"Informal employment refers to jobs or activities that are mostly not protected by the state and protection afforded by formal labour contracts Duncan (2009). He further states that 'to some extent its rise is a consequence of the kinds of policies advocated by the World Bank and others since the 1980s such as the need to 'flexibilize' labour markets"

2.4. Accounting Recording Systems

"A system is a set of interrelated components directed to some purpose. An Accounting system that ensures that basic accounting principles, procedures and conventions are applied for proper record keeping and reporting by keeping a set of accounting books and relevant documents to provide information that is relevant, reliable, objective, adequate and timely to meet the needs of users such as owners, creditors, bankers, tax agencies and government and legal institutions. An accounting system consists of the source and commercial documents or business papers, records, reports and procedures that are used by a business in recording transactions and reporting their effects" (Kermit, 2002). Operation of an accounting system referred to as "the accounting process or cycle" include three important steps to ensure that certain general procedures and techniques are used efficiently in processing accounting data. These procedures and techniques used are primarily in manual (Pen-and ink, accounting systems.

1) " The data relating to business transactions must be captured on source documents,
2) The data contained in the source documents must be classified and recorded in the accounting records.
3) "The resulting information must be summarized in timely reports to management and other interested parties" Kermit (2002).

2.5. Types of Accounting Recording Systems to be kept by Small and Micro Enterprises

2.5.1. Double Entry-Manual Accounting System

"Double entry bookkeeping is an accounting technique to record the financial transactions of an organization where every transaction is entered twice, equal and opposite. Most businesses maintain a record of all transactions based on the double-entry bookkeeping system" Frederick (2002).

"This is a system of accounting which involves recording transaction using physical booking keeping and accounting procedures and processes in recording transaction in a set of accounts and specially designed books from source documents" Kermit (2002).

According to Kermit (2002), "manual accounting systems are used mostly by small businesses". It further states that' even in a relatively small business, the quality of data that is processed through the accounting system is very large. As a result, the accounting system must be designed in a manner that allows the data to be processed efficiently"

According to Spiceland (2004), among the source documents used for manual accounting are invoices, bills from suppliers, cash receipt register, and payment vouchers (cash and cheque)"

2.5.2. Single Entry Manual Accounting System

'Single-entry bookkeeping is similar to a checkbook register where only a single line transaction is recorded, reflecting the credit or debit of case. This simple way of keeping track of your money is less expensive and can be maintained in less time and with less effort. Single-entry book-keeping only takes into account records of cash, accounts receivable, accounts payable and paid taxes. More in depth records such as assets, liabilities, inventory, expenses and revenues are not maintained, thus leading to an inadequate portrayal of your financial records. This is where double-entry bookkeeping comes into play" Frederick (2002).

"However, many small, maintain only a single-entry system that records the" bare-essentials." In some cases only records of each accounts receivable, accounts payable and taxes paid may be maintained. Records of assets, inventory, expenses, revenues and other elements usually considered essential in an accounting system may not be kept, except in memorandum form. Single-entry systems are usually inadequate except where operations are especially simple and the volume of activity is low. This type of accounting system with additional information can typically be compiled into an income statement and balance sheet by a professional accountant" (ibid).

2.5.3. Electronic Book-Keeping

"This is a system of book –keeping machine usually with a typewriter-like keyboard of a 10 key calculator and a "function" key that direct the machine' operations, instructing it to calculate, tabulate, and print out stored data. A book-keeping machine can handle accounting for sales, purchases, cash receipts, payroll and other transactions as well as posting to the ledger" Kermit (2002).

2.6. Computer Program Accounting Software System

This is a type of book-keeping and accounting system where data is processed without human intervention through the use of a computer using software programs that is far more powerful and complex capable of:

1. Inputting and storing data
2. Performing arithmetic calculations on the data
3. Comparing units of the data to find which are large or smaller
4. Sorting or rearranging data
5. Printing reports from the data stored in the computer

"The ability to store a program and data and then to race through the maze of decisions and alternate instructions is what distinguishes a computer form an electronic book-keeping machine". According to Anagbonu (2005), a firm may adopt a particular accounting software system depending upon the size and nature of the business operations. Accounting software usually separates the various accounting procedures into modules. A module is a programme that is to record, analyze and generate reports based on one function of the accounting system. The main modules are;

1. General ledger or Nominal Ledger Module
2. Sales Ledger Module
3. Purchases ledger Module
4. Payroll Module
5. Fixed Asset Register Module

The individual modules may be linked together called Integrated Accounting System which automatically update all other related accounts. The complexity of this system depends on the size of the firm usually not practiced by small and micro enterprises". (ibid).

2.7. The Income Statement (The "Profit and Loss" Statement)

The income statement shows the financial results of operations for a period of time. Think of it as a "diary" of what transpired for, say, a 12-month period ("For the Year Ended X X X "). From the income statement, one can determine the level of profit or loss because amounts received from selling goods and services and other items of income are matched against all the costs and expenses incurred in the delivery of these goods and services. The major elements of an income statement are:

(i) Net Sales-represents the primary source of money received by the business from its customers for goods sold or services rendered. The net sales item covers the amount received after taking into consideration returned goods and allowances for reduction of prices.
(ii) Cost of Sales and Operating Expenses- all costs incurred in the factory (including depreciation) in order to convert raw materials into finished products.
(iii) Operating profit: Net sales less all operating costs
(iv) Interest income: additional source of revenue from investments
(v) Interest expense: interest paid to creditors
(vi) Provision for income tax: amount due to Internal Revenue Service

2.8. The Balance Sheet

The balance sheet presents the financial position of a business as of a specific date, much like a "snapshot" as at a given period. It is a report on the financial resources (assets) available to the business to carry out its economic

activities as well as claims (liabilities) against its resources. The difference between assets and liabilities is the owner's capital. This follows the fundamental accounting equation: Assets= Liabilities + Owner's capital.
It is therefore necessary to prepare the income statement and the balance sheet on a regular basis to guide the entrepreneur on critical decisions that must be made with regard to the business.

According to Kimunya (2008), Guide to Computerizing Your Accounting System states that "the Balance Sheet sub-module functions to achieve the following;

(i) Reports on the relationship between assets, liabilities and capital
(ii) May be able to create reports on cash flow and budgets.
(iii) Must be able to create reports that satisfy legal requirements and meet the needs of funding sources.
(iv) "Trial Balance Sub-Module-The trial balance sub-module performs the following functions- reports the balances of each account on a monthly basis, and provides tests to let users know whether entries are being posted correctly" Kimunya (2008).

2.9. Accounting Systems for Tax Revenue Assessment

Ghana has a large and diverse informal sector. It spans activities such as trading, spare-parts dealers, transportation, construction, agriculture, livestock, food processing, micro finance, refrigeration, dressmaking, footwear and traditional healing. Because of its sheer size, it has become difficult for the ministry of finance and Economic Planning and Statistical Services to have a reliable data on their membership and activities." Aye (2007).
"The principle underlying tax assessment and compliance of all types of businesses and economic activities is that the income assessed must reflect the true state of affairs of the business. This underlying principle required an effective accounting record keeping system that indicates the overall revenue of the business and the corresponding expenses to determine the profit for tax purposes. Despite this, the tax authorities give an estimated tax assessment pending the final or interim presentation of financial statement that reflects the true state of affairs of the business.

2.10. Mechanisms Needed to Ensure Tax Compliance in Ghana

Ali-Nakyea (2008), states "tax administration is vested in the Commissioner of Internal Revenue Service. The commissioner is responsible for the following functions.

(i) Assessment and collection of the tax
(ii) Payment of all amounts collected into the consolidated fund.
(iii) Specifying the form or returns, claims, statements and notices to be made or given
(iv) Instituting legal actions in courts to recover any tax payable and any penalties".

Opoku (2003) as cited by Ghanson (2007), Taxation of the informal sector of the Ghanaian economy is very crucial to tax administration. She further observed that 'large segment of the informal sector does not pay taxes". There was therefore the need to intensify tax education to promote awareness and encourage voluntary compliance among the tax paying public".

In preventing tax evasion Dosoo (2006) as cited by Ghanson (2007) said that *"in its attempt to achieve institutional development, the service must take seriously the complaints and criticisms of the public leveled against staff mainly in the area of service delivery and unethical activities of a few which go to tarnish the Service's image among the tax paying public".* Frimpong (2007) said "In a country where much of the economic activities take place on small scale or conducted by individuals, the country is likely to experience a higher level of income tax evasion". The study again shows that "Tax evasion reduces the productivity of any system because it reduces the amount of revenue that can improve the state of the economy".

2.11. Tax Returns

Section 72 of the Internal Revenue Act 2000, ACT 592, *"a person shall furnish a return of income for a year of assessment of that person not later than four months after the end of a basis period of that person ending within the year".* A return of income shall be in the form prescribed by the Commissioner, "*shall state the information required, and shall be furnished in the manner prescribed by the Commissioner"*. A return of income shall include a declaration that the return is complete and accurate and shall be signed by the person making the return. A person carrying on a business shall furnish with that person's return of income a separate statement of income and expenditure and a statement of assets and liabilities for each business undertaken carried on within that business by that person.

2.12. Purpose and Reasons for Filing Return

Apart from giving information about one's total income-for a fair assessment, a tax return affords the tax authorities the opportunity to know the individual circumstances of tax payers (Ali-Nakyea, 2008). It also serves as a source of information to the tax office to get people liable to tax into the tax net.

2.13. Failure to Furnish Tax Returns

Section 142 of the Internal Revenue Act 2000, act 592 as amended by Internal Revenue (Amendment) Act, 2004 (Act 669), s.3 states that, any company or self-employed person that fails to furnish a return of income within the time, for each day that the return remains outstanding – a penalty of GH¢2.00 in the case of companies GH¢1.00 in the case of self-employed

2.14. Tax Compliance

Tax compliance generally encompasses all activities necessary to be carried out by the tax payer in order to meet the statutory requirements of the tax law including the preparation of tax returns that must be filed by individuals and organizations. Ali-Nakyea (2008).

2.15. The National Tax Tribunal

The National Tax Tribunal is a specialized tribunal of the public tribunal established under the Public Tribunals Law 1984 and in 1988 (PNDCL 203) as cited by Ali-Nakyea (2008) Taxation in Ghana, Principles, Practice and Planning. The Jurisdiction of the National Tax Tribunal shall include among other things;

(i) Determine any dispute concerning the assessment or collection of any tax or duty under any enactment relating to any tax or duty for the time being in force.

(ii) Try all offences arising from any contravention of the Customs and Excise Decree 1972 (NRCD 114), the Income Tax Decree 1975 (SMCD 5) or any other enactment relating to tax compliance.

3. Methodology

3.1. Research Design

The main focus of the study is on the key economic activities of the small and micro enterprises and Internal Revenue Service staff in the Central Business District of Kumasi. The researcher used survey method as a result of the following reasons; It is used to collect data on existing phenomenon with the purpose of employing the data to make more relevant recommendations to improve and enhance the current conditions and practices. In a research where questionnaire, interview and observation are used, survey is the most appropriate and relevant instrument for data collection.

3.2. The Sample of the Study

Two types of sampling procedures were used that is the multistage sampling technique was used for the selection of owners of small and micro enterprises. This technique was used because of the geographical size of Kumasi Metropolis and hence the metropolis was divided into clusters concentrated at Adum and Roman Hill. This is because the two places showed the largest concentration of small and micro enterprises. Among the predominant small and micro enterprises, 30enterprises were selected using simple random technique. This is because of its large size and having fairly the same characteristics in terms of ownership, educational background, capital structure and size of enterprises. The benefit of the simple random sampling was that each member of the population chosen had equal chances of being chosen. Purposive sampling was used for Internal Revenue Service staff since the staff selected was small and that they were purposively selected because their main function was tax assessment of small and micro enterprises. The sample was made up of ten respondents of Internal Revenue Service with at least three senior officers, five field inspection, assessment and officers and two other supervising officers. The sample of the small and micro enterprises was made up of 30 respondents engaged in such businesses like building industry, food and beverages, stationery and printing, traditional medicine and retailers. In selecting the sample, the metropolis was divided into clusters and the clusters were randomly chosen. The cluster sampling was chosen because the population was very large and spread over a wide geographical area. Businesses within the selected groups were listed and samples of them were chosen.

3.3. The Data Collection Techniques

This research study deals with human institution in a social setting of a particular area hence the instruments used in gathering data included Questionnaires, Interviews, Observations and Documentary evidences. A detailed structured questionnaire was used to collect baseline information on the enterprises selected in terms of ownership, business registration, revenue and profit, tax assessment and others. The questionnaires were distributed personally to selected sample population within the chosen areas in the Kumasi Metropolis. Each business chosen was presented with the questionnaire and those with language problems were administered personally while others were required to fill and submit. The Internal Revenue Service brochures on tax policies in Ghana included the tax return forms for individuals and sole proprietors. Other documents like the Vehicle Income Tax and the Tax Stamp were also used. Tax return files of businesses chosen and the type of financial records and reports kept were examined. This was to ascertain whether businesses selected were able to keep standard accounting records that enabled them to file their tax returns.

3.4. The Method of Data Analysis

The responses to the questionnaire and interviews were edited and coded by the use of tables, charts, graphs, frequencies and percentages were then derived. The researcher adopted this technique since this technique was simple, easy to understand, analyze and draw conclusions.

4. Results and Discussion

Table-1. Department of staff

Department	Freq.	Percentage
Operation (assessment and collection)	10	100
Finance &administration	-	-
Research, planning and monitoring (RPM)	-	-

Source: Field Data, June 2009

From Table 1 above, and responses from officers and field staff, 100% of the staff considered for the interview was from the Operations Department. The functions of the operations staff include inspection, assessment and collection of taxes. This department was chosen to ensure the linkage of accounting system and tax assessment and as to whether tax assessment based on accounting records will yield more taxes as compared to presumptive tax assessment when there are no accounting records.

Table-2. Schedule of Work

Department	Freq.	Percentage
Assessment	8	8%
Collection	2	20%
Inspection	-	-

Source: Field Data, June 2009

From Table 2 above 80% of the work schedule of the staff were engaged in tax assessment and 20% engaged in collection. In determining the schedule of work of the staff it was established that majority of the operations department staff was engaged in tax assessment since it is the basis of presumptive and final tax assessments.

Table-3. Working Experience of Staff

Department	Freq.	Percentage
1-5 years	3	30%
6-10years	1	10%
11-15 years	-	0%
16 years &above	6	60%

Source: Field Data, June 2009

From Table 3 above and responses from the officials of Internal Revenue Service, 30% of the staff had worked for less than 5 years and 10% had worked for 6 to 10 years while 60% had worked for over 16 years. The study showed that majority had worked for long period with sufficient field and practical experience of their work. The longer the working years, the more experience the gain and to better understand and ensure that more taxpayers are better assessed.

4.1. Responses from Small and Micro Enterprises

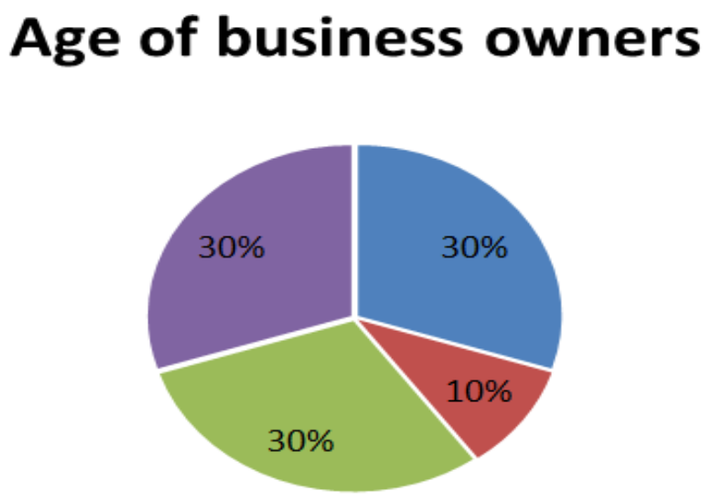

Figure-4.1. Age of business owners
Source: Field Study, June 2009.

From figure 4.1 and responses from the business owners, 10% of the business owners were between the ages of 20 to 30 years, 30% were between 31 to 40 years and another 30% were between 41 to 50years while 30% were also between 51 to 60 years and above. This means on the average over 70% of the business owners are below fifty (50) years and that they form majority of the working class.

4.2. Duration of Business

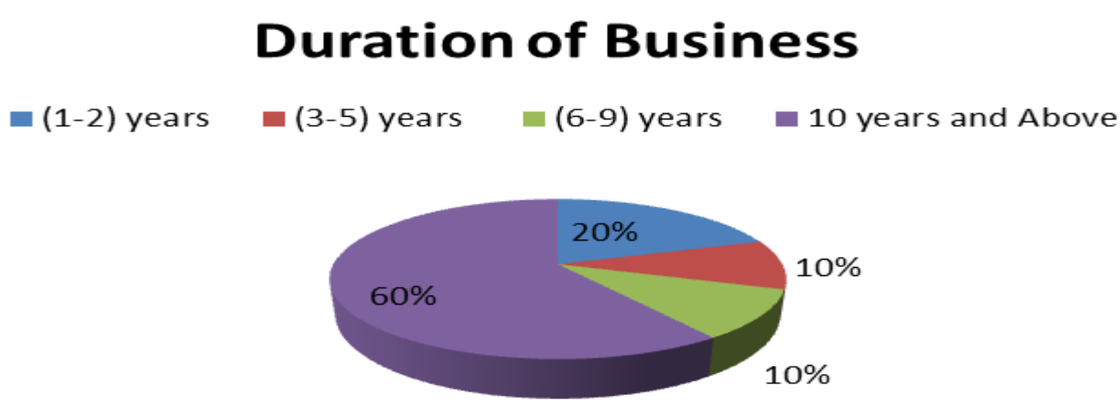

Figure-4.2. Duration of Business
Source: Field Study, June 2009

From figure 4.2 above and responses from enterprises, 20% of the enterprises have operated between 1 and 2 years, 10% of the enterprises have operated between 3 to 5 years and 6 to 9 years while another 60% of the

enterprises have operated above 10 years. The number of years of operations did not show any direct correlation between the growth and size of the business and record keeping. However, those without proper accounting records but with higher sales turnover were assessed to higher tax assessment based on presumption. Most of the owners of the enterprises chosen for the study thought that the presumptive tax was high and that it was not a true reflection of their revenue and profit. However, most of them could not keep proper set of accounting records.

4.3. Trade and Vocation

Figure-4.3. Trade and Vocation

Source: Field Study, June 2009.

From figure 4.3 above, 10%, of the business owners were engaged in Herbal Medicine, Retail Trading in general was 30%, building materials 30% and stationery and printing 30%. The study shows that small and micro enterprises were also evenly spread over the business fields chosen for the study.

4.4. Business Location

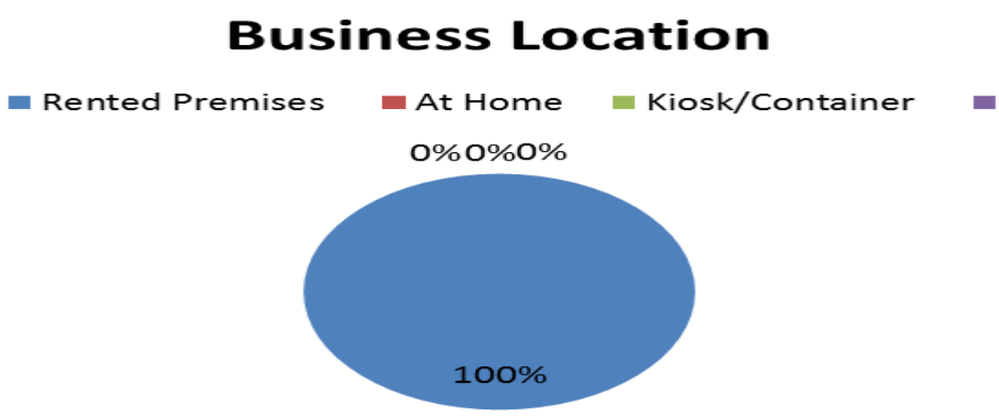

Figure-4.4. Business Location

Source: Field Study, June 2009

From figure 4.4 above, 100% of all the enterprises interviewed were in rented premises. None were in their own premises or in containers or kiosks. The study showed that the areas chosen were the traditional business area of the Kumasi Metropolis and that many of the buildings for the small and micro enterprises have been rented long before their businesses were even established.

4.5. Cash Received and Banked

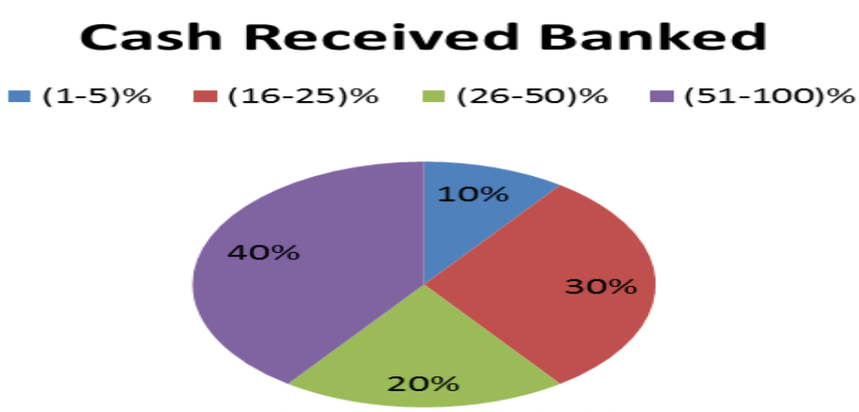

Figure-4.5. Cash Received and Banked

Source: Field Study, June 2009

From figure 4.5 above 30% of respondents used cash received before depositing the remaining in the bank, 20% make use of part of cash received before banking the rest, 40% spend part of cash received before banking and 10% spend part of the cash received before depositing the remaining in bank. This means that more than fifty percent (50%) of all cash received were spent before banking the remainder. This made it difficult to track all cash transactions and for proper accounting of cash received. Notwithstanding this, most of the enterprises in the study had bank accounts.

4.6. Type of Book Keeping System

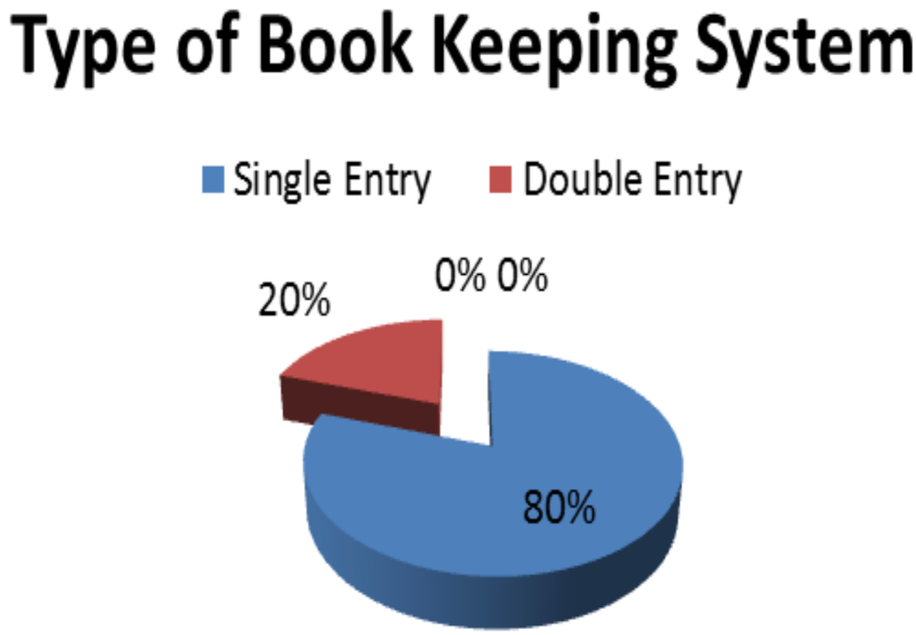

Figure-4.6. Type of Book Keeping System

Source: Field study, June 2009

Form figure 4.6 above, 80% of the enterprises interviewed kept Single Entry Accounting Records while only 20% kept Double Entry Accounting Record. The study showed that inadequacy of accounting records kept by the small and micro enterprises under the study made it difficult to assess tax based on actual revenue and profit since single entry accounting mostly do not disclose sufficient information based on which proper assessment of tax could be made. It is required by the Internal Revenue Act 2000 (Act 592) as Amended Section 122 and 141 that businesses keep reasonable set of accounts to form the basis of their final tax assessment.

4.7. Type of Accounting Recording Method

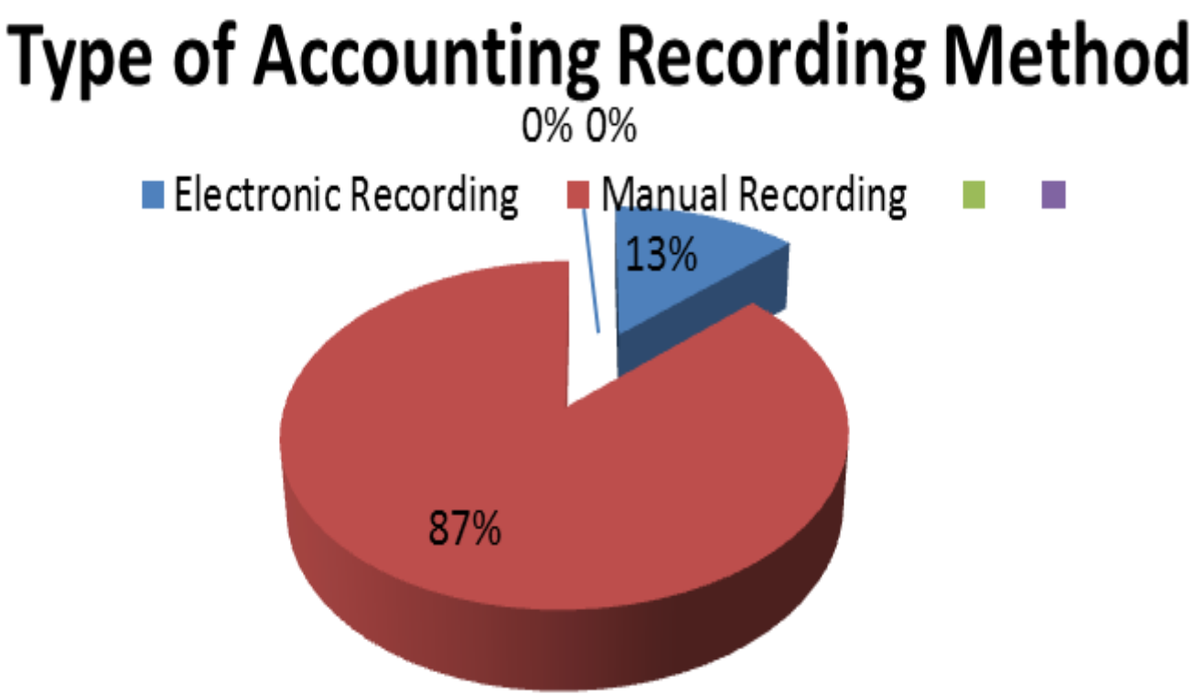

Figure-4.7. Type of Accounting Recording Method

Source: Field Study, June 2009

From figure 4.7 above, 87% of the enterprises studied used manual accounting system whilst 13% kept computer accounting and none at all kept electronic accounting system. The use of manual accounting by majority of the

enterprises interviewed implies that tracking of accounting records and control is difficult and does not lend itself to tax assessment.

4.8. Legal Framework and Documentation

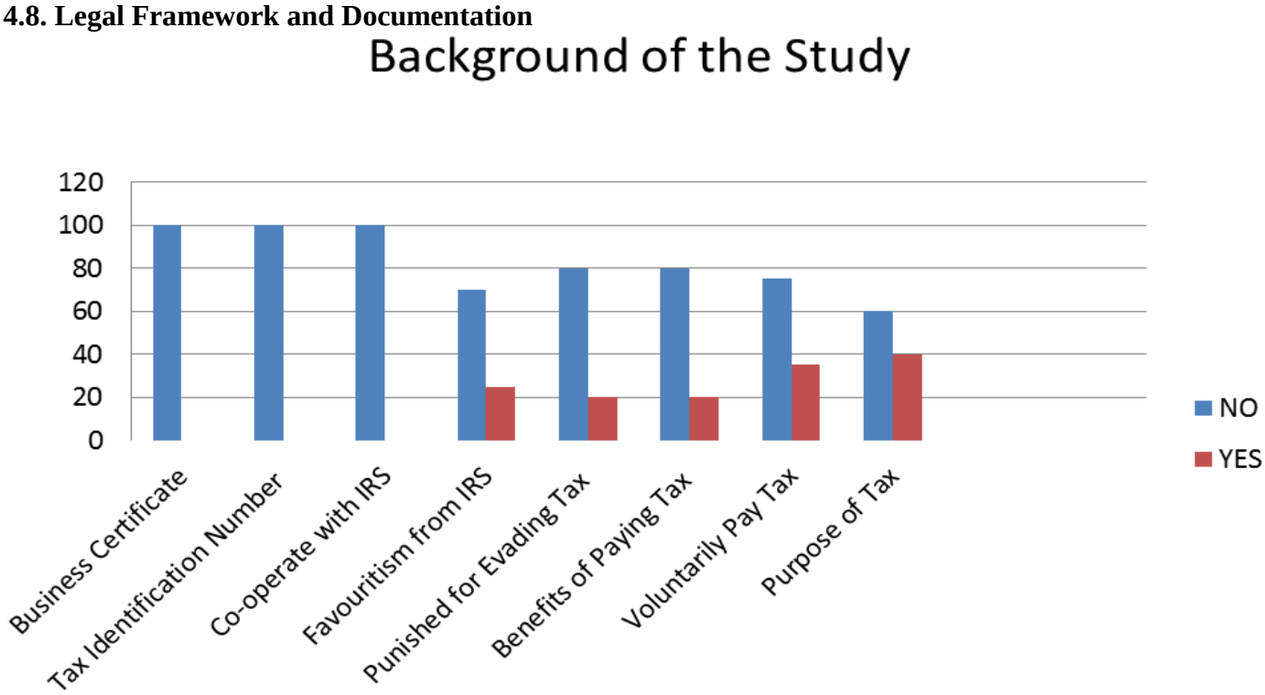

Figure-4.8. Legal Framework and Documentation

Source: Field Survey, June 2009.

From figure 4.8 above, 100% of the enterprises have been registered with the Registrar General and therefore have business registration certificates. However, there was little indication of Registrar General's Department linking with the Internal Revenue Service to provide the list of businesses that have registered with the organisation, to facilitate taxpayer registration and assessment. That is why majority of the small and micro enterprises especially in the informal sector of the economy are out of the tax net for enhanced revenue generation. Again 70% of respondents voluntarily pay tax, because the Internal Revenue Service sends notices of provisional tax assessment at the beginning of every year to all taxpayers. 30% of them do not voluntarily pay tax , this is because they do not think the presumptive assessment is a fair tax assessment notwithstanding the fact that they cannot always provide a completed set of accounting records which is the basis for final tax assessment as shown by the study. This was why some small and micro enterprises in the Asamankese District in the Eastern Region challenged the Internal Revenue Staff as published by the Daily Guide Newspaper on 24th June, 2009. Furthermore, 80% of respondents knew the benefits of paying tax while 20% did not know. This translates into about the 70% voluntary tax compliance as indicated above. From some of the individual interviewed government inability to provide the necessary social amenities and the perceived corruption practices of the tax officials make about 20% think they did not know the benefits of paying tax. In Addition 60%, of respondents think taxes are used for its purpose, while 40% do not think so. This response collaborates with the two responses of the individuals interviewed above as those who voluntarily pay and know the benefits of paying tax were between 70% and 80% and compared to 60% who think taxes are used for their purpose though the expectation is lower in relation to the other earlier responses. 100% of respondents cooperate with tax officials. This was confirmed by the respondents because of the mandatory requirement of the law and the punitive measures spelt out by the Internal Revenue Act 2000 as amended. This means there is the need for rigorous tax investigation and assessment. 70% of respondents think tax officials show favoritism, while 30% do not think so, this perception makes tax collection very difficult.

4.9. Accounting Recording Systems Kept by Small and Micro Enterprises

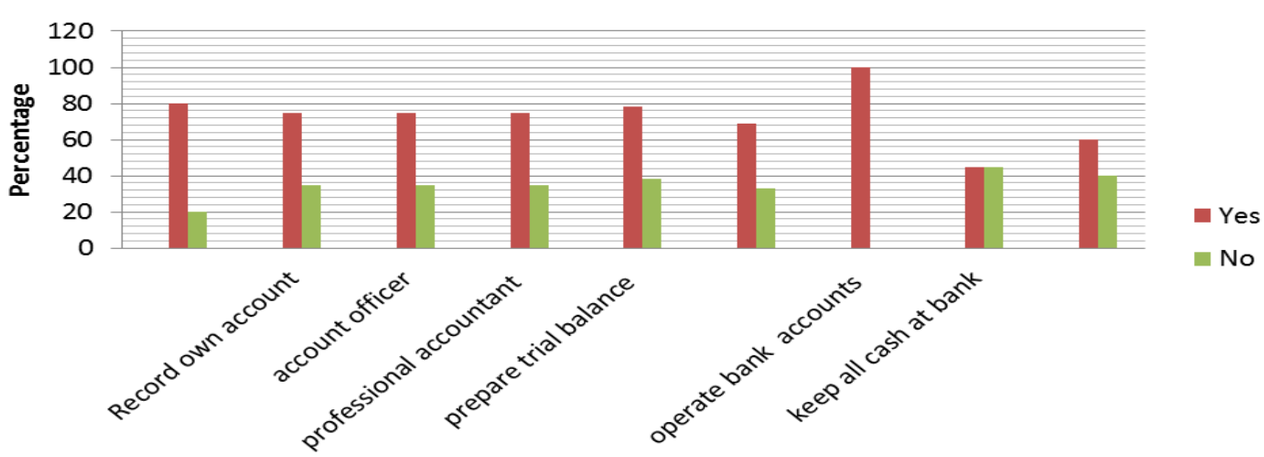

Figure-4.9. Accounting Recording Systems

Source: Field Survey, June 2009.

From figure 4.9 above, 80% of business owners have basic knowledge in book keeping and 20% have no knowledge in book keeping at all. 70% of business owners record their own business accounts and 30% do not record the business accounts on their own. 70% of the enterprises do not have accounts officers and only 30% have accounts officers, 70% of the respondents do not engage accounting firms or professional accounts officers and only 30% of respondents engage the services of professional accountants and accounting firms at the time of filing tax returns. Again 100% of respondents operate business bank account. 60% of respondents use cheque for major payments while 40% use cash for major payments. 77% of respondents do not prepare monthly trial balance and 33% do prepare trial balance. 33% of respondents prepare bank reconciliation statement and 70% do not prepare bank reconciliation statement. The study further showed that 70 of enterprises do not prepare final accounts while 30% prepare final accounts every year. The findings confirm an earlier study by Mustapha (2007) which revealed that the major problem of tax assessment of Small Scale industries in Kumasi was the "absence of reliable records on their business activities which made it impossible to fairly assess an individual's tax liability".

4.10. Enhancing Tax Revenue Assessment

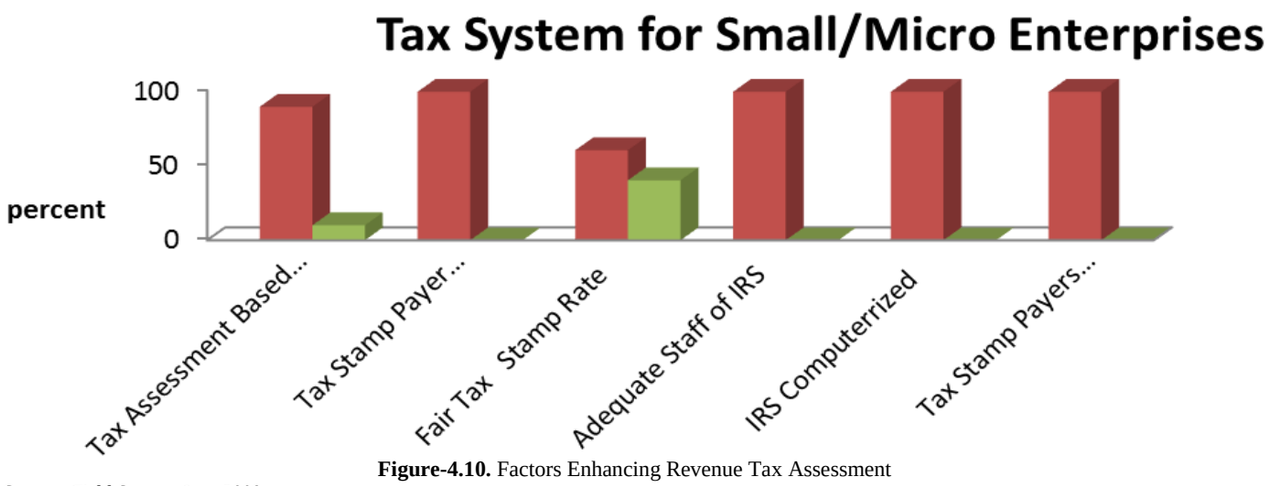

Figure-4.10. Factors Enhancing Revenue Tax Assessment

Source: Field Survey, June 2009.

From figure 4.10 above, 90% of respondents indicated that final tax assessment based on accounting records system can yield higher tax revenue but 10% did not agree that assessment based on accounting records can yield higher tax. All respondents (100%) indicated, that taxpayer assessed to tax based on vehicle sticker and tax stamp do not submit final tax returns and accounts. Again, 30% of small and micro enterprises interviewed file their annual tax returns and 70% do not file their tax returns every year since most of them do not prepare final accounts. 60% of respondents indicated that the tax sticker and tax stamp is fair mode of tax assessment, while 40% consider it as unfair since they have different levels of income and profit. It was further revealed that 100% of taxpayer's assesses to tax per tax stickers and tax stamp were not willing to pay additional tax based on assessment of accounting records. 100% of respondents indicated that IRS does not have adequate staff to undertake tax inspection and collection, resulting in huge arrears recorded in the books of Internal Revenue Service.

4.11. Source Documents for Transactions

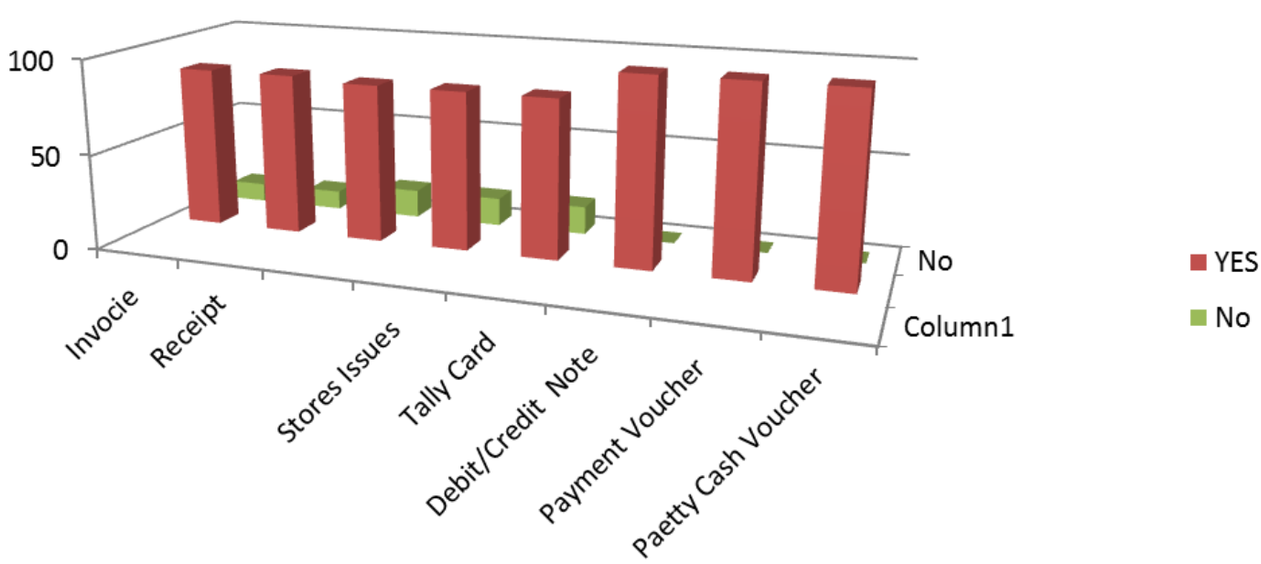

Figure-4.11. Source Documents

Source: Field Survey, June 2009

From figure 4.11 above, 90% use business invoice and 10% do not use business invoice. 80% of respondents use official receipt book and 20% do not. 80% of respondents do not use stores receipt voucher and only 20%use stores receipt voucher. 80% of respondents do not use stores issues voucher and only 20% of respondents do not use it.

100% respondents do not use Tally or Bin Card. 100% of respondents do not use Debit or Credit Note. 100 of respondents do not prepare payment Voucher. 100% of respondents do not use Petty Cash Voucher. This goes to confirm the poor accounting record keeping amongst small and micro enterprises within the Kumasi Metropolis.

4.12. Mechanisms Needed to Ensure Tax Compliance

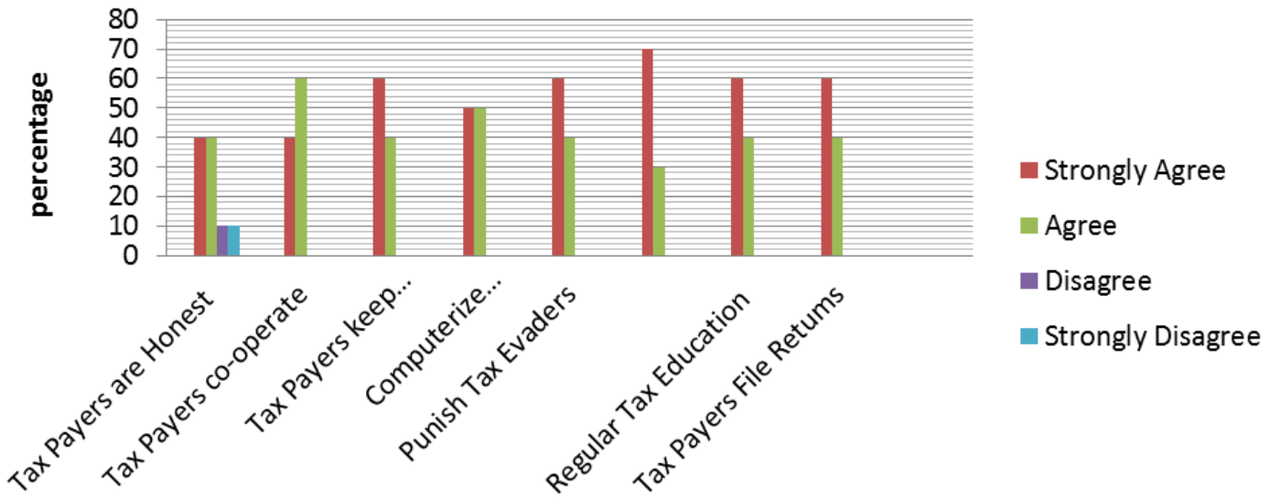

Figure-4.12. Tax Assessment and collection

Source: Field Study, June 2009

Figure 4.12 above, indicates that 40% of respondents agree that tax payers are honest and truthful while at the same time 40% also disagreed that taxpayers were honest. Out of the remaining 20%, 10% disagreed and another 10% strongly disagreed. This goes to prove that tax officers have varied perceptions about tax payers. 40% respondents strongly agree that tax payers are co-operative and another 60% agreed to this assertion.. This indicates that taxpayers generally cooperate with tax officials. Again 40% of respondents agree that taxpayers keep proper accounts while 60% disagree. This indicates that majority of small and micro businesses do not keep proper records. 40% of respondents agree taxpayers file their returns, while another 40% disagree and 20% strongly disagree. Respondents were evenly distributed since while 50% strongly agree that business accounting system must be computerized much the same 50% also agree. This implies all accept the need for business to computerized their accounting system. Respondents generally indicated that tax evaders should be punished with 30% strongly advocating for stringent punishments for tax evasion. The respondents were therefore unanimous in their quest for punishing tax evaders. Respondents generally agree that field inspection, assessment and collection must be intensified and that while 70% strongly agree 30% also agree. The study also revealed that, taxpayers were in favour of a continuous tax education to enlighten them on current tax paradigms.

5. Findings/Conclusion

The study showed that most small and micro enterprises have registered with the Registrar General and that most of them have Tax Identification Numbers (TIN) REGISTERED WITH THE Internal Revenue Service. The study indicates further that most small and micro enterprise owners do not have basic knowledge in bookkeeping. This is the reason many of them do not keep complete set of recording of books and for that matter most often only purchases and Sales Day Books are kept on manual basis. The findings indicated that most small and micro enterprises have bank accounts however, it does not corresponding with operating a greater part of transaction on bank basis. Most small and micro enterprises said they were made to pay presumptive tax rather than based on final tax assessment. However, respondents overwhelmingly indicated that tax assessment based on accounting records can yield higher tax revenue. Almost all the respondents indicated that final tax assessment should be based on accounting records of small and micro enterprises to arrive at fair assessments. It is suggested that Registrar General Department and Tax Institutions especially the Internal Revenue Service link up very well to provide information on taxpayer database.

Tax laws must be rigorously applied on defaulting taxpayers. It is highly recommended that tax auditors are engaged to check on proper financial record keeping of Small and Micro businesses to unearth undisclosed profit and even under invoicing.

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