EFFECT OF FINANCIAL RECORD KEEPING ON THE TAXATION OF SMALL AND MEDIUM ENTERPRISES IN MALINDI TOWN

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DECLARATION

This project is my original work and has not been presented for any award in any other academic or non-academic institution

JAMES GONA CHARO

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This project has been submitted for examination with my approval as the Supervisor

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ACRONYMS AND ABBREVIATIONS

UN	United Nations
GDP	Gross Domestic Product
WTO	World Trade Organisation
SME	Small and Medium Enterprises
MSME	Micro, Small and medium Enterprise
KNBS	Kenya National Bureau of Statistics
AAA	American Accounting Association
GAAP	Generally Accepted Accounting Standards
FASB	Financial Accounting Standards Board
KRA	Kenya Revenue Authority
Itax	Integrated Tax System
VAT	Value Added Tax

DEFINITION OF TERMS

Accounting	It's the process of identifying, measuring and communicating economic information to permit informed judgements and decision by users of information (Wood, 2015).
Bookkeeping	It is the art of recording business transactions in books in a regular and systematic manner (Haber, 2014)
Financial accounting	It is the Reporting of financial position and performance of a business through financial statement issued to external user on periodic basis (Bancy, 2012)
Accounting records	All documents used to prepare financial statements and which one can use to defend an audit (Farlex financial Dictionary, 2012)
Taxation	A means by which governments finance their expenditure by imposing charges on citizens and corporate entities (Business Dictionary, 2017)
Managerial Competence	All personal traits related to the work, knowledge, skills and values which encourage people to doing their job well (Armstrong, 2012).
Bookkeeping System	Set of rules that are specifically for recording financial information and various financial transactions that occur in business (Top accounting, 2017)
SMEs	Small and medium Enterprises: a business activity whose annual turnover ranges between five hundred and five million shillings and which employs between ten and fifty people (Micro and Small Enterprises Act,2012) .

ABSTRACT

Small and Medium Enterprises have been on record that they are not performing well. Under the self-assessment tax regime in Kenya, a person is required to declare and pay taxes without any assessment from the tax authorities. This has led to the reduction of the number of compliance checks. It has been noted that a number of taxpayers file their tax returns with incomplete, incorrect records or no records at all. This can be attributed to the reduced number of compliance checks to monitor the records being kept by business people. Reports from the itax system in Kenya indicate inconsistences in the tax returns being made by taxpayers thereby querying the accuracy and adequacy of the records. Research has shown that not all businesses keep adequate records but does not go further to explain the quality of these records. This study therefore sought to investigate how the financial recordkeeping affects the taxation of small and Medium Enterprises. The study was guided by the measurement theory, decision usefulness theory which describe the practice of financial record keeping and the Allingham and Sandmo theory which relates to tax compliance. The aim of the study was to examine the effect of financial record keeping on the taxation of Small and Medium Enterprises- SMEs in Malindi. With the Specific objectives: to determine the effect of types of accounting records on taxation of SME's in Malindi, to investigate the effect of managerial competence on taxation of Small and Medium Enterprises in Malindi and to ascertain the effect of book keeping methods on taxation of Small and Medium Enterprises SME's in Malindi. To achieve these objectives, a Cross Sectional survey design was adopted which involved surveying SMEs to obtain responses on how they perceive the relationship of record keeping and its effect on taxation. The target population were the 101 VAT registered sole traders in in Malindi town from which a sample size of 81 traders was drawn using the Slovin's formula. Systematic random sampling was used to select the respondents from the sampling frame. Primary data was collected using structured questionnaires whereas secondary data pertaining to taxpayers' information was obtained from Kenya Revenue Authority database. The data from the respondents was then analyzed by multiple regression analysis to establish any relationship between the dependent and independent variables. Statistical package for Social Sciences (SPSS) was used in this analysis. Information from the analyzed data was represented using tables. The researcher's findings indicated that the large portion of businesses in Malindi keep Cash book, Purchase book, Creditors Account and Debtors Account. Accounting records were found to have a Significant or strong Correlation with the Taxation of SMEs at Malindi with the coefficient $r = 0.822$. this implied that Accounting records strongly influences how these SMEs are tax Compliant. Therefore, the need to have quality and good accounting records will significantly improve compliance levels of these SMEs in Malindi. Managerial competency was found to have the least influence on the taxation or compliance on the SMESs in Malindi, with a coefficient $r=0.678$ indicated a strong influence or a positive direct correlation between the Managerial competence and the Taxation of SMEs in Malindi. Bookkeeping System had a correlation $r=0.750$, this denoted a strong positive correlation to the dependent variable – Taxation of the SMEs in Malindi. This indicated a very strong correlation between the Bookkeeping systems/methods and how the SMEs are tax compliant in Malindi. From the research findings, the researcher recommends on the following; Further taxpayer education on Accounting Records Keeping to target the SMEs in Kenya, hiring of Certified Accountants and Professionals, adoption of modern hybrid Accounting systems or double accounting systems so as to improve the efficiency and accuracy during payment of taxes and filing of returns.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Many business organizations worldwide are the small and medium enterprises (95% on average). They play an important role in many countries by creating employment thus ensuring growth of these economies. Small businesses are common in the service sector, wholesale and retail trade, construction, hotel and restaurant businesses. Promoting the growth of small businesses is one of the objectives of the new UN sustainable Development Goals, which is aimed at promoting full and productive employment.

Despite their vital roles in these economies, small businesses fail to survive for long. Not more than half of the small businesses survive past a period of five years, fewer becoming high performing firms. Small businesses in developing countries are 70% less productive than large firms thus they contribute less to the GDP of a country than to employment (WTO, 2016).

A lot of reasons have been associated with the failure of small businesses. These factors include inadequate capital, limited access to the market, poor infrastructure, technological changes, inadequate knowledge and skills, corruption, legal and regulatory framework, poor sales, unplanned expansion, and lack of business connections, heavy operational costs, poor record keeping and taxation. A lot of effort has been made to overcome these challenges. Therefore, this study will aim at investigating how record keeping affects the taxation of small businesses.

Record keeping is a systematic process by which a business records of all its transactions and the preservation of these records for future references and retrieval. Business records which are to be kept should include documents which help to record, trace and verify any transaction through the accounting system. Some of the documents include cash books, invoices, receipts etc.

Keeping of business records has its own benefits which include being in control of one's business by being able to make timely decisions, being able to file accurate tax returns, it creates a more professional image and the compliance costs with the tax authorities is greatly reduced. A connection between keeping of records and taxation involving small businesses has been overlooked for sometimes. In 2005, it was difficult to determine the trend of private economy and tax assessment by governments due to lack of record keeping by business operators, this attracted global concern (Abor, 2010). In Africa, it was observed that both companies and small businesses did not keep proper records causing difficulties in ascertaining taxable income (Okoli,2011).

Just like in many parts of the world, small businesses are of much importance to Kenya's economy including being major source of employment. In the year 2016, there were 1.5 million licensed MSMEs and 5.85 million unlicensed MSEs (KNBS, 2016). It is estimated that the small businesses employ about 14.9 million people with the unlicensed enterprises employing 57.3%. The issue of funding for the SME sector has been constantly addressed as per the existing legal and regulatory framework such as the lowering of interest rates by the financial institutions. This leaves management a neglected issue which requires more emphasis. Management involve keeping track of business transactions hence the need of book keeping (Maseko and Manyani, 2011). In the competitive business world, reliable and timely records are a must for any business to succeed. A business will not be successful without planning on capital needs, cash flow and cash flow need therefore the need for book keeping. Muchira (2012) conducted a study in Thika Municipality to investigate book keeping and growth of small businesses and found out that most small businesses have incomplete accounting records and was as a result of insufficient skills in accounting.

SMEs have to comply with some obligations as they operate which include safety and health of workers, restitution of its workers and adherence to other business regulatory framework. Of this taxation is the much critical since much resources are used. (Chris, 2005). In Kenya taxation dates back to the colonial days when small and medium enterprises (SMEs) were regarded as informal and not significant of tax. As time went by the so-called informal sector grew rapidly and became a major source of income and employment for the greater majority of Kenyans. To expand the tax base and increase revenue, the government developed policies to bring in SMEs into the tax burden. Much has been done to inform tax payers on the current tax procedures but the extent of coverage of tax payers still remains a challenge. Taxation impacts on the growth of SMEs, hence the need to understand its implications on business operations.

The Kenyan tax laws require that any person carrying on a business should keep a full and true written record for a given period of time. Tax authorities will most probably trust accounting books if they are prepared as per the GAAPs. Complying with these laws is a big challenge which most SMEs face. Due to their small size, hiring of accountants to file tax returns for SMEs is too costly. The compliance costs related to time and money to filling and accounting for taxes are so high such that many businesses fail to comply (IPSOS Kenya, 2016). A business will most likely fail a tax audit if it has computational errors due to wrong application of accounting software or packages (CPA Australia, 2012). Poor practice of keeping records may cost Small businesses through un-intended non-compliance by paying more taxes or by not being able to identify any refunds which are due (Mckechar,2014). Poor records have been suggested to increase compliance costs in the form of fees paid to advisers and time spent by business owners trying to solve tax matters.

Kenya is a developing country with low income. It is also regarded as struggling to have an effective and efficient taxation system, therefore tax compliance problem being a real issue among SMEs. A lot of research has been done to address matters of taxation affecting many business organisations in Kenya and some issues have been a point of focus. Some of these concerns include the ever-changing policies which in the end cause a tax system which is too complex. The studies found out that business owners would like reduced tax rates and lower penalties and not the tax incentives which are complicated and require advanced systems and skills thus increasing the cost of compliance thereby outliving there intended purposes.

Despite the extended research, not much work has been done here in Kenya to identify the advantages or potential disadvantages in operating a standard recordkeeping system. In the literature of taxation and small businesses there exists limited academic effort that measures the effects of financial record keeping on the taxation of small businesses in relation to increased exposure to a tax audit or increased compliance costs.

In a paper by CPA Australia, policies for small businesses should be based on empirical evidence hence the need for accurate information (CPA Australia, 2012). Like in many developing countries, here in Kenya there has been considerable mountains of policy publications, data and research yet the problems exist (Wanjohi, 2010). Therefore, this study sought to determine the relationship of financial record keeping and taxation issues experienced by small business thereby providing the much-needed empirical evidence.

1.2. Statement of the Problem

Small and Medium Enterprises have been on record that they are not performing well. Many reasons have been provided to explain the cause of failure of these enterprises, poor record keeping being a likely cause. The Kenyan tax laws require that any person carrying on a business should keep proper records for a given period of time. For a business to perform successfully, keeping of financial records is crucial. A good system of keeping financial records helps entrepreneurs to make accurate financial reports which show a true picture of the current position of the business. Financial records, prepared as per the accounting standards provide businesses with information to compare performance of different periods thus being able to make informed decisions and make good plans for business continuity (Bancy,2012)

In Kenya, tax compliance varies among the taxpayers. Recent studies on assessment of SMEs record keeping behaviour have confirmed that there exist non-compliance issues towards record keeping by small businesses. Most SMEs are not well organised and have poor aptitude in matters to do with keeping financial records. Poor education, high charges in acquiring services from qualified accountants have led to owners of businesses not to keep adequate financial records. Taxation in Kenya is based upon self-assessment whereby registered taxpayers are required to make declarations after a given period of time without any involvement of the tax authority. With this system, the tax authorities have reduced the number of compliance checks since they tend to believe the facts presented in a tax return. However, many taxpayers have been filing their tax returns with incomplete, incorrect records or no records at all. Reports from the itax system in Kenya indicate inconsistences in the tax returns being made by taxpayers thereby querying the accuracy and adequacy of the records used to generate these tax returns. For instance, according to the compliance reports from the itax system as from July 2016 to December 2016 there were 54752 cases of VAT invoice mismatch at the KRA Malindi station (KRA, 2016).

This mismatch indicates a lack of proper record keeping practices among taxpayers in Malindi. Little is known on how poor attitude towards financial recordkeeping affects the taxation of the small business. This research sought to address the gap by providing empirical evidence of the effect of financial record keeping on the taxation of small and medium enterprises in Malindi town which are registered for VAT. VAT is a tax obligation registered by traders who have an estimated turnover of above five million annually according to the Kenyan tax laws, also one can register voluntarily.

1.3. Objectives of the Study

The aim of the study was to examine the effect of financial record keeping on the taxation of small and medium enterprises in Malindi town.

1.3.1. Specific Objectives

i. To determine the effect of types of accounting records on taxation of SME's in Malindi
ii. To investigate the effect of managerial competence on taxation of Small and Medium Enterprises SME's in Malindi
iii. To ascertain the effect of book keeping methods on taxation of Small and Medium Enterprises SME's in Malindi

1.4. Research Questions

i. How does types of accounting records affect taxation of Small and Medium Enterprises -SME's in Malindi?
ii. How does managerial competence affect taxation of Small and Medium Enterprises SME's in Malindi?
iii. How does book keeping methods affect taxation of Small and Medium Enterprises SME's in Malindi?

1.5. Justification

Small businesses are of a great importance to the Kenyan economy. The Kenyan government has recently paid much attention to the development of this sector and this led to the enactment of the Micro and Small Enterprises Act 2012 which is being implemented by relevant institutions including the Micro and Small Enterprises Authority. The government has also developed the Buy Kenya Jenga Kenya Policy and increased allocations to the Uwezo Fund and the Women Enterprise Fund all aimed at promoting the growth of small businesses (Economic Outlook, 2016).

Despite the government efforts in this sector, 2.2 million small businesses were closed in the previous five years. Recent research indicates that the most likely cause is due to poor record keeping. Not much information pertaining to the effect of record keeping on the taxation of small businesses is available. It is in this perspective that a study of this nature be conducted in this town.

Therefore, this study sought to determine the Effect of financial record keeping on the taxation of Small and Medium Enterprises in Malindi thereby providing the much-needed empirical evidence. The information will provide assistance in the creation of policies which will be effective for proper operation of SMEs.

1.6. Scope of the Study

The study was guided by the research objectives and focused on financial recordkeeping and its effect on tax compliance of small businesses. The target group were the sole proprietors in Malindi town who are registered for VAT. VAT is a tax obligation registered by traders who have an estimated turnover of above five million annually according to the Kenyan tax laws.

1.7. Limitations of the Study

The study subjects in some occasions refused to give much information pertaining their enterprises but this was mitigated by assuring them that the study is for academic purposes. An introduction letter from the college was presented to the respondents and assured them confidentiality of the information collected as it would be only used for academic purposes. Another limitation was that the study respondents failed to return back the sent questionnaires, this was mitigated by choosing other respondents from the sampling frame. Mobilizing of funds was a major challenge during the researching phase, however, proper resource management was adopted to maximize on the little available resources.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This section contains literature on financial recordkeeping and taxation of SMEs. It discusses the main theories relating to financial records and taxation, constructs a conceptual framework and outlines an empirical review of studies done in Kenya involving SMEs. Research gaps on financial record keeping and taxation issues among SMEs are also discussed.

2.2. Theoretical Review

A theory is a general description of a fact or how an event occurs or works. Theoretical review is important in research as it guides the researcher to identify and measure research variables. It also helps on how to determine any statistical relationship among such variables in the context of the research problem (Trochim, 2006). Three main theories are described in this section which explains the aspect of financial records and taxation. These are the decision usefulness theory, measurement theory and Allingham and Sandmo Theory.

2.2.1 The Decision Usefulness Theory

In the year 1966, the American Accounting Association for the first time developed and used this theory in accounting. This theory emphasizes that the choice of whether to use a given measurement method in accounting should be based on the fact that the users should be able to make decision using such information. According to Freeman (2013), accounting information is useful to the users if they are able to use such information to make accurate business predictions and decision.

According to this theory, accounting is described as an activity that seeks to provide business stakeholders with information that helps in decision making. Given that this theory provides formal guidelines on how a user can increase his or her chances of making the best decisions based on information, its adoption in this study is due to the fact that as business operators of small businesses keep track of the transactions in the business, they are also expected to be making decisions that are useful for the business so as to ensure profitability.

The level of profitability within a business is what many owners of businesses use to rate the success of their enterprises. Businesses have targets upon which they use to determine the performance (Clelland, 1961). They are able to monitor all the business transactions and can be able to avert any losses or misfortunes. For business operators to have better control of their business this theory stresses that they should document all transactions so as to be able to make better and useful decision.

2.2.2 Measurement Theory

Measurement theory involves the numeration of items and activities within a business enterprise with a view of providing the stakeholders with information which is relevant in the process of decision making (Mock and Grove, 1979). Measurement in accounting is important as it provide the basis for determining the similarity or difference in a set of accounting data. It is also the process by which financial statements are based on. Identifying objects and their characteristics is the start of the process of bookkeeping (Homes and Nicholls, 1988). Although accounting information is mostly expressed as cash, it can also be documented using other units of measurement such as hours worked etc. Alternative units of measurement ensure that different methods of accounting can be used thus being able to provide holistic information about the performance of the business.

Measurement in accounting is perceived to be crucial in financial statements as it helps in determination of economic phenomena. The financial reporting framework IASB (2009) describe measurement to be the assigning of monetary units to the components of financial statements. The units are used to represent the worth of the component in the financial statements. Therefore, measurement is a crucial part of the process of writing financial statements and they cannot be prepared without the process of measuring. It is in this regard that this theory is considered relevant as it forms the basis of financial records preparation.

2.2.3 The Allingham and Sandmo Theory (AS Theory)

The theory was developed by Allingham together with Sandmo. In the theory, Sandmo suggests that a government will use methods such as tax audits and sanctions so as to discourage the evasion of paying taxes. Taxpayers are believed not to comply with their tax obligations due to the fact that they perceive that tax evasion is cheap and that it is difficult for the tax authorities to detect that they are evading taxes hence decreased chances of being audited. Tax payers also consider that being compliant is too costly hence they opt not to comply. It is also believed that taxpayers get involved in tax evasion when the taxation system is complex. Those that perceive taxation is punishing them due to the high rates will most likely get involved in tax evasion.

A negative relation exists between evading taxes, the likelihood of being detected and the extent of the penalty and high costs of complying with tax regulations and procedures. According to Allingham and Sandmo who first studied income tax evasion, state that a taxpayer will evade taxes when he expects to optimize his or her satisfaction from an income. (Henrik ,2011). When detected, the taxpayer pays penalties based on the amounts of the income. From the comparative static result, levels of compliance are influenced by the substitution and income effect when the rate of taxation rises. Substitution effect occurs when tax evasion is aided by the increase in tax rates since it is more profitable to evade paying taxes. The income effect reduces tax evasion in that high tax rates will reduce the income of taxpayers hence they will be likely not to take risk, hence the final result is ambiguous.

The substitution effect can however be downplayed when penalties are based on the taxes which are evaded as currently being exhibited by most taxation systems (Yitzhaki, 2002). As the penalties paid on income which was not declared increase with the rate of taxation, no profit will be achieved hence the substitution effect will not be there. What will exist will be the income effect meaning reduced tax evasion. In this case, levels of compliance will be greatly increased. Complying to taxation regulations and procedures poses so many challenges to small business hence they are susceptible to tax evasion. The law requires them to adhere to specific deadlines and maintain proper financial records. This translates to a high compliance environment which may lead to evading taxes.

2.3 Conceptual Framework

This is a visual representation of the way the explanatory and outcome variables focused on in a given study are related (Khan, 2014). Types of accounting record, managerial competence and bookkeeping systems/methods were the independent variables taxation of SMEs was the dependent variable as depicted in Figure 2.1.

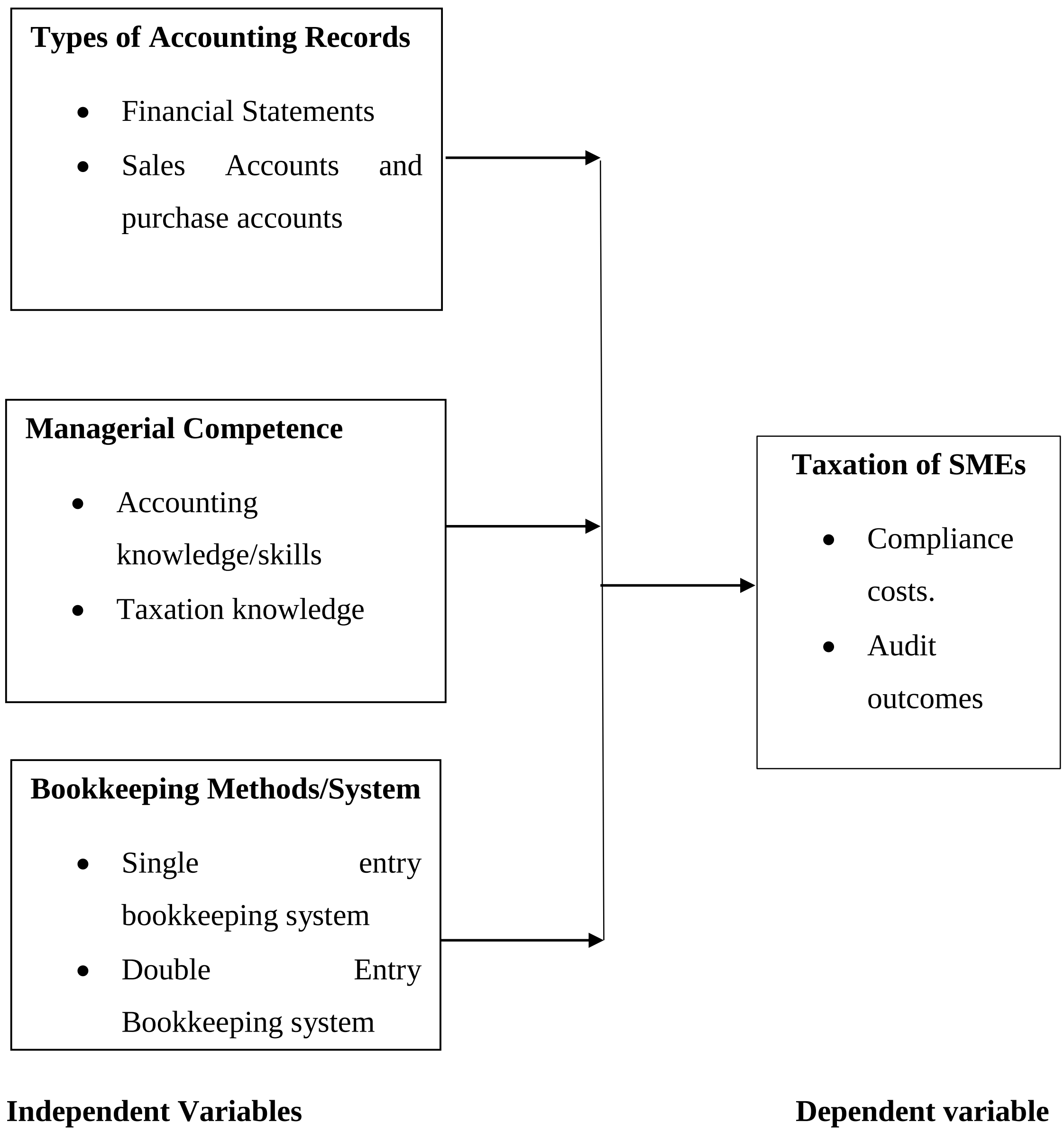

Figure 2:1 Conceptual Framework

2.4 Review of Variables

This section presents a comprehensive review of the independent variables which include accounting records, managerial competence and bookkeeping methods. Accounting records will be measured on the types of records which small businesses keep. Managerial competence has its measurement based on knowledge, awareness, experience and skills on financial record keeping. Bookkeeping methods shall be measured by surveying the method or system being used by each business. The dependent variables in this case taxation, will also be reviewed and will be measured as the issues experienced by small businesses in terms of compliance costs and exposure to a tax audit.

2.4.1. Types of Accounting Records

SME Beginners should keep the few accounts since the business is small and only have few transactions as explained by (Mkonyi,2013): Sales account: This is account of all supplies whether goods or services made to a consumer. Sales information captured includes buyer's details, nature and value of the transaction, date of the transaction and the invoice number. Purchases account: This is a financial record which shows all supplies made to the business i.e what the business buys in terms of goods and services. Details which are captured include seller's details, nature and value of the transactions, date of the transaction (Mkonyi,2013)

SME that have been in business for longer period of time are required to keep more accounts which will cover all larger transactions that take place in the business: Among others the following are some of them: Debtors account: This contains information of the amount each customer owes the business. It helps to control the level of debt. Those businesses that run on cash on delivery basis have no need to keep this type of record. In a business environment whereby customers can pay for goods and services on a future date after the delivery, then accounts receivable records should be kept. Receivables to a business may be monitored. Details such as description of the transaction, gross amount, amount paid, details of the customer and date (Mkonyi,2013)

Creditors account/Accounts payable: Accounts Payable ledger shows the money which the business owes to its creditors. Having these types of records helps the business to monitor and control the level of debt thereby playing a key role in proper management of its cash and establishing a good reputation with suppliers. Accounts payable records should capture details such as supplier's information, nature and amount of the transactions, amount paid and balance, ate of payment, invoice number and date (Mkonyi,2013)

Cash book: This is a book of original entry and records all the receipts and payments made in the business before they are posted to the respective ledgers. Information captured in this book includes date of transaction, description of the transaction and amounts involved. The details entered in a cashbook are usually compared to bank statements so as to ensure they reconcile. To enable easy tracking of transactions, details are usually captured in a chronological order (Mkonyi,2013)

Stock account: This record shows details of the business inventory. Having a stock account will help the business safeguard its good against pilferage, stock-outs and loses due to expired goods. Duplication in buying items will be reduced as well as improving its customer satisfaction. The account capture details such as date of purchase and sale, quantity and description of the stock bought, buying and selling prices.

Financial Statements: This are statements prepared based on the operations of a business aimed at determining the financial position and performance of a business. Financial statements are intended for the various stakeholders who have an interest in the business so as to make decisions. Such information can be used by financial institutions to lend money to the business; investors can use the information to decide whether to invest in the business. The owners rely upon the information to make decision regarding to daily operations of the business. A complete set of financial statements includes a statement of financial position, a statement of comprehensive income, a statement of change of equity and a cash flow statement (ACCA, 2011). Financial statements are the provision of information to meet the needs of the accounting information.

Despite the law requiring businesses to keep financial records, it further states that they should be retained for a given period of time. The Kenyan tax procedures act requires that records should be retained for a period of five years from the end of the period from which they relate. A business should therefore decide on the records to keep or else it may end up with too many records which they do not need or may lack some records. Both such scenarios pose some risks to the business. As businesses grow, complexity sets in as more records are generated. These increases the costs of maintain them. A business may need a records retention protocol for easier retrieval of records.

Financial records may be maintained either as paper files or electronic files. Hard copy files are the traditional method used to retain records. The files are compiled in chronological order, organized, catalogued and then stored in files which are marked. Retention can also be done in electronic format. This involves scanning paper files and storing them in formats which can be manipulated. This system helps in saving storage space as compared to the physical filling method.

Despite the two methods of retaining records, some businesses fail to comply with this legal requirement. For such non-compliance there are both legal and financial implications on the business. These may include tax adjustments during a tax audit since there will be no any back up to support any credit claims made on tax returns and the business may incur huge fines or penalties.

2.4.2. Managerial Competence

Education plays a key role in the success of any business. Business operators through education or training develop intellectually hence increasing the likelihood of any business to succeed (Helsinki, 2010). One of the key elements of a good system of keeping records is the ease of understanding. Users of the system should be able to understand how it works, how the information is recorded and be able to interpret the information easily. Unclear or unconcise records may not be well understood causing confusion and error.

In many countries, the laws mostly require that the businesses prepare financial records and, ensure that they are audited (EC, 2008). Therefore, business operators should be equipped with basic bookkeeping and accounting skills. The level of accounting skills among business operators will determine the quality of accounting information they will develop (Ismail and King, 2007). Different studies have indicated that business operators lack the necessary accounting skills hence they seek services from professionals to help in bookkeeping (Onalapo and Adegbite (2014). The hiring of skilled accountants is however costly hence business operators are forced to avoid the practice of managing information (Jayabalan and Dorasamy, 2009). Management of small businesses faced many challenges due to lack of accounting skills hence it is recommended that small business owners should enrol on courses relating to accounting and record keeping (Maseko and Manyani, 2011)

Studies show that businesses should keep some elementary financial records to ensure they perform. These records include cashbook, cheque book, sales day book, purchase day book (purchase journal), petty cash book, debtor's account, receivables account, general journal, nominal ledgers which include According to research, there are some basic financial records MSE managers or owners need to keep for the success of a business. These according to McMahon, (2011) these records should be maintained according to the accounting standards.

In Kenya, taxation is based upon self-assessment. In this regime, the taxpayer is expected to determine his tax liability by filing a tax return without the intervention of tax authorities. The law also requires that any one carrying out a business should keep proper records on all the transactions. This calls for the understanding of the tax laws. Studies have been conducted to determine how compliance behaviour among taxpayers is influenced by the ease of understanding tax laws. Understanding is one component of affecting tax compliance and is a measure of how taxpayer's can interpret the laws regarding to taxation, and the level of complying to such laws. According to kasipillai (2013), compliance is related to the understanding of laws and regulations concerning taxation and any other information which present a chance for a taxpayer to be involved in tax evasion.

The understanding of tax laws is important to the public as they will be aware on matters concerning taxation, the importance of tax in the economy and how the tax is used or accounted by the government to fund its projects (Mohd, 2010). Perception towards being tax compliance can be improved if the public is made aware about taxation since they will be able to understand what it is all about. Taxpayers who pay more taxes tend to have a positive perception about taxation and the other way round (Eriksen and Fallan, 2009).

Undertaking a course in taxation will make a taxpayer to be well conversant and be tax compliant unlike those who did not study taxation (Mohd, 2010). Hite and Hasseldine (2011) recommended that understanding of tax issues affects compliance hence the tax authority should aim at providing tax trainings to the public. According to Mittah, (2010) small businesses prefer to remain in a tax system which is simple to understand hence being one of the reasons for not keeping adequate records. In addition, taxpayers ignore matters relating to taxation since they perceive compliance being too expensive (URT, 2003).

2.4.3 Bookkeeping Methods/Systems

Book keeping is a process of capturing all the transactions related to a business in an organized manner, accounting is whereby the recorded information is categorised, synthesized and presented in terms which can be understood by the users of information so as to be able to make business decisions. Book keeping is usually done by a person known as a book keeper. Book keeping methods are categorized into two: single entry and double entry systems. However, some businesses use systems that are standardized. Computer book systems are commonly used but they adopt the double entry system.

Eric and Gabriel (2010) describe single entry bookkeeping system as system whereby a book keeper records only a single entry in relation to a business transaction hence referring to it as accounting which is informal. The system includes obtaining a summary of the cash received in a day and eventually having a record of all cash received or paid in a month. Entries in a cheque book utilize the single-entry method since upon each deposit or withdrawal a single entry is made. When the system is manual, summary sheets are usually used to capture the income and expenditure so as to determine the business revenues and the expenses it has incurred. However, a business has the option to go digital by using book keeping applications packages such as spread-sheets. The value of this system is in its ability to ascertain the profitability or the loss made by the business. The name of the system was as a result of transactions being captured as revenue or an expense.

Barbara (2010), states that the single-entry system uses three types of records which are the cash receipts, cash disbursements journals and a check book. Any transaction in the business is captured in these documents. Basically, the system is suitable for start-ups as it aims to track business income and expenditures. All incomes to the business is documented in the cash receipt journal. The business can classify the types of receipts and record them in different columns, while also indicating the date received, the source of the income and the gross amounts. The classifications in the columns may be specific to each business and may include the type of goods or services etc. The cash spend by the business is recorded in the cash disbursement journal. It also has some columns classifying the different types of expenses the business incurs; dates on when the transactions took place, number of the check, details of the expenditure and the gross amounts. What the business will decide to capture in these columns will be very vital for future referencing. Gross amounts in each column may be obtained monthly.

The system does not use debits and credits as is the case for the double entry system when documenting a transaction since only a single entry is captured to represent an event. Although the single-entry system is allowed for the purposes of accounting for taxes, the business will not be able to have all the information needed to report on the financial performance of the business. The system also does not provide a mechanism for determining the accuracy of the records being captured. A much more advanced system was therefore required which could help in the verification of records hence the double entry system.

Double entry bookkeeping system is an accounting system which involves two entries into two or more account. The system keeps an account of any activity in the business in relation to the income (revenue), expenditure, assets and all liabilities. An entry in this system has an effect on two accounts: increasing one side of an account, the other effect being decreasing one side of another account. If no mistakes are done during the process of posting entries into the respective accounts, the balances in one side of an account will be equal to the totals of the corresponding accounts.

The left side of an account is known as the debit side while the right-hand side is known as the credit side, the naming is for purposes of avoiding confusion. Thus, if one side is of an account is debited, then the other corresponding account shall be credited and the other way around (Williams et al, 2012). Accounts to be debited or credited will depend on what types of accounts they are and the specific debit or credit guidelines for such accounts.

According to Alvaro (2010), what is added to the business or given out of the business forms the basis of the double entry system. When an increase or a decrease of an item occurs, it is recorded as having a double effect on the system hence the name of the system. The system has rules that guide on what should be debited or credited and which should be observed during posting. An increase in asset will increase the debit side of an asset account while an increase in liability will increase the credit side of such an account. Alvaro (2010) suggested that this type of system provide a mechanism to check for accuracy of financial records as they are being prepared. To prove if the entries are correctly captured, one may aggregate the totals of the debits and compare with the totals of the credit side. Since complete sets of information are made available by this system, case of pilferages will be prevented given that it will be easy to perform checks. The business benefits from this system since it will be able to accurately determine it financial position at a given time and also will be able to compare performance of different periods and make informed decision on its operations.

Tax compliance software can be used to enhance tax compliance of small businesses. The software provides a compliance on the various tax obligations such as VAT, Income Tax, customs, turnover tax, instalment taxes etc. The software can determine a business tax liability, keep track of all business' transactions, tax credits to be claimed and generated forms or files that can be used in matters pertaining to taxation. This software automatically computes taxes since they have predefined tax bands and rates. The advantage of such software is that they reduce human error in computing taxes

2.4.4 Taxation of small businesses

Taxation is a major component which affects the development of small businesses in developing countries such as Kenya. The country relies on small businesses to help it achieve its socio-economic agenda. Therefore, adjusting the tax system to address the development needs of the small business should be considered by the policymakers. (Mika, IJMBS Vol. 2, Issue 3, July - Sept 2012).

A government is tasked with the devising and implementation of policies that focus on employment, improving infrastructure and increasing revenue by providing a conducive business environment for investors. Taxes collected from businesses are used to fund the government achieve its ambitions (Baurer,2011). A taxation system which does not address the uniqueness of the business environment will shift the burden of tax to the final consumers as businesses will seek to survive. Taxation has proven to be a burden to small businesses in developing countries. Small businesses have raised concerns on the tax laws being too complex to comprehend and the high rates of taxation. Some have complained on the lack of an integrated fiscal strategy which should consider taxes and fees paid to local government when determining the taxation of businesses (Baurer, 2011).

Kenya is a developing country with low income. It is also regarded as struggling to have an effective and efficient taxation system, therefore tax compliance problem being a real issue among SMEs hence making it difficult for Kenya Revenue Authority to achieve it revenue targets.

Compliance costs are costs incurred by a business when complying with certain regulation or laws. These costs can be in terms of resources such as time or cash. For instance, VAT registered persons are required by law to keep sales and purchases record of a given tax period so as to be able to adequately file their VAT returns. Some may be forced to higher professionals to perform such activities hence incurring a compliance cost. Business planning and administration activities and any other costs in complying with the law are also regarded as compliance costs not only cash and time. Other than just paying taxes, small businesses incur more costs upon filling of tax returns.

Substantial discussions have been made on how to reduce the compliance costs which small businesses incur (Evans, 2001). However, the degree to which financial recordkeeping affects compliance costs has not been of much focus. The assumption is that bad practice of keeping records affects internal costs (in terms of time and other resources needed within the business to be compliant) and external costs (as service fees paid to experts) when adhering to certain regulations.

As more regulations keep on being implemented such as taxation and licensing, businesses with limited human capacity with skills to deal with such regulation face higher compliance costs as compared to those with the skills. Since running a business requires more time, being able to keep complete and accurate records is important as they will be fulfilling their obligation. If a business has inaccurate records, its ability to determine its tax liability will be seriously hampered. Being compliant in terms of taxation is thought to be helpful in controlling the business operations since the cost incurred will be greatly reduced thus having positive externalities. How quality record keeping practice affects the cost of compliance is the objective of this study.

It is assumed that poor practice of keeping records can expose small businesses to a tax audit either directly or indirectly. The indirect link is whereby there is a likelihood that those businesses which do not keep records would be of interest to tax agencies due to other tax issues such as not filing tax returns on time, high rate of amending tax returns and abnormal financial ratios. The direct link uses the assumption that even though the likelihood of a tax audit conducted on a business does not rely on quality of its bookkeeping practices, for those which are shortlisted for an audit, those that do not keep accurate records have a great chance of having adverse audit outcomes.

2.5 Empirical Review

Muchira (2012) conducted a research on record keeping and the growth of micro and small enterprises in Thika municipality. The focus of the study was to establish if small business people kept financial records. The study participants were small business owners from Thika town. The study findings showed that small businesses kept various records which show the sales made in a transaction and the cost of those sales. However, only a limited number of businesses kept few financial records to show their operating expenditure. Retail businesses kept records of their daily sales so as to be able to control their stocks. Entrepreneurs in manufacturing were keen in accounting for their assets by keeping records such as the balance sheets.

The conclusion of this study was that small businesses kept records so as to be able to have control and secure their assets rather than measuring business performance. It was also found out that some businesses kept incomplete financial statements while others did not bother to have such statements. This led to difficulties in measuring performance due to insufficient information. The businesses therefore were unable to effectively measure their profits. The poor record keeping practices were associated with the lack of accounting skills among 63% of the business owners while the remaining ones stated factors such as high costs and time factor.

Chelimo and Sopia (2014) conducted a research to determine how bookkeeping practices of small businesses in Kabarnet town affect their growth. The research aimed at finding how books of accounting are kept in small business enterprises, analysing their growth and if its affected by the book keeping practices. The findings of the study showed that 75% of the businesses in Kabarnet had financial records while the rest did not have any records. Those with records agreed that the financial records were not in conformity with the accounting standards and thus no procedures were followed during their preparation. Sales records for daily transactions were more popular while purchase records came second in popularity among the business operators. The single-entry system was used by about 60% of the respondents while 40% of used double entry system to prepare their financial records.

The research showed that bookkeeping resulted in a positive relationship on the performance of businesses in terms of growth and profitability. The researcher recommended that business owners should hire people with accounting skills so as to help in keeping accounting information for the business. The researcher recommended that the concerned stakeholder should organize training sessions for entrepreneurs on proper record keeping.

Mutua (2015) conducted a study to determine how bookkeeping practices of small businesses in Chuka town affect their growth. The study aimed to determine to what extent small business operators keep financial records. The research revealed that bookkeeping affects the level of transactions made, size and profit management of a business. 52.7% of the respondents kept financial records. This showed that many businesses lacked records that could be used to borrow loans from financial institutions hence hindering their growth. He recommended that the various stakeholders should cooperate to ensure small businesses operate in a more professional manner to attain the economic growth as a whole and that entrepreneurs should keep adequate records which are accurate so as to make the right decisions.

2.6 Critique of the existing literature

Researchers have examined how the practise of keeping financial records affects the operation of small businesses in different perspectives. Mutisya (2015) conducted a similar study in Chuka town, however, the statement of problem was not well elaborated and it was difficult to establish why the researcher wanted to conduct that study. The author cited no clear review of literature on his research variables although appropriate references were used which helped to understand the rationale behind the problem statements. The researcher did not provide a summary of his findings and also did not identify the areas of future research.

Mutua (2015) conducted a study to determine how bookkeeping practices of small businesses in Chuka town affect their growth. The study aimed to determine to what extent small business operators keep financial records. The research revealed that bookkeeping affects the level of transactions made, size and profit management of a business. 52.7% of the respondents kept financial records. This showed that many businesses lacked records that could be used to borrow loans from financial institutions hence hindering their growth. He recommended that the various stakeholders should cooperate to ensure small businesses operate in a more professional manner to attain the economic growth as a whole and that entrepreneurs should keep adequate records which are accurate so as to make the right decisions.

A study conducted by Chelimo and Sopia (2012) sought to establish a relationship between record keeping and how it affected small businesses in Kabarnet town. The study objectives were to find out the type of accounting records kept and how businesses used those records to determine their positions financially. These objectives were answerable however they had a weak link with the topic. The author did not provide a critical review of their research variables and no conceptual framework showing the relationship among such variables, though the findings were well presented objectively. Generally, the existing literature is properly written and well organized thereby contributing significantly to the field of research.

2.7 Research gaps in Literature

A few studies have been conducted to establish any relation financial record keeping and taxation of SMEs. Evans (2015) recommended that a future study should be conducted to seek more objective measures of the quality of SMEs record keeping practice. This study therefore sought to address this knowledge gap and provide empirical evidence of a relationship between financial record keeping and its effect on taxation. Most SMEs still fail and close within a few years. Research has shown that not all businesses keep adequate records but does not go further to explain the effect on taxation. Since more people are willing to learn more on record keeping, there is a probability that the quality of the records is not as per the standards required thereby affecting the performance of the businesses.

Chelimo and Sopia (2012) investigated relationship between record keeping and how it affected small businesses in Kabarnet town, while Mutua (2015) conducted a study to determine how bookkeeping practices of small businesses in Chuka town affect their growth. All these researchers focused on SMEs at a given geographical area, and therefore each with diverse variables, hence none has ever focused on the SMEs in Malindi the coastal town of Kenya. This research sought to address the gap by providing empirical evidence of the Effect of financial record keeping on the taxation of Small and Medium Enterprises SMEs in Malindi town

2.8 Summary of reviewed Literature

Records are valuable to the business in that they contribute to its smooth operation and helps in the management of its resources. Keeping of accounting records is important for the business since it helps it to succeed. Where there is a poor system for keeping records, business managers may rely on experience and sometimes observation when making decision. Accounting records form a crucial component in the process of financial statements preparation. Financial statements are used to compare the performance of a business hence aiding in decision making process. The decision may be on business expansion, incurring of certain costs and taxation issues. Therefore, for any business to succeed in this competitive world, it should consider keeping of financial records a crucial activity of the business.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

Research methodology is an activity by which information is collected so as to help make decisions in a business organization. This chapter provides guidelines on how the study will be carried out. It also includes describing the design of the research, the population which will be targeted, the size of the sample, instruments used to collect data, techniques used in sampling and the techniques used to analyze and present the data.

3.2. Research Design

A cross sectional survey research design was used. This is a design in which data is collected from a population which is then used to make inferences at one point in time. It is a research approach where subjective opinions are collected from a sample of subjects and analyzed for some aspects of the study population that they represent (Kenya Institute of Management, 2013). The perception of the respondents is considered to be reality hence forming the basis of this study design. The design was suitable for this study since the main focus was to obtain data from an appropriate sample of the entire population which helped to make a conclusion on the effect of financial record keeping on taxation of small businesses. A broad survey was conducted to describe any relation between keeping financial records and compliance risks experienced by small business.

3.3. Target Population

According to Waller (2014), population is all individuals or objects of interest to the researcher and to which the study results are applied. Target population is a type of population whereby members of a population are a focus of the study. The target population for this study are VAT registered SMEs in Malindi town which operate as sole proprietors. The population of SMEs is derived from the Kenya Revenue Authority database as at 2016. According to the records from the database the target population were 101 sole traders. The detailed description of the target population, which is also the sampling frame, based on economic activity is shown in the table below.

Table 3.1: Categories of SMEs by Economic Activity

Sector	Number of enterprises
Service sector	38
Trade Sector	63
TOTAL	**101**

Source: Kenya Revenue Authority,2016

3.4. Sampling Frame

Sampling frame is a list of all individuals of the population a researcher intends to study, this is a compilation of the study participants (Kothari, 2011). The population was derived from Kenya Revenue Authority database. In this study, the sampling frame consisted of 101 sole traders who are registered for VAT by the tax authority.

3.5. Sample Size and Sampling Techniques

A sample is a part representing an entire study population (Orodho, 2003). Sampling refers to the method of determining a sample from a target population in a way that it will help to draw a conclusion about the entire population (Chandran, 2010).

The appropriate size of a sample from the population was computed using the Slovin's formula as shown:

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

Where:

n = size of the sample

N = size of the population = 101

e = margin of error = 0.05

From this model, the sample size (n) = 81

The number of respondents from each sector of SME was determined based on proportionate allocation as shown in the table

Table 3:2 Sample size

Sector	Target population	Proportionate allocation formula	Size
Service	38	$n_1 = \frac{38}{101} \times 81$	30.47= 30
Trade	63	$n_2 = \frac{63}{101} \times 81$	50.52 = 51
Total	**101**	$\boldsymbol{n = \frac{101}{101} \times 81}$	**81**

The study adopted systematic random sampling technique to the sample of 81 study participants from a target population consisting 101 sole traders. Systematic sampling is a type of probability sampling where each element in the population has a known and equal probability of being selected. This method is commonly known as nth name selection method, as the respondents are selected from the nth record (Saunders et al., 2003).

This method involved selecting a random starting point and a fixed periodic interval to facilitate participant's selection. The advantage of this method of sampling was that it was easier to draw a sample and that the sample is spread more evenly over the population

3.6. Data Collection Instruments

Primary and secondary data was used to accomplish the objectives of this study. The multi-technique approach to collect the data assists in obtaining the holism of the study unit (Mwiria and Wamahiu 1995). Primary data from the respondents was obtained by use of questionnaires. Questionnaires consisted of closed and open ended questions which were ideal for calculating statistical data and percentages. Questionnaires were used to collect data since they can cover many respondents in a short period of time at minimal cost and enabled anonymity and honesty of the respondents (Kasomo, 2007). Secondary data was collected from the KRA database regarding the number and categories of SMEs that are available in Malindi town in addition to the data obtained from previous literature.

3.7. Data Collection Procedure

Data collections exercise is the process of administering questionnaires to the respondents so as to get the views of the respondents regarding a certain phenomenon (Kasomo, 2007). After the approval of this research proposal, an introduction letter from the college was presented to each respondent for the purposes of identification together with the questionnaires for data collection. The process was closely monitored through phone calls to clarify any issues that may arise. A date of collecting the filled questionnaires was also agreed upon as the researcher opted to drop and the questionnaires at later date to give the respondents humble time to duly fill the questionnaire.

3.8. Pilot testing

Pilot testing is the process of determining if the instruments that will be used in collecting data will work (Ngulube, 2012). According to Cooper and Schindler (2011), 10% of the sample population is adequate for pilot testing. This equalled to 11 respondents that took part in the pilot study. The participants were given the research questionnaire in order that they point out any difficulties encountered in responding to questions. Any errors and unclear issues were clarified through the process (Sreevidya & Sunitha, 2011).

3.8.1 Reliability

Reliability is the consistency or accuracy of a data collecting instrument in measuring the intended attributes (Sreevidya & Sunitha, 2011). Cronbach's alpha coefficient was used by the researcher to assess the internal consistency reliability. A coefficient of 0.7 and above implies that the research questionnaire is reliable (Sreevidya & Sunitha, 2011).

3.8.2 Validity

Validity is the degree at which the instrument measures the intended attributes (Ngulube, 2012). Given various variables, a set of indicators can be developed to measure it as depicted in the conceptual framework (Sreevidya & Sunitha, 2011). Kaiser-Meyer-Olkin Measure of sampling adequacy was used to determine the sampling adequacy of the data that was to be used for factor analysis whereby the variables were measured to ensure that they measured the intended concept. A KMO value closer to one indicates that the data is adequate for factor analysis. Bartlett's Test of Sphericity was used to check if there was redundancy between variables and if they could be summarized with some factors. Small values (less than 0.05) of the significance level indicate that a factor analysis may be useful with the data (Liew and Noraini,2017)

3.9. Data Analysis and Presentation

Data analysis is the process of organizing and manipulating data (Kasomo,2007). After collection of data using questionnaire, the data was coded and organized into categories after which descriptive and inferential statistics was used to analyze it. Descriptive analysis involved subjecting the data to frequency counts and quantifying it in percentage forms and presenting it in tables. To determine the overall trend of the data, measures of central tendency and dispersion were adopted. To be able to determine any association between the dependent and independent variables inferential statistics in the form of multiple regression analysis and correlation analysis were used. In circumstances with more than one independent variables, multiple linear regressions are used (Faraway,2002). Statistical package for Social Sciences (SPSS) version 25 was adopted in this analysis.

The regression model was as follows:

$Y = \beta o + \beta 1X1 + \beta 2X2 + \beta 3X3 + \mathcal{E}$

Where:

Y = Taxation of SMEs in Malindi

X1 = Accounting Records

X2- Managerial Competency

X3- Bookkeeping Methods/ systems

β0- constant term, the intercept indicates the Taxation of SMEs in Malindi when independent variables are Zero.

β1, β2, β3- coefficients explaining the effects of independent variable X1, X2, and X3 to dependent variable Y

ε the Error term, represents other variables that affect the Taxation of SMEs in Malindi but are not included in the study

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the research findings and the analysis results from the demographic information of the respondents, the descriptive analysis findings from the research variables and the inferential statistics analysis.

4.2 Response Rate

The researcher had distributed 81 questionnaires to the respondents, out of these distributed questionnaires the researcher managed to receive back 63 duly filled questionnaires making a response rate of 77.78%. this was an adequate rate for the purpose of this study.

Table 4:1 Questionnaire Response Rate

	Response rate	**Percentage %**
Respondents	63	77.78%
Non-respondents	18	21.22%
Total	**81**	**100.00%**

4.3 Pilot Results

The researcher conducted pilot study purposely to determine how valid and reliable the data instruments are. In order to ascertain the reliability of the questionnaire.

4.3.1 Reliability Test Results

For reliability, Cronbach's alpha was computed using SPSS and results presented in table 4.2 below.

Table 4:2 Pilot Results

Scale	**Cronbach's Alpha**	**Items Tested**	**Comments**
Accounting Records	0.809	5	Accepted
Managerial Competence	0.765	5	Accepted

Bookkeeping Methods	0.783	5	Accepted
Taxation of SMEs Malindi	0.827	5	Accepted

Accounting Records had a Cronbach's alpha of 0.809, Managerial Competence with an index of 0.765, Bookkeeping Methods having an index of 0.783 while the dependent variable Taxation of SMEs Malindi had an index of 0.827, all these variables obtained an index of above 0.7 according to Neuman (2014) a Cronbach's Alpha of over 0.7 is considered to be sufficient measure for a data collection instrument to being reliable.

4.3.2 Validity Test Results

The Kaiser-Meyer Olkin (KMO) and Bartlett's Test measure of sampling adequacy was used to examine the appropriateness of Factor Analysis. Kaiser-Meyer-Olkin Measure of sampling adequacy was used to determine the sampling adequacy of the data that was to be used for factor analysis whereby the variables were measured to ensure that they measured the intended concept.

Table 4:3 KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.759
Bartlett's Test of Sphericity	Approx. Chi-Square	256.858
	df	120
	Sig.	.000

KMO result of 0.759 which is closer to one indicated that the data was adequate and suitable for Factor Analysis. Bartlett's Test of Sphericity was used to check if there was a redundancy between variables that can be summarized with some factors. Small values (less than 0.05) of the significance level indicate that a factor analysis may be useful with the data. Hence Factor Analysis is considered as an appropriate technique for further analysis of the data.

4.4 Demographic Analysis

4.4.1 Highest level of Education

The researcher wanted to understand the education levels of his respondents as part of demographic or background information on the owners of these Small Businesses in Malindi. From the findings as presented in the table below, owners with no education comprised of 11.1%, while those of primary education were 27%, Secondary school levers were 36.5%, and graduates comprised of 23.8% while those of post graduate were only 1.6%. The findings indicate that the respondent's level of education was adequate to make informed decisions concerning taxation to be quite low and therefore need for extra taxpayer education or in most cases the hiring of tax experts to handle taxation my majority of these SMEs.

Table 4:4 Highest level of Education

Highest level of Education	**Frequency**	**Percentage %**
None	7	11.1%
Primary school	17	27.0%
Secondary school	23	36.5%
Graduate	15	23.8%
Post Graduate	1	01.6%
Total	**63**	**100.0%**

4.4.2 Nature of your business.

A large portion of the businesses in Malindi was found to being of trade sector with 69.8%, while that of service sector comprised of 30.2% as presented in the table below.

Table 4:5 Nature of your business.

Nature of your business.	**Frequency**	**Percentage**
Service Sector	19	30.2%
Trade Sector	44	69.8%
Total	63	100.0%

4.4.3 Duration of Business Existence in operation

The researcher noted that there were high chances of businesses sprouting up in town annually, with an average percentage of 22.4% as the new businesses being in operation for less than a year, those of between 1-5 years in operation were 32.8%, while between 5-10 years were 26.7% and those over 10 years were 18.1%. Despite a huge percentage of new businesses sprouting in the town, majority of them as evidenced do not survive the next years.

Table 4:6 Duration of Business Existence in operation

Duration of Business Existence in operation	**Frequency**	**Percentage %**
Less than one year	8	22.4%
Between 1-5 years	19	32.8%
Between 5-10 years	21	26.7%
More than ten years	15	18.1%
Total	**63**	**100.0%**

4.5 Descriptive Analysis

4.5.1 Descriptive Analysis on Accounting Records.

Table 4:7 Descriptive Analysis on Accounting Records.

Statements	**Mean**	**STD dev**
I do not keep quality records of all business transactions sufficient for taxation purposes	3.714	.9056
The financial records that I keep for my business do not actually present the actual transactions for taxation purposes	3.333	1.191 3
Due to size of the Small Businesses there is inadequacy of knowledge and capacity of preparation of business records	3.885	.9406
The costs that I incur for me to keep these types of records is relatively high for my business to manage.	3.915	.8088
The types of records that I keep have assisted my business by providing a reference point for the previous transactions and ease of payment of taxes, and preparation of audits when required.	4.022	.9059

The respondents were asked to state which types of financial records their business keeps, most of them indicated that they were aware of Sales account (76%), 74% kept Purchase account 30% kept Cheque book while 20% kept Stock account, there were very few businesses who kept Creditors Account with 18%, balance sheet 15%, while 18% Debtors Account and 12% financial statements. This indicated that a small percentage of the businesses of 12% kept full set of the accounting records, while the majority just kept scattered accounting records. On the other hand, only 5% of the businesses did not keep any set of the required accounting records. These findings are similar to Muchira (2012) who noted that small businesses kept records so as to be able to have control and secure their assets rather than measuring business performance. It was also found out that some businesses kept incomplete financial statements while others did not bother to have such statements. Majority of the small businesses do not keep quality records of their business transactions sufficient for taxation purposes with a mean of 3.714 and a standard deviation of 0.9056. On the statement that the records kept by small businesses do not actually present the actual transactions for taxation purposes a mean of 3.333 with a standard deviation of 1.1913 indicating a neutral response. The statement that due to size of the Small Businesses there is inadequacy of knowledge and capacity of preparation of business records a mean of 3.885 with a standard deviation of 0.9406 was obtained, this presented an agreement to the statement. Financial record keeping costs are relatively high annually for the small businesses to manage with a mean of 3.915 and a standard deviation of 0.8088. The respondents were in strong agreement with the statement that Financial record keeping has assisted their business as a reference point for the previous transactions and ease of payment of taxes, and preparation of audits when required having a mean of 4.022 with a standard deviation of 0.9059. These findings were in tandem with Arhin (2018) who asserted that there is statistically positive linear relationship between record-keeping and tax compliance in the Hospitality industry in Ghana.

4.5.2 Descriptive Analysis on Managerial Competence.

Table 4:8 Descriptive Analysis on Managerial Competence.

Statements	**Mean**	**STD dev**
As the owner of a business i am very much aware of the penalties for not keeping proper records as required	4.000	.8424
The taxpayer education programs have assisted a lot in the small businesses towards compliance.	3.920	.8669
Taxpayer education has covered filing of returns, proper record keeping and payment of taxes	4.258	1.0143

I know how to keep records/documents pertaining to income and expenditure for a period of five years after submission of the tax return	3.952	1.1419
Hiring of tax experts improves the costs of management and complying to the required tax laws	3.888	1.0177

The respondents were tasked with providing their views on the statements in table 4.7 above, a Likert scale of 1-5 was used to measure their responses. On a scale of 5-1 where 5= very great extent, 4= great extent, 3= moderate extent, 2= low extent and 1= Not at all, the respondents indicated by ticking on the number to show the extent of their agreement with each statement below. The results were compiled and analysed to give measures of central tendency and measures of dispersion as follows; On the statement that as the owner of a business i am very much aware of the penalties for not keeping proper records as required having a mean of 4.000 with a standard deviation of 0.8424. when asked to their view on agreement of the statement that the taxpayer education programs have assisted a lot in the small businesses towards compliance, the respondents were in agreement with a mean of 3.920 and a standard deviation of 0.8669. on the statement that taxpayer education has covered filing of returns, proper record keeping and payment of taxes, a strong agreement was obtained by a mean of 4.258 with a standard deviation of 1.0143. the respondents presented an agreeing response with a mean of 3.952 and a standard deviation of 1.1419 on the statement that they know how to keep records/documents pertaining to income and expenditure for a period of five years after submission of the tax return. This supports the conclusion by Jayabalan & Dorasamy (2009) that the hiring of skilled accountants is however costly hence business operators are forced to avoid the practice of managing information. According to kasipillai (2003), compliance is related to the understanding of laws and regulations concerning taxation and any other information which present a chance for a taxpayer to be involved in tax evasion. Hiring of tax experts improves the costs of management and complying to the required tax laws were the sentiments of the respondents with a mean of 3.888 and a standard deviation of 1.0177. The level of accounting skills among business operators will determine the quality of accounting information they will develop (Ismail & King, 2007).

4.5.3 Descriptive Analysis on Accounting System/Methods

Table 4:9 Descriptive Analysis on Accounting System/Methods

Statements	Mean	STD dev
The accounting system helps in computation of my business' tax liability.	3.757	.9268
I update the Accounting system for my business on regular occasions to keep at per with newer ways in accounting .	3.945	.8583
The Accounting system has assisted in saving time and money for my business.	3.913	.8678
The accounting system helps keep track of all my business transaction	3.864	1.1267
The system helps my business generate forms or filing needed for tax compliance	3.945	1.1090

The respondents were asked to state which types of accounting system they used to prepare records for their business, most of them indicated that they used the double entry system (66%), while 34% of the respondents use the single entry system. Majority of the small businesses have adopted the Computerized (44%) and Hybrid (32%) type of accounting system to prepare records rather than Manual systems (24%). According to Alvaro (2010)

these type of systems provides a mechanism to check for accuracy of financial records as they are being prepared and is ideal for taxation purposes.

On a scale of 5-1 where 5= very great extent, 4= great extent, 3= moderate extent, 2= low extent and 1= Not at all, the respondents indicated by ticking on the number to show the extent of their agreement with each statement below. The results were compiled and analysed to give measures of central tendency and measures of dispersion as follows; Majority of the small businesses indicated that their bookkeeping systems help their business to compute their tax liability with a mean of 3.757and a standard deviation of 0.9268. Majority of the respondents agreed that they update the Accounting system for their business on regular occasions to keep at per with newer ways in accounting with a mean of 3.945 and a standard deviation of 0.8583. Most of them were also in agreement that the accounting system has assisted in saving time and money for their business with a mean of 3.913 and a standard deviation of 0.8678. Majority felt that the accounting system helps keep track of all their business transaction with a mean of 3.864 and a standard deviation 1.1267. Finally, the respondents believe that the system helps their business generate forms or filing needed for tax compliance with a mean of 3.945 and a standard deviation of 1.1090.

4.5.4 Descriptive Analysis on Taxation of Small Businesses in Malindi.

Table 4:10 Descriptive Analysis on Taxation of Small Businesses In Malindi

Statements	Mean	STD dev
Financial record keeping costs forms the largest part of compliance costs due to taxation.	4.139	.6432
The levels of tax compliance of my business is attributed to improved record keeping.	4.349	.7861
Complying to tax laws is the main reason I keep financial records for my business.	4.333	.8230
My business can produce all financial records required for a tax audit.	3.904	1.1733
Having financial records reduces the adverse outcome of a tax audit.	4.0159	1.1429

On a scale of 5-1 where 5= very great extent, 4= great extent, 3= moderate extent, 2= low extent and 1= Not at all, the respondents indicated by ticking on the number to show the extent of their agreement with each statement below. The results were compiled and analysed to give measures of central tendency and measures of dispersion as follows; Financial record keeping costs forms the largest part of compliance costs due to taxation**.** were the sentiments presented by the respondents with a mean of 4.139 and a standard deviation of 0.6432. High levels of tax compliance from the small businesses in Malindi is attributed to improved record keeping, a mean of 4.349 with a standard deviation of 0.7861 was obtained to support the statement. The small businesses usually keep their financial records for compliance with tax laws had a mean of 4.333 and a standard deviation of 0.8230 denoting a strong agreement from the respondents. The respondents were of the opinion that the can produce all financial records when required during a tax audit with a mean of 3.904 and a standard deviation of 1.1733, and finally they believe that having financial records reduces the adverse outcomes of a tax audit having a mean of 4.0159 with a standard deviation of 1.1429

4.6 Correlation Analysis

The researcher conducted a correlation analysis to bring out clearly the relationship between the independent and dependent variables as given in the table below;

Table 4:11 Correlation Analysis

Correlations					
		Accounting_ Records	Managerial Competency	Bookkeeping Methods	Taxation_ of_ SMEs_ Malindi
Accounting_ Records	Pearson Correlation	1	.600	.688	.822
	Sig. (2-tailed)		.000	.000	.000
	N	63	63	63	63
Managerial_ Competency	Pearson Correlation	.600	1	.480	.678
	Sig. (2-tailed)	.000		.000	.000
	N	63	63	63	63
Bookkeeping_ Methods	Pearson Correlation	.688	.480	1	.750
	Sig. (2-tailed)	.000	.000		.000
	N	63	63	63	63
Taxation_ of_ SMEs_ Malindi	Pearson Correlation	.822	.678	.750	1
	Sig. (2-tailed)	.000	.000	.000	
	N	63	63	63	63

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

The Karl Pearson's Correlation Coefficient analysis was conducted to show the relationship between the variables, from the table presented above, Accounting records were found to have a Significant or strong Correlation with the Taxation of SMEs at Malindi with the coefficient r =0.822. this implied that Accounting records strongly influences hoe these SMEs are tax Compliant. And therefore, the need to have quality and good accounting records will significantly improve compliance levels of these SMEs in Malindi.

Managerial competency was found to have the least influence on the taxation or compliance on the SMESs in Malindi, with a coefficient r=0.678 indicated a strong influence or a positive direct correlation between the Managerial competence and the Taxation of SMEs in Malindi.

Bookkeeping System had a correlation r=0.750, this denoted a strong positive correlation to the dependent variable – Taxation of the SMEs in Malindi. This indicated a very strong correlation between the Bookkeeping systems/methods and how the SMEs are tax compliant in Malindi. An improvement on the bookkeeping system will result to a significant improvement on taxation of the SMEs in Malindi. Therefore, Bookkeeping Method/ Systems significantly influence taxation of the SMEs in Malindi.

All the variables were within the limits of Significance, Correlation was significant at the 0.01 level (2-tailed) and therefore the model was accepted to be statistically significant in predicting the factors that affect Taxation of the SMEs in Malindi.

4.7 Regression Analysis

The researcher employed regression analysis to aid in analysing the relationship existing between the independent and the dependent variables.

4.7.1 Coefficient of Determination

Coefficient of determination is used to explain the degree to which variations in independent variables cause in the dependent variable. R2 shows the extent to which the independent variables, from the table below, the variables studied explains to the taxation of the SMEs in Malindi by 78.2% that is, the interaction of these independent variables, Accounting Records, Managerial Competence and Book keeping system/methods explains the changes in taxation of the SMEs in Malindi by 78.2%, the remaining 21.8% is explained by other factors not included in this study. The R value represents the simple correlation and with the value being 0.884, it indicates a high degree of correlation.

Table 4:12 Coefficient of Determination

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.884	.782	.771	1.41753

Predictors: (Constant), Bookkeeping_ Methods, Managerial_ Competency, Accounting_ Records

4.7.2 Analysis of Variance (ANOVA)

Analysis of variance is statistical method employed to determine the significance of a regression model in predicting the dependent variable. The F value was 70.387 while the significance values remained at 0.000 therefore denoting that the regression model obtained was statistically significant in predicting the factors that affect the taxation of the SMEs in Malindi.at the Confidence level being at 95%, the analysis indicates high reliability of the results obtained thus signifying that the study was statistically determined.

Table 4:13 Analysis of Variance (ANOVA)

ANOVA[a]						
Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	424.303	3	141.434	70.387	.000
	Residual	118.554	59	2.009		
	Total	542.857	62			

Dependent Variable: Taxation _of_ SMEs_ Malindi
Predictors: (Constant), Bookkeeping_ Methods, Managerial_ Competency, Accounting_ Records

4.7.3 Regression Coefficients

The research employed multiple regression to further explain the relationship between the dependent and the independent variables. The independent variables were regressed against the dependent variables to ascertain the type of relationship existing between them

Table 4:14 Regression Coefficients

Regression Coefficients[a]

Model		**Unstandardized Coefficients** B	**Unstandardized Coefficients** Std. Error	**Standardized Coefficients** Beta	**T**	**Sig.**
1	(Constant)	3.547	1.150		3.085	.003
	Accounting_ Records	.374	.077	.452	4.881	.000
	Managerial_ Competency	.223	.067	.255	3.334	.001
	Bookkeeping_ Methods	.286	.076	.317	3.750	.000

Dependent Variable: Taxation_ of_ SMEs_ Malindi

$Y=\beta o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mathcal{E}$

From the Regression Model $Y=3.547 + 0.374X_1 + 0.223X_2 + 0.286X_3 + \mathcal{E}$

Whereby Taxation of SMEs in Malindi (Y)= 3.547 + 0.374(Accounting Records) X_1 + 0.223(Managerial Competency) X_2 + 0.286 (Bookkeeping Methods) $X_3 + \mathcal{E}$ (other factors not included in this study). From the above regression model, the researcher denoted that taxation of SMEs in Malindi is affected by or a factor of the studied independent variables.

Accounting records were found to a huge influence in the way taxation of SMEs in Malindi is done, from the regression analysis, the researcher found out that Accounting records attributes to 37.4% on how well taxation of SMEs in Malindi is done. A unit improvement on the Accounting records, results to an improvement on taxation of the SMEs in terms of taxes paid and filing of returns by the entities. These findings were in tandem with the findings by Arhin, (2018), Kirchler (2007), and Asby & Webley (2008) who reported a positive relationship between record-keeping and tax compliance among businesses.

Managerial competency was found to have a least influence on the way SMEs are tax compliant in Malindi, in this matter, 22.3% of the SMEs' Tax Compliance is determined by the managerial competency, the leadership ability to manage those SMEs to being more compliance in taxation, payment of taxes and filing of returns among other statutory requirements to taxation.

Bookkeeping Methods/systems were found to strongly affect the Taxation of the SMEs in Malindi, from the regression model above, a unit improvement on the Bookkeeping Methods will result to a direct improvement in the taxation of SMEs in Malindi by 28.6%. this indicated that Bookkeeping Methods/systems plays a crucial or significant role on the Tax compliance of the SMEs in Malindi.

Ɛ (other factors not included in this study). The error term indicates other variables or factors that affect the Taxation of the SMEs at Malindi but are not included in this study. All the variables are within the significance values of $p=0.05$ with all the variables obtaining a significance of 0.000 this therefore indicates that these independent variables are significant to the dependent variables.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND FINDINGS

5.1 Introduction

The chapter presents the summary of findings while addressing the conclusion and the recommendations which the researcher has put at the end of the study, the researcher further recommends on areas for further studies based on the objectives of the study.

5.2 Summary of Findings

5.2.1 How does types of accounting records affect taxation of Small and Medium Enterprises -SME's in Malindi?

Most of the Small businesses do not keep all the accounting records, the respondents were asked to state which types of financial records their business keeps, most of them indicated that they are aware of Sales account (76%), 74% kept Purchase account 30% kept Cheque book while 20% kept Stock account, thee were very few businesses who kept Creditors Account with 28%, balance sheet 15%, while 18% Debtors Account and 12% financial statements This indicated that a small percentage of the businesses of 12% kept full set of the accounting records, while the majority just kept scattered accounting records. On the other hand, only 5% of the businesses did not keep any set of the required accounting records.

Accounting records were found to have a Significant or strong direct Correlation with the Taxation of SMEs at Malindi with the coefficient r =0.822. this implied that Accounting records strongly influences hoe these SMEs are tax Compliant. And therefore, the need to have quality and good accounting records will significantly improve compliance levels of these SMEs in Malindi. These findings were in tandem with the findings by Arhin, (2018), Kirchler (2007), and Asby & Webley (2008) who reported a positive relationship between record-keeping and tax compliance among businesses.

On Regression analysis, Accounting records were found to a huge influence in the way taxation of SMEs in Malindi is done, from the regression analysis, the researcher found out that Accounting records attributes to 37.4% on how well taxation of SMEs in Malindi is done. A unit improvement on the Accounting records, results to an improvement on taxation of the SMEs in terms of taxes paid and filing of returns by the entities.

5.2.2 How does managerial competence affect taxation of Small and Medium Enterprises SME's in Malindi?

Managerial competency was found to have the least influence on the taxation or compliance on the SMEs in Malindi, with a coefficient r=0.678 indicated a strong influence or a positive direct correlation between the Managerial competence and the Taxation of SMEs in Malindi.

When regressed on further analysis, Managerial competency was found to have a least influence on the way SMEs are tax compliant in Malindi, in this matter, 22.3% of the SMEs' Tax Compliance is determined by the managerial competency, the leadership ability to manage those SMEs to being more compliance in taxation, payment of taxes and filing of returns among other statutory requirements to taxation. Therefore, Managerial Competence in financial record keeping moderately improves the taxation of the SMEs.

5.2.3 How does book keeping methods affect taxation of Small and Medium Enterprises SME's in Malindi?

Bookkeeping System had a correlation r=0.750, this denoted a strong positive correlation to the dependent variable – Taxation of the SMEs in Malindi. This indicated a very strong correlation between the Bookkeeping systems/methods and how the SMEs are tax compliant in Malindi. An improvement on the bookkeeping system will result to a significant improvement on taxation of the SMEs in Malindi. Therefore, Bookkeeping Method/ Systems significantly influence taxation of the SMEs in Malindi. Further regression analysis found Bookkeeping methods/ systems to strongly affect the Taxation of the SMEs in Malindi. A unit improvement on the Bookkeeping Methods will result to a direct improvement in the taxation of SMEs in Malindi by 28.6%. this indicated that Bookkeeping Methods/systems plays a crucial or significant role on the Tax compliance of the SMEs in Malindi.

5.3 Conclusions

The research study was guided by a general objective to examine the effect of financial record keeping on the taxation of SMEs in Malindi. The researcher identified Accounting records, Managerial Competence and Bookkeeping systems or methods to being the factors that affect taxation of the SMEs in Malindi.

The researcher was guided by a first specific objective To determine the effect of types of accounting records on taxation of SME's in Malindi. The researcher's findings indicated that the large portion of businesses in Malindi keep Cash book, Purchase book, Creditors Account and Debtors Account. Accounting records were found to have a Significant or strong Correlation with the Taxation of SMEs at Malindi. And therefore, the need to have quality and good accounting records will significantly improve compliance levels of these SMEs in Malindi. The finding was consistent with other previous works by Arhin, (2018), Kirchler (2007), and Asby & Webley (2008) who reported a positive relationship between record-keeping and tax compliance among businesses.

The second specific objective was To investigate the effect of managerial competence on taxation of Small and Medium Enterprises SME's in Malindi. Managerial competency was found to have the least influence on the taxation or compliance on the SMESs in Malindi, managerial competence has a strong influence or a positive direct correlation between the Managerial competence and the Taxation of SMEs in Malindi.

The third specific objective was to ascertain the effect of book keeping methods on taxation of Small and Medium Enterprises SME's in Malindi. Managerial Competence and Bookkeeping systems or methods to being the factors that affect taxation of the SMEs in Malindi.

5.4 Recommendations.

From the research findings, the researcher recommends on the following;

1. Further taxpayer education on Accounting Records Keeping to further target the SMEs in Kenya. This will improve their knowledge and aide in tax compliance levels of these SMEs.

2. Recommend on hiring of Certified Accountants and Professionals when dealing with taxation of these SMEs to the Management levels of the SMEs.

3. Encourage the adoption of modern hybrid Accounting systems or double accounting systems so as to improve the efficiency and accuracy during payment of taxes and filing of returns.

5.5 Areas of Further Studies

From the findings, it indicated that the coefficient of determination, the variables studied explains to the taxation of the SMEs in Malindi by 78.2% that is, the interaction of these independent variables, Accounting Records, Managerial Competence and Book keeping system/methods explains the changes in taxation of the SMEs in Malindi by 78.2%, the remaining 21.8% is explained by other factors not included in this study. Therefore, the researcher recommends further studies to unearth the remaining gap of other factors that affect taxation of the SMEs in Malindi which have not been investigated in this research.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

INSTRUCTIONS

This questionnaire is designed to collect information on the ***effect of financial record keeping on the taxation of small business in Malindi Town***. The information obtained will only be used for academic purposes and shall be treated in utmost confidence. You are requested to complete this questionnaire as honestly and objectively as possible.

SECTION (A) BACKGROUND INFORMATION

1. What is the nature of your business?

1=service sector [ ]		2=Trade sector [ ]

2. How long has the business been in existence?

1=Less than one year [ ]		2=Between 1-5 years [ ]
3=Between 5-10 years [ ]		4=more than ten years [ ]

3. What is your highest level of Education?

None [ ]		Primary school [ ]	Secondary school [ ]
Graduate [ ]		Post Graduate [ ]

SECTION (B). ACCOUNTING RECORDS.

Please tick (✓) in the boxes provided in the following questions.

Which types of financial records does your business keep?

1= Sales account [ ] 2= Purchase account [ ] 3= Cheque book 4= Stock account 5= Creditors Account 6= Balance Sheet 7= Debtors Account
8= financial statemnts

On a scale of 5-1 where 5= very great extent, 4= great extent, 3= moderate extent, 2= low extent and 1= Not at all, please indicate by ticking on the number to show the extent of your agreement with each statement below

	STATEMENT	**1**	**2**	**3**	**4**	**5**
B1	I do not keep quality records of all business transactions sufficient for taxation purposes					
B2	The financial records that I keep for my business do not actually present the actual transactions for taxation purposes					

B3	Due to size of the Small Businesses there is inadequacy of knowledge and capacity of preparation of business records					
B4	The costs that I incur for me to keep these types of records is relatively high for my business to manage.					
B5	The types of records that I keep have assisted my business by providing a reference point for the previous transactions and ease of payment of taxes, and preparation of audits when required.					

SECTION (C) MANAGERIAL COMPETENCE

Please tick (✓) in the boxes provided in the following questions. On a scale of 5-1 where 5= very great extent, 4= great extent, 3= moderate extent, 2= low extent and 1= Not at all, please indicate by ticking on the number to show the extent of your agreement with each statement below

	STATEMENT	**1**	**2**	**3**	**4**	**5**
C1	As the owner of a business I am very much aware of the penalties for not keeping proper records as required					
C2	The taxpayer education programs have assisted a lot in the small businesses towards compliance. .					
C3	Taxpayer education has covered filing of returns, proper record keeping and payment of taxes					
C4	I know how to keep records/documents pertaining to income and expenditure for a period of five years after submission of the tax return					
C5	Hiring of tax experts improves the costs of management and complying to the required tax laws					

SECTION (D) ACCOUNTING SYSTEM/METHODS

Please tick (✓) in the boxes provided in the following questions.

Which type of accounting system do you use to prepare records?
1= Single-entry system [ ]   2= Double-entry system [ ]

How can you describe your system?

1= manual [ ] 2= Computerized [ ] 3= Hybrid [ ]

On a scale of 5-1 where 5= very great extent, 4= great extent, 3= moderate extent, 2= low extent and 1= Not at all, please indicate by ticking on the number to show the extent of your agreement with each statement below

	STATEMENT	**1**	**2**	**3**	**4**	**5**
D1	I update the Accounting system for my business on regular occasions to keep at per with newer ways in accounting					
D2	The accounting system helps in computation of business' tax liability.					
D3	The Accounting system has assisted in saving time and money on my business.					
D4	The accounting system helps keep track of all my business transaction					
D5	The system helps my business generate forms or filing needed for tax compliance					

SECTION E: TAXATION OF SMALL BUSINESSES IN MALINDI.

Please tick (✓) in the boxes provided in the following questions. On a scale of 5-1 where 5= very great extent, 4= great extent, 3= moderate extent, 2= low extent and 1= Not at all, please indicate by ticking on the number to show the extent of your agreement with each statement below

	STATEMENT	**1**	**2**	**3**	**4**	**5**
E1	Financial record keeping costs forms the largest part of compliance costs due to taxation					
E2	The levels of tax compliance of my business is attributed to improved record keeping.					
E3	Complying to tax laws is the main reason I keep financial records for my business.					

E4	My business can produce all financial records required for a tax audit.					
E5	Having financial records reduces the adverse outcome of a tax audit.					

The end. Thank-you

APPENDIX II: LETTER OF INTRODUCTION

Kenya School of Revenue Administration

KENYA REVENUE AUTHORITY

ISO 9001:2015 CERTIFIED

KRA/KESRA/MSA/002 **20th April, 2018**

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: JAMES CHARO GONA (ADM NO. HDB336 – C016 – 2349/2016)

This is to certify that Mr. James Charo Gona of admission number HDB336 – C016 – 2349/2016 is a bona fide student of the Kenya School of Revenue Administration (KESRA), Mombasa Campus, pursuing a Postgraduate diploma in Tax Administration.

Presently, Mr. Charo is in his final year of study and is conducting a research project titled ***"Effects of Financial Record keeping on the Taxation of Small Businesses in Malindi Town."*** He is in the process of gathering data and thereafter, compile a report that will **STRICTLY** be used for **ACADEMIC PURPOSES ONLY**

Regarding this issue, the School would like to seek your permission to allow him collect information that relates to his research from your organization.

Thank you in advance for your support and cooperation.

Yours sincerely,

KENYA SCHOOL OF REVENUE ADMINISTRATION (KESRA)
PRINCIPAL
20 APR 2018
P. O. BOX 95707 - 80106
MOMBASA

Winfred Jillani
Ag. Principal – KESRA, Mombasa Campus

Tulipe Ushuru Tujitegemee !

KENYA VISION 2030

APPENDIX III: WORK PLAN

Activity / Month	Proposal Writing	Data Collection	Data Analysis	Report Writing	Submission of Research paper
Month 1					
Month 2					
Month 3					
Month 4					
Month 5					
Month 6					
Month 7					
Month 8					

APPENDIX IV: BUDGET

Activity	Description	Amount
Stationery and printing	6 rims of paper @ 500	3000
	Printing and photocopying	10,000
	Pens (for 81 respondents) pcs	1000
Transport	Delivery and collection of questionnaires	10000
Communication	Airtime	8,000
	Total	**32,000**

APPENDIX V: SAMPLE FRAME

NAME	SECTOR
Abdulaziz Abdalla Said	Trade
Batul Fakhrudin Nurdin Gulamhusein	Trade
Johnathan Thuva	Service
Hamid Abdalla Mbarak	Trade
Ali Ali Bin Mohamed	Trade
Kaizerhusein Mansurali Abbasbhai	Trade
Paul Gitau Kinyanjui	Trade
Omar Said Abdala	Trade
Benard Ndaba Kamau	Trade
Onali Mohamed Hussein Alibhai	Trade
Kiponda Mwagandi Eric	Trade
Nyaga Protasio	Trade
Karea Catherine	Trade
Giovanni Battista Tofani	Service
Farida Abdulali Anverali	Service
Teddy Ochieng Ogendo	Trade
Juma Thethe Karabu	Trade
Halima Kibwana Salim	Service
Cosimo Rosafio	Service
Dennis Mwangemi Mure	Trade
Mohamed Khalid Karim	Trade
Sheinaaz Jonmohamed Omar	Trade
Mufaddhal Shabbir Abdultaib	Service
Raymond Safi Ngumbao	Service
Francis Mugweru Gathuku	Trade
Richard Muchiri Njiru	Trade
Abdulghafur Majid Swaleh	Trade
Daniel Kashero Sanga	Trade
Betty Sidi Ndzai	Service
Angela Akoth Ogolla	Service
Catherine Ndanu Muli	Service
Faith Cherono	Service
Martin Tumaini Mwayele	Trade
Alexander M'mirianga M'mauta	Service