

**FINANCIAL ACCOUNTING AND PERFORMANCE
ON KAPENGURIA TEACHERS SAVINGS AND
CREDIT CO-OPERATIVE SOCIETY LIMITED,
WEST POKOT DISTRICT – KENYA**

BY

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SIGN:..... DATE:

DEDICATION

Dedicated to my parents, relatives and friends for the continued academic and material support throughout my studies.

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ACRONYMS

SACCO	-	Savings and Credit Co-operative.
KUSCCO	-	Kenya Union of Savings and Credit Co-operative
LTD	-	Limited
WOCCU	-	World Council and Credit Union
G.M	-	General Manager
L.O	-	Loans Officer
O.P	-	Operations Manager
G.A.A.P	-	Generally Accepted Accounting Principles.
M.P.As	-	Members Personal Accounts
T.S.C	-	Teachers Service Commission
D.A.M	-	Disability Awareness Mission
U.S.A	-	United States of America

DEFINITION OF TERMS

Profitability – Ability to provide financial rewards sufficient to attract and retain financing.

Co-operative – Is a legal institutionalized association of persons

Profits – Is the excess of the price of goods sold and services rendered over the cost of goods and services used during a given period of time.

Sampling - Involves the selection of a number of study units from a defined study population.

Population – A study population consist of institutions, industries, companies, organizations, human beings among others.

CHAPTER ONE

1.0 BACKGROUND

Financial accounting can be defined as a branch of accounting that is concerned with classification, measurement and recording of business transactions of an entity (organization) in monetary terms and in accordance with generally accepted accounting principles (G.A.A.P). After a specified period of time normally one year but possibly more frequently accounting information is disclosed/communicated to the interested parties through the vehicles of financial statements. The major financial statements under financial accounting system for disclosure purposes are; The trading, profit and loss account (called income and expenditure statement in non-profit making organizations), balance sheet and cash flow statements. The major focus of financial accounting is to provide information to the external users of accounts which include; shareholders, creditors, Government, general public, Bankers, customers and competitors. Financial accounting actually evolved from stewardship in which the owners of the wealth demanded for accountability from the stewards (those entrusted with the safe custody of resources).

In order to protect the external users of accounts who are vulnerable to mal – reporting by accountants, preparation and presentation of financial or external accounts, is highly regulated by accounting legislation. In order to protect the users from manipulated or doctored accounts, financial accounts are subjected to audit. The information in financial accounts is summarized and historical (backward looking) and therefore not very relevant for managerial decisions which is most of the time futuristic. However, external users like government is interested in knowing historical information for instance to know how much profit was made to serve as a basis for taxes to be charged. Shareholders too need

to know how much profit was made in order to decide on the dividends (copy right 1999).

Organizations throughout the world carry out financial accounting to ascertain their financial positions. It has been proved over the years that any organization to meet its liabilities is assessed, use of inadequate financial policies will automatically lead to false financial information and hence wrong decision will be taken which end – up in poor performance and subsequent collapse. For example when an organization`s income is overestimated, the organization overspends and in the long run becomes insolvent leading to its collapse.

INFORMATION NEEDS OF USERS

Although, in general, accounting is used by human beings, the following groups of people are particularly interested in the financial accounting information which is provided in the periodic financial statements.

Owners

Owners invest in business with a view to increasing wealth. In order for prospective owners and existing owners to make decisions concerning whether to invest in, remain in, or divest from a particular business they require information concerning the risks and rewards with that business. In large business firms like companies and co-operatives, the owners do not take part in the day-to-day running of the business and so they have to depend on the information contained in the financial statements.

Bankers

Bankers provide finance for a business in addition to that provided by the owners.

Bankers may provide finance both for short term and long term bases. For short term finance, the main concern will be the liquidity of the business and they require information like financial position and performance of the business. On the basis of this assessment, the bank or lender can reach decisions as to whether to lend money and on what terms and conditions.

Creditors

Trade creditors utilize the accounts of a firm to ascertain its credit – worthiness before they take decisions whether to extend credit and on what terms.

Customers

Customers need information to satisfy themselves that the business is able to continue supplying goods or services at the required rate.

This may arise where large contracts are involved and where binding commitments are being undertaken. A large retail business is likely to take keen interest in the financial health of its suppliers in order to assess the security of existing contracts and the prospects for future contracts.

Government

The government may have a number of reasons for requiring information contained in the financial statements of the business. It has a direct responsibility for the control of the economy. It needs information like profitability to make national budget of how much

can be raised from taxation. A government may wish to regulate policy of the business, in the country. For example, it may wish to encourage widespread competition to prevent monopoly.

In such a situation, information relating to output and profits of a business may be useful to ensure that government policy is being adhered to.

Employees

The principal concerns of the employees are job security and regular income for their livelihood. These matters are of course, related to the survival and economic success of the company. Hence, the information concerning the financial position and performance of the business would be of direct concern to the employees.

General Public

The general public is interested in the availability of goods and services at a reduced price. Therefore, they wish to know the establishment of a proper accounting control, which in turn, will reduce the cost of production and thereby availability of goods at a reduced price may be ensured.

Competitors

Competitors are interested in accounting information of a rival business for two reasons. Firstly, the financial position to a rival may be useful for comparison purposes. Secondly, the financial of a rival may provide clues concerning likely future strategies.

Management

Management, in running their business have to make decisions like pricing of products, establishing output target, determining appropriate levels of stock and cash, determining financing requirements among others. In order to make decision on such matters, it is clear that managers require a considerable amount of accounting information. In fact, the manager's need for information is much greater than that of other user groups. The financial accounting is the "eyes and ears of management and facilitates in drawing future course of action, further expansion among others".

External Auditors

External (independent) auditors examine financial statements and provide an opinion on whether the statements are prepared according to generally accepted accounting principles. Auditors use financial statements of competing organizations to help assess the reasonableness of a client's statements.

Trade Unions

Trade unions leaders agitate for better pay for their members after examining financial statements and getting convinced that the employing organization has capacity to pay. Over the past years, many organizations have either cut their operations or collapsed with the major factor being use of inadequate accounting policies that lead to poor decisions – making. Large international organizations like ENRON of United States of America (U.S.A) collapsed under similar circumstances. The same situation has seen British's SABENA airlines down most of its aeroplanes.

It was from the above explanation and examples, therefore that need arose of conducting a study to ascertain the effect of financial accounting on Kapenguria Teachers Sacco Society Ltd performance and survival.

1.1 Statements of the Problem

Registered on 2nd of June, 1977, as a micro-finance institution, Kapenguria Teachers Sacco, Society Ltd, operations remained permanently in Kapenguria its head office, despite the efforts of the management to create branches in other parts of the district or expand to other districts where it has a big client base like Turkana, Trans-Nzoia and Uasin-Ngishu. The established head office has persistently performed poorly, a factor that has made expansion impossible. The head office is in a rented building. The reasons behind the poor performance were cited as poor accounting policies among others that has posed serious financial difficulties (inquiry report, 1999, Audited reports, 1999 – 2005, WOCCU report, 2005, KUSCO restructuring report, 2005).

1.2 Purpose of the statement

The study aimed at identifying several effects of financial accounting on the performance of Kapenguria Teachers Sacco, Society Limited, as the researcher's case study.

Alex (2005:16) defines a case study as a research method whereby research chose to study a specific concept within one unique environment so as to exhaustively study it within its environment.

1.3 Objectives of the study

- To identify the financial accounting standards used in Kapenguria Teachers Sacco Society Limited.
- To examine the level of efficiency of the financial accounting on the performance of Kapenguria Teachers Sacco, Society Ltd.
- To identify the effects of financial accounting on the performance of Kapenguria Teachers Sacco, Society Ltd.

1.4 Research questions

- What is the financial standard used in Kapenguria Teachers Sacco, Society Ltd?
- What is the level of efficiency of financial accounting on the performance of Kapenguria Teachers Sacco, Society Ltd?
- What is the effect of financial accounting on the performance of Kapenguria Teachers Sacco, Society Ltd?

1.5 Scope of the study

The study was conducted at Kapenguria Teachers Sacco, Society Ltd, head office, West Pokot district, Kenya. The study assessed the financial standards used in Kapenguria Teachers Sacco, Society Ltd and its effects on the performance of an organization. Then it looked at the two variables of financial accounting and the effect on performance of Kapenguria Teachers Sacco, Society Ltd was studied in hand

1.6 Significance of the study

The would be significant in many aspects as follows:

- The study would help different organizations to understand the importance of financial accounting on performance of the organization.
- The organizations and individuals would be able to know the efficiency financial accounting standards to put in use in order to boost the performance of an organization.
- The study would be used of as bases and source of information for future researchers from which they would base to carry out research in a related field.
- The study would also help the researchers to be awarded his degree in international business and administration.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Definitions of the basic concepts in the study

2.1.1 Definitions of accounting

Copyright (1999) defines as the art and science of recording and classifying financial transactions in the books, summarizing and communicating financial statements / reports to facilitate decision – making.

Copyright (1999) also defines accounting as the process of identifying, measuring and communicating economic information to permit informed and rational decisions to be made.

White heed (1947) defines accounting as the art of controlling a business by keeping accurate book – keeping records, measuring and interpreting the financial results of the business by the preparation of “accounting ratios” and communicating the results to management and other interested parties. Such result ratios include turn over, sales ratio, purchase ratio, mark-up, margin among others.

2.1.2 Definition of organizational performance

Drucker 91995) defines organizational performance “that balance between all factors of production that will give the greatest output for the smallest efforts” performance is measured in a number of ways. But for the purpose of this study, the researcher used the profitability approach to access the performance of Kapenguria Teachers Sacco, Society Ltd.

Engane F. Beigham and L.C Capanaki in their book explain that “profitability is the net result of a large number of policies and decisions”. The profitability ratios show the

combined effects of liquidity, asset management and debt management on operating results. Liquidity is the ability of a company to settle its debts when they fall due. From the above therefore, performance is used to measure the economic soundness of the organization.

2.2 Role of Accounting on Organizational Performance

According to Omunuk (1999) when books of accounts are prepared and income and expenditure recorded, profits and losses can be ascertained and thus help in planning the way forward. Every organization is formed with an aim of making profits. No business can survive in long period without making reasonable profits.

Books of accounts help the organization to plan for the profits earned thus easing the planning process. The above therefore confirmed that accounting records are important for the better performance of the organization.

Saleemi (1988) assents that accounting plays a big role in the success of any business enterprise. A business enterprise is started by its owners to increase their wealth by making some business transactions. The business transactions may be of diversified nature. For example retail and or wholesale trade.wood (1988) says that an enterprise will usually know the exact amount of debtors or creditors or the amount on wages and other expenses and give the appearance of precision in all matters connecting with accounting. This confirmed that having proper records of accounts will really assist in the firm knowing its performance whether progressing or deteriorating. All the above justify the importance on the performance and survival of any organization.

CHAPTER THREE

3.0 METHODOLOGY

3.1 Introduction

This chapter deals with the various techniques, which the researcher used during the course of his study. Various methods and instruments used to collect, organize and analyze data as explained in the following sub-sections.

3.2 Research design

The study was carried out using cross-sectional research design and its findings used to forecast in the future. The analytical study was carried out.

Both qualitative and quantitative methods of data collection were used in this study and included, available data, informed interviews, between the interviewers and respondents and ordinary conversations.

3.3 Target population

The target population was drawn from the employees of Kapenguria Teachers Sacco, Society Ltd. This organization has a total of twenty employees. Those who deal directly with the accounting work and the related accounting records and finances were targeted.

3.4 Sampling techniques used

The sample was drawn from the staff of Kapenguria Teachers Sacco, Society Ltd head office basing on those who deal directly with the finances and accounting work.

The officers who deal directly with the finances and accounting work from each department are as follows;

Administration – The general manager (G/M) and the operations manager, Deputy Manger (O.P).

Accounts – The Accountant, the Assistant accountant, Accounts clerk and Records clerk.

Loans - Loans Officer (L.O) and the loans clerk

Internal Audit - Internal Auditor and audit clerk.

The population drawn was ten (10) officers which represented 50% of the total population. There was no need to use specific method of sampling because the officers who deal directly with the work under study were identified by the G.M for the purpose of this study.

TABLE 3.1 SHOWING RESPONDENTS IN PERCENTAGE

DEPARTMENT	NUMBER	RESPONDENTS (%)
Administration	2	20
Accounts	4	40
Internal Audit	2	20
Loans	2	20
Total	10	100

3.5 Research tools

The research was carried out basing on two types of data sources. The primary data which involved interviewing the staff of Kapenguria Teachers Sacco, Society Ltd. While secondary data involved the analysis of information from secondary sources which include text books, journals and news papers and from documents found in the area of study.

Individual officers identified from the above sampling, procedure were provided with questionnaires (self-administered) geared towards establishing the factors that affect performance in the area of study.

3.5.1 Interviews

Structured interviews were used containing both open and closed ended questions.

Open – ended questions gave the respondents freedom to express themselves fully whereas closed-ended questions limited or fixed the responses. The use of interviews as a method of data collection ensures greater number of useable returns. In an interview the opportunity to probe is possible.

3.5.2 Questionnaires

Questionnaire as a method is not costly, time consuming or energy consuming.

However, it links the kinds of questions that can be asked and the answers that can be given. It is difficult to get useful answers to indirect non-specific questions.

3.6 Procedure in data collection

The researcher first acquired an introduction letter from the university. The letter introduced the researcher to Kapenguria Teachers Sacco, Society Ltd. The researcher then started off collecting data from the organization after being granted permission.

3.7 Data analysis tools

Data analysis largely take the form of tabulations. Tabulation is a technical procedure classified data and the same data is put in the form of tables, percentages and then computed. Data analyses combined both descriptive and statistical methods.

Descriptive analysis is concerned with the description of the characteristics of a particular group with the aim of obtaining complete and accurate information of the study.

3.8 Limitations of the study

- Lack of enough time. There was limited time assigned to the researcher for the completion.
- Lack of funds was a major problem during the course of the study. The study involved a lot of expenses such as printing, stationery, meals, accommodation, typing and binding.
- The researcher experienced hoarding of information. This was expected since most organizations are fond of treating the accounting information with confidentiality in fear of competition.

3.9 Solutions to the limitations of the study

- For the problem of limited time, the researcher drew up favorable time table in line with the time available.
- The problem of funds was solved using the available funds in an economical way.
- The researcher explained to the management of Kapenguria Teachers Sacco, Society Ltd.that the data was to be treated confidentially and that it was only for study purposes.

CHAPTER FOUR

4.0 PRESENTATION OF FINDINGS

The study focused at identifying several effects of financial accounting on the performance of Kapenguria Teachers Sacco, Society Ltd.

These include;

- To identify the financial accounting standards used in the area of study.
- To examine the level of efficiency of the financial accounting on the performance of the area of study
- To identify the effects of financial accounting on the performance of the organization.

Accounting legislation requires that external (financial) accounts be prepared and presented in conformity with Generally Accepted Accounting Principles (G.A.A.P) copyright (1999).

G.A.A.P refers to accounting principles or practices that are regarded as permissible by the accounting profession and has substantial authoritative support. G.A.A.P includes the requirements of the companies Act, stock exchange and any other accepted accounting treatments not incorporated in the official literature.

The boundaries of G.A.A.P extend far beyond the accounting principles contained in accounting standards. Accounting standards are guidelines statements or rules issued by professional accounting bodies governing accounting practice in areas or countries under their jurisdiction relating to how accounts should be prepared and presented (ibid).

From the study the data collected from both the primary and secondary sources of information, it revealed that despite the fact that the accounting standards provided by the professional bodies like the co-operative college of Kenya and the Institute of Certified

Public Accountants of Kenya (I.C.P.A.K) were ignored which resulted into window dressing or creative accounting.

Table 4.1 represents the magnitude of the problem from 1997 to 2002 (KUSCCO report, 2005)

TABLE 4.1 MAGNITUDE OF THE PROBLEM FROM 1997 – 2002

YEAR	ACTUAL - INCOME	AUDITED	VARIANCE
1997	4, 200, 000	6, 748, 005	(2, 548, 005)
1998	4, 598, 228	8, 103, 543	(3, 505, 315)
1999	4, 238, 213	8, 213, 364	(3, 975, 151)
2000	6, 610, 551	11, 233, 365	(4, 222, 814)
2001	7, 645, 021	11, 086, 057	(3, 441, 036)
2002	9, 001, 470	13, 259,623	(4, 258, 153)
Totals	36, 293, 483	58, 643, 957	(22, 350, 474)

The KUSCO team found the above practice untenable. It was not a good accounting practice, but a creative accounting. This was done in total disregard to accounting standards.

The above practice resulted to members of the society earning their own funds totaling to Kshs 22, 350, 474 as dividends.

Other documents/reports found in the society (Audit reports, KUSCO report, WOCCU report, economic reports and Inquiry report) revealed weaknesses in the following aspects:-

25.6
4
1024

- Lack of good storage for Sacco documents
- Poor filing system
- Lack of good and complete recording of members transactions
- Unreliability of accounts prepared by the staff
- None updating of loans granted to members
- None posting of general ledger regularly hence giving rise to incomplete records.
- Incompetence on the part of accounts staff
- Non-recovery of loans through the check-off system.
- Overstating of income from members loans giving rise to payment of dividends to members on what was not actually realized.
- Inflating of general ledger loan balances through the above which of course could not be identified with any member.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSIONS (RESEARCH BASED OUTCOMES) AND RECOMMENDATIONS.

5.1 Summary

The main focus of the study was to ascertain the effects of financial accounting on performance of Kapenguria Teachers Sacco, Society Limited.

The scope of the study was within Kapenguria Teachers Sacco, Society Ltd head office.

The study was conducted using interviews and questionnaires research tools to collect data.

Limitations of the study include;

- (i) Lack of enough time
- (ii) Lack of funds
- (iii) Hoarding of information

The data and information was analyzed using tables and percentage. The data and information generated was analyzed for accuracy and consistency.

The responses from the respondents was from the basis of the study financial accounting and performance and survival of an organization.

The main findings of the study include;

- (i) Non-compliance of the accounting standards which resulted to 'window dressing or creating accounting.
- (ii) Low level of efficiency of the financial accounting on the performance of the area of study.

- (iii) Negative effects of financial accounting on the performance of the case study were identified.

5.2 Conclusions

It can be concluded that the financial accounting, practiced in the area of study is in conflict with the accounting standards provided by the professional bodies like the I.C.P.A.K and co-operative college of Kenya.

It can therefore be concluded that the level of efficiency at the area of study is low.

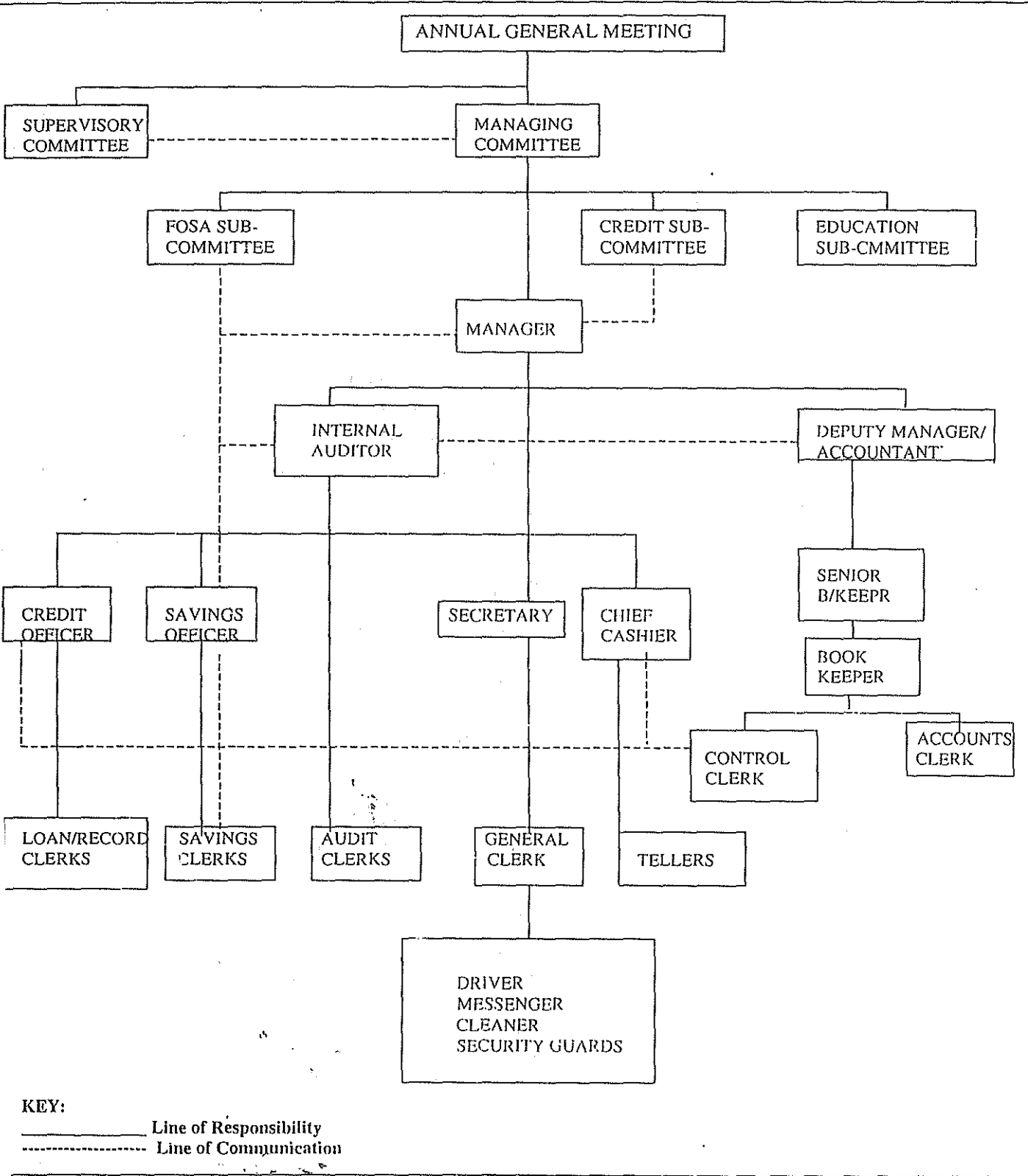
It can be also concluded that the identified effects of financial accounting on the performance of the researcher's case study were devastated.

5.3 Recommendations for improving the area of study performance

- (1) The management should establish effective internal control systems and internal audit department so as to minimize occurrence of human errors.
- (2) The management should strengthen the supervision.
- (3) The Ministry of Co-operative and Marketing should carry out continuous audits and not final audits. This way errors shall be detected before they damage the operations of the study.
- (4) The lending department should expedite submission of debit notes (data sheets) to the clients employers from prompt recoveries.
- (5) The credit managers with the help of Supervising Officers should identify "stubborn" clients employers and devise effective means of dealing with them.

- (6) The management should establish aggressive debt collection with collaboration with the department of co-operative and marketing development.
- (7) With the help of Ministry of Co-operative and Marketing Development should look into the possibility of sanctioning clients securities to safe the society from incurring bad debts.
- (8) The management should retrain the accounting staff for more knowledge and skills so as to enhance greater efficiency.
- (9) The management should change the external auditors every three years as a requirement in statutory audits.
- (10) The management should cut down on the expenditures to avoid over estimating of income.

**MANAGEMENT OF FRONT OFFICE SAVINGS ACCOUNTS DEPARTMENT
 PROPOSED ORGANIZATION STRUCTURE FOR KAPENGURIA
 TEACHERS SACCO SOCIETY LTD**



KEY:
 _____ Line of Responsibility
 - - - - - Line of Communication

QUESTIONNAIRE

The study is conducted for educational purposes and all information obtained is treated confidentially.

INSTRUCTIONS

Put \sqrt or x where appropriate

Demographic characteristics

Age: > 18 19 – 25 26 – 30 31 – 35
36 – 40 41 – 45 46 – 50 51 – 55

Gender: Male Female

Marital Status: Married Single

Widowed Divorced

Separated

Educations qualifications: Primary Secondary

Undergraduate Graduate

Professional qualifications: Certificate Diploma

C.P.S/C.P.A/ACCA I

C.P.S/C.P.A/ACCA II

C.P.S/C.P.A/ACCA III