

# Accounting Practices and Performance of SMEs: A Case of Mukono Central Division

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## **Abstract**

The study sought to establish the accounting practices utilized by the SMEs, the motivation for and against the utilization of these practices and whether the utilization of accounting practices of interest have performance implications for SMEs with same magnitude. The study adopted a survey research approach to achieve the three study objectives. The study also adopted purposive sampling method to get 90 SMEs who participated in the study. The study utilized correlation mean and standard deviation to address objectives one and two of the study and correlation and regression analysis to address the third objective of the study. The study found that an improvement in keeping and preparing purchases and sales ledgers to be associated with improvement in SME performance. The findings also revealed that most of the SMEs to a moderate extent are motivated to utilize accounting practices to keep track of their business activities. However, the study also discovered that most of the SMEs are constrained from utilizing these practices mostly because of lack of training in accounting. The results revealed that accounting practices have some significant implications on the performance of the SMEs in Mukono central division. This finding was based on the regression and correlation analysis. With these findings the study makes a contribution of providing empirical evidence that has been widely missing to channel the presently passionate discussion surrounding the issues of accounting practices and performance of SMEs in the study context.

**Keywords:** Accounting practices, performance of SMEs

## **INTRODUCTION**

### **Introduction**

This chapter presents the background of the study, statement of the problem, general objective of the study, specific objectives, research questions, , conceptual framework, scope of the study, justification of the study and significance of the study.

### **Background of the study**

Small and medium scale enterprises are gaining wide spread acceptance as viable drivers of economic growth. However, several of these enterprises demise without fulfilling this expectation due to poor management arising from weak financial accounting practice (Olatunji, 2011). A sound financial accounting practice in any business irrespective of its scale is crucial. Audits of small scale enterprises have proven to be worrisome because of the inadequacy of the internal controls in these firms in terms of record keeping and financial reporting (Olatunji, 2011).

Except for statutory demands, small and medium enterprises hardly give serious thoughts to the process of sound accounting yet the adequacy and ineffectiveness of accounting processes have been responsible for the ultimate collapse of a host of them (Ayanda & Adeyemi, 2011). More so, Rolffe (2000) argues

that, failure by SMEs to manage cash flows results in illiquidity and finally the demise of SMEs. Never the less, the uniqueness of small and medium enterprises calls for a careful consideration in the design of an accounting system (Olatunji, 2011).

Most of the studies carried in African countries indicate several factors including record keeping and financial reporting as some of the core accounting practices that have frequently been cited as the drivers of business performance in SMEs (Maseko & Manyani, 2011; Mwangi, 2011; Tushabomwe, 2006).

Tushabomwe (2006) found that the inefficient and/or lack of accounting records have led to the failure of many SMEs. Along similar lines, McCannon (2002) argues that, many SMEs in Africa fail because owners do not make timely and key managerial decisions resulting from the lack of adequate records and financial reports. Given the benefits of record keeping and financial reporting, one would therefore wonder why some owners of SMEs fail to maintain books of accounts.

Further, McMahan (1998) argues that even the basic form of record keeping deters many owners because to them, keeping records do not provide a trend of their current operations and thus impact less on performance. It therefore, appears that, many SME operatives are unaware of the contributions of record keeping to their businesses.

This issue of keeping incomplete accounting records among SMEs in developing economies like Uganda has attracted attention from researchers, professional accountants, professional accounting bodies, investors, financial institutions, economists and policy makers who stress that , efficient use of accounting information through financial reports and record keeping is needed to support SMEs in proper decision making (Cooley & Edwards, 1983; European Commission, 2008; Maseko & Manyani, 2011).

The escalation of more evidence on this issue has evoked a dilemma of whether SMEs in Uganda have and utilize proper accounting practices to generate the much needed accounting information that owners and other business partners require. It is therefore, imperative to study the phenomenon of accounting practices of these SMEs and the extent to which these practices influence on their performance.

### **Statement of the problem**

Accounting practices continue to be of great importance in SMEs as they enable them to have accurate information on which to base decisions such as projecting sales and purchases or determining the break-even point and making a wide range of other financial analyses, but even with this a number of Small and medium Enterprises in Uganda have not given much attention to them (King, 2007). As a result, the persistent lack of proper records and financial reports has seen the closure of some of these SMEs (Tushabomwe, 2006). It is also not clear from the existing literature whether or not accounting practices being utilized by the SMEs in Uganda satisfies the information needs of those firms.

Despite of the interests in record keeping, financial reporting and performance, little is known on the extent to which a combination of both practices influence performance. This study seeks to address this problem and knowledge gap.

### **General objective**

The aim of this study was to examine the accounting practices selected by SMEs, the motivations as well as the performance implications of their choices drawing on the empirical context of Mukono central division, Uganda.

### **Specific objectives**

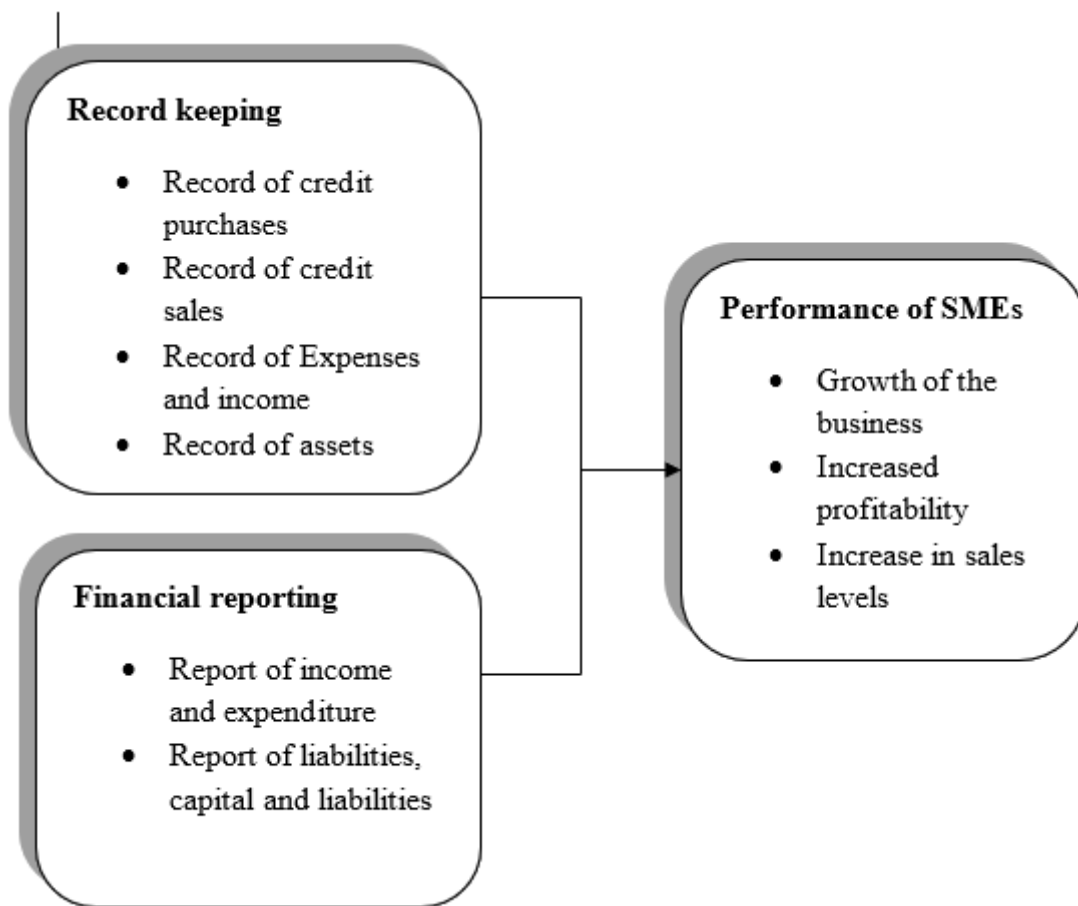
The specific research objectives of this study were to:

1. Examine the intensity of the utilization of the different accounting by the SMEs in the study context.

2. Examine the motivations for and against utilization of the different accounting practices among the SMEs in the study context
3. To examine the performance implications of the different accounting practices utilized by SMEs in the study context.

**Conceptual framework**

According to Kotler (2000) a conceptual framework is a basic structure that consists of certain abstract blocks which represent the independent variables and the dependent variable of the phenomenon under study. The interconnection of these blocks completes the framework for certain expected outcomes. For this research, the independent variables are record keeping and financial reporting while the dependent variable is firm performance measured collectively as, growth of business, increased profitability and increased sales levels.



**Figure 1 Link between accounting practices and performance of SMEs**

**Accounting practices**

The framework is based on existing scholarly works including but not limited to: Onaolapo and Adekunle (2014); Musah and Muazu (2014); and Akande(2011).

In the conceptual framework depicted in the Figure 1 above, the framework portrays that record keeping and financial reporting are important predictors of SMEs performance. The existing research studies indicate that if accounting practices are utilized, it should support a reasonable level of performance among the SMEs (Abdul and Onaolapo, (2014). In the framework, given that both practices are included, it is argued that financial reporting would deliver higher level of firm performance among SMEs.

### **Justification**

This study is justified because majority of the SMEs in Uganda fail few months after they are established as mentioned earlier. One of the reasons for the failure is due to the intensity of utilization of accounting practices (Tushabomwe, 2006). One would be eager to find out the extent to which the owners and managers of SMEs utilize these accounting practices and the extent to which they influence the performance of the firm.

The study is also important in the Ugandan context given the important role SMEs play in the economic development since there is need to explore the accounting practices of SMEs in Uganda and to ascertain whether they are able to meet the information expectations of owners or managers and finance providers (Lalin & Sabir, 2004; Maseko & Manyani, 2011). This will improve SMEs access to funds and improve the performance of these firms in the study context.

### **Scope of the study**

#### **Subject scope**

This study focused on recordkeeping and financial reporting as types accounting practices. These issues were studied among SMEs. These are presently the pressing issues that are now widely debated in discussing the performance of SMEs in Uganda.

#### **Geographical scope**

The geographical scope was Mukono central division. This study locale was selected because of the diversity of businesses of interest in this area.

#### **Time Scope**

The period between 2011 and 2016 was mostly considered for as the context of understanding the phenomenon under study.

#### **Significance of the study**

1. The study is momentous in providing reliable course to the SMEs in the study context on which accounting practices of record keeping and financial reporting is more relevant to their nature of operations.
2. The study is significant in the Ugandan context since it provides interesting insights on how utilization of accounting practices is a necessity in contributing to SMEs performance and this will be of great help to the government in setting strategies that will encourage the utilization of these practices of record keeping and financial reporting respectively.
3. Further, it is important for researchers doing related issue as it has availed a research gap to critically examine other factors other than record keeping and financial reporting that can influence the performance of SMEs in this study context.

## **LITERATURE REVIEW**

### **Introduction**

This chapter discusses theoretical framework as well as empirical literature on financial accounting practices among the firms. Specifically, it covers the following issues: theoretical and conceptual review, the types of accounting practices, motivation for and against the utilisation of those practices, performance implications of these practices, summary of empirical studies by other scholars and finally the gaps in the existing literature that the study attempts to fill.

#### **Theoretical literature review**

In the context of developing country, many researchers have utilized theories such as decision usefulness

theory and record continuum theory in their attempt to address issues in accounting in relation to SMEs operations and performance. These theories are elaborated more in detail in the following sub-sections.

### **Decision usefulness theory**

Decision usefulness is an approach to the preparation of financial reports emphasizing accuracy of information on which effective decisions can be made by the owners and stakeholders of the firm (Williams, 2009). This theory emphasizes the recording of business transaction for the purpose of effective decision making in business that influences performance. Financial reporting is the communication of financial information such as profitability levels, sales level and growth levels of the firm (Chiappetta, Shaw, & Wild, 2009) and Williams (2009), states that accounting research for the past four decades has focused heavily on the concept of decision usefulness which has become the agreed guide for judging the effectiveness of accounting and financial reporting.

In this study perspective the centre of attention was on the aspect financial reports generated by the firm. Literature has it that, majority of SMEs in Uganda has not put enough emphasis on recordkeeping and financial reporting. This therefore, limits their chances of having reliable financial information from which accurate decisions can be made by the owners of the firm Tushabomwe (2006). Failure to have reliable financial information about the firm's business activities might lead to uninformed decisions being made hence affecting the performance of the firm in the long run.

Based on the theoretical insights given in the decision usefulness theory, in this study the role of recordkeeping and financial reporting is to enable SMEs have reliable financial information that can enable them make informed financial decisions that enhances the performance of the firm. Particularly this area of theoretical advancement is used in the study to justify why SMEs who keep records and generate financial reports would more likely achieve higher level of performance as compared to the ones who do not utilize these accounting practices.

### **The record continuum theory**

This theory provides the theoretical justification for keeping business records. The Australia Standard 4390 argues that the records continuum theory involves a consistent and coherent regime of management processes of records from the time of the creation of these records through to the preservation and use of those records. Atherton (1971) notes that all the stages of records keeping are interrelated thereby forming a continuum where both record keepers and archivists are involved in the management of recorded information. Because it involves a broader context of archival science that connects the past to the present and the present to the future, this theory is assumed to be the best for managing or keeping both electronic and paper records with the view to improving efficiency as well satisfying users. Flynn (2001) asserts that the records continuum theory is significant because it provides a broader interpretation of records and record keeping systems offered by the lifecycle.

Keeping proper records has been noted to be one of the important factors influencing the performance of a business. Peacock (1988) found that the inefficient and/or lack of accounting records have led to the failure of many SMEs. Along similar lines, McCannon (2002) argues that, many SMEs fail because owners could not make timely and key managerial decisions resulting from the lack of adequate records. Given the benefits of record keeping, one would therefore wonder why some owners of SMEs fail to maintain books of accounts.

In this study, record continuum theory is important given the need for adequate and reliable records of the business activities which has become a contentious issue. This framework can therefore provide insights into how recordkeeping can enhance the performance of the firm.



Collectively, this study utilized both decision usefulness theory and record continuum theory. These two theories attempt to describe accounting as a process of providing the relevant information to the relevant decision makers. The logic given in both theories which is advanced in this study is that SME managers need not only to monitor their business transactions but also to make the most accurate decisions in order to enhance performance of the enterprises.

### **Conceptual review**

From the proceeding sections, the key aspects derived for empirical investigation are performance, recordkeeping and financial reporting. Performance in this study is the dependent variable. It is hypothesized that the utilization of accounting practices of interest in this study and capacity to overcome obstacles to adoption of these practices will affect the performance of the SMEs effectively. In the sections that follow, these concepts are explained and their link highlighted.

### **Performance**

Performance of business refers to the ability of business to meet the required standards, increased market share, improve facilities, ensuring returns on profitability, and total reduction. Once this is achieved, a business is believed to be performing effectively (Fitzgerald, Johnston, Brignall, Silvestro, & Voss, 1991). More so, performance of a firm is also directly influenced by its market position. Profitability can be split into its main components; net turnover and net profit margin. Both components are indicators of profitability. High turnover means better use of assets owned by the company and therefore better efficiency while a higher profit margin means that the entity has a substantial market power. In concurrence, some authors have used increased market share, profitability, improved facilities and meeting required standards as proxies for business performance (Frolick & Ariyachandra, 2006; Macey, 2001). Basing on that, performance among SMEs in the study context means the ability of the firm to earn high profits from its business activities by maintaining high profits and steady business growth. In this regard, performance in the current study is logically conceptualized as constituent of three separate dimensions and these are: increase in profitability, increase in sales levels and growth of the firm.

### **Record keeping**

Book or record keeping is the analysis, classification and recording of the business transactions in the books of accounts (Saleemi, 2008). This implies that it is a mechanical process that records the routine economic activities of a business either manually or electronically. Aruwa (2005) and Reed (2006) cited in Ademola, Olukotun, & Ifedolapo (2012) described book or record keeping as the art of keeping record of figures of all transactions in a regular and systematic manner, such that the records kept will provide various books of account which would be in permanent form or for the purpose of providing means by which an enterprise can be conducted in an orderly manner. The accountant creates reports from the recorded financial transactions recorded by the bookkeeper cited in Okwena et al. (2011) The prime purpose of record keeping is therefore to provide accounting information relevant for decision making.

It is also argued that a good accounting record is not only judged by how well records are kept but by how well the records are able to meet the information needs of both internal and external decision-makers. Maseko and Manyani (2011) suggested that for a small or micro business, accounting practices will involve the maintenance of adequate cash book, bank accounts (with policies on deposits and withdrawals), petty cash system, irregular or regular preparation of bank reconciliation statement, credit policies with creditors for purchases and with customers on sales, stock-keeping policy, fixed asset register and budgeting for the entire business.

The accounting transactions of an enterprise need to be recorded in these different accounting books. The

process of recording and maintaining these books is known as book-keeping. Efficient financial managers dwell on the past and present in order to predict the future and for proper evaluation and comparison of financial activities. To achieve this aim, proper book-keeping remains integral. This improves the accuracy and reliability of the accounting transactions which further provide the input to the financial statements for small enterprises and doing double-entry bookkeeping, because it offers a much better control of the transactions being recorded properly.

In this study context, record keeping was conceptualized as: sales daybook, for recording all sales invoices, sales credits daybook, for recording all sales credit notes, purchases daybook, for recording all purchase invoices, purchases credits daybook, for recording all purchase credit notes, asset register and cash daybook, usually known as the cash book, for recording all money received and money used, and may be split into two daybooks: receipts daybook for money received in, and payments daybook for money paid out (Wood & Sangster, 2005).

### **Financial reporting**

Financial reporting is the process of generating financial reports from the firm's records. This is necessary to ensure that the SMEs' resources are used effectively and efficiently in pursuit of its goals (Karunananda & Jayamaha, 2011). The reports are normally generated following international accounting standards board guidelines for SMEs which was published in July 2009. For uniformity in practice and reporting financial information, the Standard sets out clearly, the content of financial statements in this order, that, a complete set of financial statements comprises: a statement of financial position; a statement of comprehensive income; a statement of changes in equity showing either: all changes in equity, or changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders; a statement of cash position; and notes, comprising a summary of significant accounting policies and other explanatory notes (Kurniawati & Hermawan, 2012).

In the context of this study, the following financial reports were utilized: income statement, balance sheet and statement of cash flow. Statement of cash flow describes the inflow and the outflows of cash. The income statement reports revenue and expenses during a certain period of time. The balance sheet report the total assets, liabilities and owner's equity during a certain period of time. Accordingly, this study considers the use of a complete set of financial statements by Ugandan SMEs and goes a step further by examining the extent to which these statements are utilized.

### **Record keeping and Performance**

Many scholars have called for the need of record keeping for firms to enhance their performance. For instance, Hughes (2003) asserts that keeping business records is an important driver for the success of a business and argues that a comprehensive record or book keeping system enables business owners to develop accurate and timely information that detail the progress and prospects of the business. Thus, the performance of a business is noted to as a result of the existence of good accounting records.

More so, record keeping plays a key role in management of knowledge necessary for good business performance. Modern organizations are concerned with the capture, use and storage of knowledge. Record keeping provides evidence of how the transaction was handled and substantiates the steps that were taken in order to comply with business standards (Reed, 2006). This is very important in enabling the SMEs owners to be up to date with daily transactions of the firm hence well informed decisions that influence performance. This is further coupled with the fact that these SMEs are small in nature with micro transactions if not recorded might be lost in the due course of running the business.

In addition to that, record keeping conveys substantial information about the financial strength and current

performance of an enterprise. Managers find firms' accounting records useful in making decisions. As managers develop operating plans, they think of how those plans will affect the performance of the organization (Abdul & Onaolapo, 2014). Therefore, accurate record of the business financial performance is a vehicle to monitor performance in specific areas such as profitability and growth of the firm.

In the Ugandan context such scholars as Okoli (2011) have argued that the lack of proper record keeping makes it impossible for owners of small businesses to do a critical assessment of their performance. These arguments collectively suggest that record keeping would be positively linked to SME performance.

### **Financial reporting and performance**

According to existing literature financial reporting mainly centers on two objectives of stewardship-control/accountability and provision of information for economic decision-making (Artsberg, 2003; Breda & Hendriksen, 1992; Nobes & Alexander, 2001). The stewardship-control function refers to the way in which financial reports should provide information about the firms' performance in terms of effective and efficient utilization of its resources (Mellempvik, Monsen, & Olson, 1988).

Traditionally the stewardship-control objective referred to the separation of ownership and control with emphasis on the way in which financial reports demonstrated to the owners that the resources entrusted to management had been used in a proper way which was evident through the levels of sales and profits of the firm (Perera & Mathews, 1996). Consequently, financial reports serve as a means for stewardship control on the resources of the firm from which good performance can be drawn (Perera & Mathews, 1996).

According to the decision-making objective, which is a more recent approach to the use of financial statements (Kam, 1990; Perera & Mathews, 1996). The financial reports should provide information useful for economic decision-making. Such a view implies a future-oriented perspective where financial reports should assist in guiding the decision-maker in his or her judgment of future performance (Artsberg, 2003). The objective of financial statements is to avail information about the financial performance and changes in financial performance of an enterprise that is useful to a wide variety of users who are mostly the owners in making relevant financial decisions. This requires that financial reports to be understandable, relevant, reliable and comparable. Financial reports such as reports on assets, liabilities, equity, income and expenses of the firm in the context of Uganda are therefore expected to give an advantage to the SME in terms of enhancing its performance.

### **The performance implications of the different accounting practices utilized by SMEs**

According to Ikechukwu (1993), keeping records and financial reporting as some of the aspects of good accounting practice is crucial for the successful performance of a business. A comprehensive record keeping system makes it possible for entrepreneurs to develop accurate and timely financial reports that show the progress and current condition of the business. With the financial report generated from a good recordkeeping system, performance during one period of time (month, quarter or year) with another period can be compared. From these comparisons can be made on the profits, sales and growth levels of the firm. This can therefore be used as a basis for effective decision making that can influence the performance of the firm (Karunananda & Jayamaha, 2011).

More so, a combination of both accounting records and financial reports provide a basis for complete and accurate income tax computation and also basis for sound planning for the future. This ensures that firms in the study context do not suffer from over taxation due lack of records and reports on which the taxes are supposed to be based on. Therefore, firms rely on correct accounting records and reports to make these



decisions (European Commission, 2008). Other factors held constant, a combination record keeping and financial reporting are very significant factors influencing the performance of the firm.

More so, according to Senik, Mohd, and Khalili (2012), the usefulness of the accounting records and financial reports has been jeopardised with the view that the information is prepared to meet a series of legal and bureaucratic demands only, such as for tax filing purposes, and not as a decision-making and control support tool for managers which has a great implication on the performance of the firm. In addition to that the lack of accounting information in SME management can harm their planned operations hence affecting their performance in the long run effectively (Prihatni, Subroto, Saraswati, & Purnomosidi, 2012). This therefore stresses a need to examine the performance implications of these accounting practices in the current study context.

### **Motivation for and against adoption of accounting practices by among SMEs.**

Maseko & Manyani (2011) stipulate that SMEs are encouraged to maintain proper records and reports of their daily business transactions because it is the backbone of one's business. As much as it seems to be a laborious task for many, it is a vital part of the business operations from which the performance of the firm can be derived from. They also added that, keeping accurate records is actually what creates a profitable business. This is one of the reasons as to why most of upcoming SMEs in the study context are motivated to utilize the accounting practices in order to keep track of their business activities (Mwangi, 2011).

In addition to that, Cooley and Edwards (1983) contend that SMEs are also motivated to utilize these accounting practices to help them in management of their business activities effectively. SMEs owners which utilize these practices are specifically interesting in reflecting changes in wealth of their business. This can explain why major economic decisions in business are cantered on financial performance as measured by profitability.

Moreover, European Commission (European Commission, 2008) affirms that utilization of accounting practices is important for a successful management of any business entity, whether large or small especially in detecting fraud and theft in the firm. This is why these accounting practices are getting the attention of most SMEs owners in the study context.

The need to be efficient and productive in the firms' operations is also one the core rationale for the utilization of accounting practices in the study context. Therefore, SME owners and managers need updated, accurate, and timely accounting records and reports to ensure that all the resources of the firm are utilized for the intended purposes (Mwangi, 2011).

Furthermore, through the utilization of accounting practices generates the firm will be in position to provide essential information about the business's performance to interested outside parties such as investors, creditors, lenders (Akande, 2011). SMEs accounting inherently creates a record of historical transactions, which enables the business owner or an outside financial professional to audit the books for errors or signs of fraud.

Ademola et al. (2012) highlight several demerits of lack of accounting records to the firm. The researcher asserts that, the proprietor is unable to recognise when sales start slowing down, or costs start to rise unacceptably. Corrective measures cannot be taken in time if there is no timely recognition of problems, and this leads to poor, unguided decision-making and ultimately bankruptcy. Future planning is also not feasible where current performance is unknown. This therefore, necessitates the need for utilization of these accounting practices in order to guard the firm against such uncertainties.

In concurrence, Jan et al. (2008) give more importance for record keeping by SMEs. They argue that "in

the absence of proper business records, the trader will find it difficult to submit the true position to the court in case he becomes insolvent. Keeping of proper records helps the trader in framing future business plans and policies. Also it will be difficult to ascertain and fix the price of business to be sold or disposed off if no records are kept". Finally, they conclude that, "in spite of the best memory it is beyond the capacity of a trader to remember all the business dealings with back references". This study therefore advocates for the full use of record keeping practices among SMEs.

Basing on the study perspective, it can now be emphasized that SMEs need to utilize these accounting practices not only for the ordinary conduct of the business but also because it helps firms reduce the possibilities of early failure, increase chance of business survival, increase the chance of profitability, serve as a basis for planning and controlling business operations and also helps to keep business in a sound and healthy state to face competition. This should also be accompanied with proper documentation of the firm's transactions which are necessary in the generation of the financial reports and records (Aruwa, 2005; Reed, 2006).

On the other, SMEs owners say they would rather focus on making and selling their products and services rather than keeping accounting books and records. This perception is attributed to the fact that SMEs owners believe that accounting practices are too bureaucratic and time consuming (Mairura (2011). In addition to that, other scholars also argue that most of the SMEs owners lack training in accounting and are rigid to the traditional way of running business. This therefore demotivates the SMEs in the study context from utilizing these accounting practices thus leading to poor record keeping and financial reporting.

### **Summary of prior Empirical studies**

Arkoh et al. (2012) carried out a study to examine the bookkeeping practices among small business in the Kumasi metropolis. The findings revealed that, due to lack of knowledge in keeping books of account, improper records were kept by most small and medium enterprises in the metropolis. Again, many business owners showed reluctance to be trained or attend further studies due to the cost involved in training and education. The study recommended that financial statements of small enterprises should be requested for approval of loans by banks. In addition, laws should be enacted in order to improve the record keeping practices of micro entities so that they have access to credit facilities from any financial institutions.

In a Kenyan survey, Okwena et al. (2011) assessed "the effect of proper bookkeeping practices on financial performance of SMEs in Kisii municipality to ascertain the cause of such failures. The study employed a cross-sectional survey research design. Both stratified and simple random sampling techniques were used in the study. The respondents were 97 owner-managers/managers of the sampled SMEs. Structured questionnaire was used to collect quantitative data from primary sources. Descriptive statistics and Pearson correlation coefficient and simple linear regression was used to analyze quantitative data. The study showed that book keeping practice was a challenge among SMEs in Kisii Municipality, the greatest challenge being little knowledge in book keeping. They concluded that records prepared are therefore inaccurate and therefore the decisions made would not be appropriate for effective operations of the SMEs. The study recommended the government in conjunction with national accountancy bodies to carry out sensitization programmes so as to equip the owners and managers of the SMEs with proper knowledge in book keeping. This could be done through the means of exposure drafts, discussion papers, symposiums, conferences, and open forum. Ystrom (2010) "carried out a study to sort out areas of financial reporting information that are likely to be of significance to managers of entrepreneurial SMEs in their provision of

information to users.

In order to fulfil this purpose data was collected through interviews with accounting experts. The major findings were that, financial reports make up an important tool mainly for informing external capital providers, among which bankers hold a prominent position. Managers were found to make use of financial reporting information not only in informing external users but in the internal management of their businesses as well. In addition to cash flow and intangible assets, financial ratios in general, and financial ratios measuring various aspects of growth in specific, i.e. growth ratios, has been sorted out as likely to be of specific importance to include in the financial reports of entrepreneurial SMEs”.

Ystrom (2010) “study focused on interviews with accounting experts. However, accounting experts were not a true representative of the population, since they were not involved in the preparation of micro entities’ accounting information and were also not the ultimate decision makers. The present research proposes to go beyond Yström’s work through focusing on questionnaires in addition to the interview and use owners/managers who do the actual recording and use of accounting information rather than accounting experts”.

Suhaiza (2011) “explored the financial measures that manufacturing SMEs in Pretoria use to measure their financial performance. Semi-structured interviews were conducted at the participant SMEs’ premises in order to gather the information. The study found that most manufacturing SMEs used financial ratios to measure their financial performance, but to a very limited extent. Very few ratios were used by individual SMEs and most of the ratios used were not the best indicators mentioned in the literature. Though, some of the interviewees acknowledged that they need to use more ratios. The use of bankruptcy prediction models was totally absent among the participants”. Suhaiza (2011) “concludes by reinforcing that, it must be noted though that financial measures alone are not enough to measure companies’ performance since a number of non-financial performance measures also play an important role in their overall performance. It has been recommended that SMEs use the six ratios that have worked well for some of the participants in the study (cash flow to debt, current ratio, working capital to assets, cash flow to average total current liabilities, gross profit margin ratio and inventory turnover). It is also recommended that SME owners enrol their financial staff for training in bankruptcy prediction models, and use financial software packages if they can afford them”.

Similarly, Mosalakae (2007) “made an exploratory investigation on financial performance measurement of South Africa's top companies. The researcher concluded that, top South African companies do not use the available tools (financial ratio analyses and bankruptcy prediction models) to measure their financial performance”.

Using the procedures stipulated by the grounded theory, Chong (2008) “study reports the findings of in depth semi-structured interviews with five owners-managers of small and medium enterprises who hire twenty or less employees in Texas, USA. The findings reveal that the owners-managers place equal attentions on both the financial measures (profits before tax, turnover, profits per employees and revenue growth) and non-financial measures (customers’ satisfactions, referral rates, and growth in customers’ bases and revenues). Even though this study intended to focus on in-depth understanding of the behaviour and nature of the SMEs, the five selected respondents may not necessarily reflect the culture and approaches adopted by the owners-managers as a whole, or in other parts of the country and other industries. More empirical tests could help firm up the understanding and reasons for selecting or neglecting certain categories of measures. Repeated surveys help provide comparative observations of measures in a variety of settings on an industrial, national and international context. Hence this study fo-

cuses on the international context aspect”.

Mwangi (2011) “carried out a study on accounting systems in small and micro enterprises in Kenya. The results revealed that small and micro enterprises that extensively populate the informal sector are profitable operations just like the enterprises in the formal business sector. However, unlike in the formal business sector, the absence of accounting data makes it difficult to carry out financial ratio analysis”.

Mwangi (2011) “therefore recommended the calculation of various financial ratios among SMEs. This would provide a basis for gauging empirically the profitability level of the enterprises in the small and informal business sector”. It would therefore be worthwhile to include this sector in economic statistical calculations in developing countries such as Uganda.

Senik et al. (2012) “carried out a study on the accounting information needs, management and usage among Malaysian SMEs restaurants. The findings of this study revealed that small medium sized restaurants managers did not possess enough skill and qualifications to better utilize the accounting information. The small firm owner who is normally the one that manage the firms’ account or hired account personnel, had limited skills and proficiency in managing and using accounting information. Besides, they were unaware of the advantages of outsourcing their accounting work to the professionals. They recommended the need of training for the restaurant’s owner/manager on the importance of handling and using accounting information. The research employed qualitative research method of face-to-face interview using purposive sampling. The present research will use both qualitative and quantitative method using random sampling technique”.

Akande (2011) “investigated the effect of accounting skill on entrepreneur performance for the success of small businesses in Nigeria. A simple random sampling technique was used to select a total of 140 small business owners in Ogun State of Nigeria. Chi-square was used to measure the discrepancies existing between the observed and expected frequency and to proof the level of significance in testing stated hypotheses. His findings revealed that most entrepreneurs of small businesses did not see the need to prepare financial statement which was regarded as waste of time since they were not obliged to do so either for tax assessment or as internal control measure being the sole stakeholders. This may be wrong in view of the fact that there are other interest groups that may have stake in the business such as banks, creditors and investors. Accounting skills was found to be highly contributory to entrepreneurial performance” Akande (2011) “concluded by making the following suggestions:

Owner entrepreneurs should embark on capacity building in accounting skill in the area of financial management and record keeping for better performance, since they do it alone and Government should make it mandatory for small business owners to prepare financial statement for performance monitoring so as to be able to assess their performance regardless of tax assessment motive.

### **Summary of the existing literature gap**

There has been substantial research that has been carried out to examine record keeping and financial reporting as some of the accounting practices and performance in small businesses and the impact of each on performance. In the existing works however, the two practices have been looked at in isolation representing an opportunity to contribute to this literature. As such the conspicuous gap this study is endeavouring to bridge is that of the extent to which SMEs differentially benefit from record keeping and financial reporting while also looking at the motivations for and against utilization of these two practices.

## RESEARCH METHODOLOGY

### Introduction

The chapter presents research design, the population of the study, the source of data and sampling methods, sample size, techniques and procedures used. It also indicated the data collection procedures, methods and tools used, expected outcome and how the researcher dealt with ethical issues encountered.

### Research design

In the study, a cross-sectional research design was adopted. In this design data on all the variables in the study context is collected at one point in time. Despite the fact that this design basically gives a snap short, it has been widely accepted in earlier studies addressing similar issues. Subsequent in the footsteps of those studies, the design was deemed appropriate to be adopted in the current study. However, in recommending the results, the weaknesses of the design were clearly highlighted such as failure to give an absolute description of causes and effects variables under study.

Furthermore, the study was descriptive on establishing the motivation for and against adopting different accounting practices. Beyond that the study sought to also explain the links between the practices investigated. The study utilized quantitative approach as the interest was in generalizability of the evidence collected.

### Population of the study

The study was carried out in Mukono central division. In consultation with the central division office, it was apparent that there was no readily available registry of the firms of interest in this study. On this basis, a database was developed from which a sample of the study was drawn. This database comprised of 300 SMEs comprising of firms in the Agricultural sector, assorted merchandise trade, manufacturing and hospitality sector. The focus on the different sectors was to obtain a general picture regarding the issues under study as opposed to studying a single sector. The database was developed by visiting representative places in the division and soliciting for the participation of a particular SME in the study. This effort resulted into database of 128 firms that accepted to participate in the study. Essentially this constituted a sampling frame from which a sample of the study was obtained.

### Sample size and sampling procedure

The sample of the study was 92 SMEs. This constituted 14 SMEs in the Agriculture, 33 SMEs in Assorted Merchandise (whole sale and retail shops), 33 SMEs in manufacturing and 12 SMEs in hospitality. The study utilized purposive sampling in which the selection of study respondents was done basing on the number of SME's of interest in the selected category.

Specifically the sample constituted SMEs where the owners were available and ready to respond to the questionnaires at the time of the study. A total of 92 questionnaires were hand delivered and filled in a face to face interaction with the respondent. 90 questionnaires were successfully filled and only 2 questionnaires could not be filled fully due to busy schedules of the owners of these establishments bringing the response rate to 98%. Table 1 shows how the proportion of respondents for each sector represented in the study.

### Data collection method

The survey method of data collection was employed. Specifically, a structured interview method was utilized to administer a survey instrument. This questionnaire was developed following the recommendations by various scholars that include Kothari (2004); Sekaran and Bougie (2010); and Saunders, Lewis, and Thomhill (2008). In some sections of the instruments, there were questions that had predetermined answers. Other questions were open ended. A mixture of these questions is encouraged to



avoid artefacts in respondent’s answers.

**Measurement of the study variables**

The variables were measured using items adapted from existing studies on accounting practices and performance. In the sections that follow, each of the variable, its respective items and sources of the items is presented.

**Accounting practices.** In the study, the accounting practices variable was conceptualized along three dimensions namely: recordkeeping and financial reporting, (Abdul & Onaolapo, 2014) Specifically respondents were asked to what extent they agreed on a scale of 1 to 5 (1=strongly disagree and 5=strongly agree) to the following statements: (1) The firm records credit purchases, (2) the firm keeps records of credit sales, (3) the business records all its expenditures, (4)the business records all the assets related to the business,(5) the business makes report on daily sales, (6)the firm makes report of borrowed items by the business, (7) the business makes report on total daily expenses incurred, (8) the business reports cash coming in and out, (9) the firm makes report on additional money brought into the business, (10) the enterprise always writes a report on aged credit sales by customers, (11) the enterprise also always reports on aged credit purchases from suppliers and (12) the firm makes reports on stock of the business. The factor loadings, Cronbach Alpha and KMO statistic for the scales of the different dimensions of the variable of supplier support are given in the Table 1 below.

**Performance:** In the study, performance variable was conceptualized to address the performance in form of profitability and growth of the firm. The items for these different dimensions were obtained from earlier existing study by Musah and Muazu (2014) and Akande, (2011) Specifically respondents were also asked to what extent they agreed on a scale of 1 to 5 (1=strongly disagree and 5=strongly agree) to the following statements: (1) The number of employees in my firm has grown more this year as compared to my three competitors in the sector, (2) the business anticipates having a sales increase more than our competitors this year, (3) the business expects profits to increase by more this year. The factor loadings, Cronbach Alpha and KMO for the scales of the different dimensions of the variable of performance are given in the Table 1 below.

**Table 1 Factor analysis results for the dependent and independent variable scales**

Variables	Factor loadings
<b>Record keeping, <math>\alpha=82</math></b>	
The firm records credit purchases	.712
The firm keeps records of credit sales	.787
The business records all its expenditures	.790
The business records all the assets related to the business	.723
<b>Financial reporting, <math>\alpha=89</math></b>	
The business makes report on daily sales	.659
The firm makes report of borrowed items by the business	.669
The business makes report on total daily expenses incurred	.747
The business reports cash coming in and out	.853
The firm makes report on additional money brought into the business	.671

The enterprise always writes a report on aged credit sales by customers	.675
The enterprise also always reports on aged credit purchases from suppliers	.682
The firm makes reports on stock of the business	.633
<b>Performance, <math>\alpha=74</math></b>	
The number of employees in my firm has grown more this year as compared to my three competitors in the sector	.794
The business anticipates to have a sales increase more than our competitors this year	.795
Compared three firms in my sector my profits has increase more this financial year	.855
<b>Eigen values</b>	<b>6.311</b>
<b>Total variance explained (%)</b>	<b>33.215</b>
<b>Kaiser-Meyer-Olkin (KMO)</b>	<b>.813</b>
<b>Bartlett's test of Sphercity</b>	<b>171***</b>

\*\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ ,  $\alpha =$  Cronbach Alpha and  $N = 90$

### Reliability and validity of the study

To ensure the quality of the research process, all the items included in the study were based on earlier studies and thoroughly reviewed by the supervisor before the data collection. In addition, a number of tests were conducted on reliability and validity of the data. In the case of reliability, Cronbach Alpha coefficient for all the variables was computed. All the scales in the study had a coefficient of 0.869 which is above the cut off of 0.70.

In the context of validity, factor analysis was utilized. The factor loadings for the items included in the study were above 0.5 threshold and above which statistically means that, there was a reasonable level of validity of the items included in tapping into the variables of interest (Sekaran & Bougie, 2010). In addition, all the items utilized were reviewed and based on earlier studies to ensure that no guess work is involved in conceptualizing the variables and or tap in their accepted meanings and operationalization.

### Procedures of data collection

The researcher got approval from the School of post graduate Uganda Christian University faculty of business and administration through the university supervisor to ensure that the ethical guidelines were followed throughout the data collection process.

In conducting the study, a letter from the university was shared with the respondents requesting for their cooperation in the study. The respondents were further assured of confidentiality of the information provided and that the study findings were used for academic purposes only.

### Data Analysis

A number of test statistics were conducted namely frequencies, mean, standard deviation, correlations and regression analysis coefficients. SPSS version 20.0 was utilized to conduct this analysis.

## PRESENTATION OF RESULTS

### Introduction

This chapter gives the presentation of the findings consistent with the research objectives in chapter one. The chapter begins with profile of the respondents in section 4.2. Characteristics of the SMEs that

participated in the study are presented in section 4.3 while the nature of the respondents in the study is presented in section 4.4. Section 4.5 and 4.6 presents the correlation and regression analysis of the study variables.

**Profile of the respondents**

Table 2 shows the profile of respondents. It shows that 50% of the respondents were male and only 50% were female. More so, 47.8% of the respondents hold the position of owner, 33.3% support staff and the rest are managers (15.6%) and accountants (3.3%). Similarly, 46.7% of the respondents are below 25 years of age and the rest are between 26-35 years of age (35.6%), 36-45 years (14.4%), 46-55 years (2.2%) and above 56 years (2%). Lastly, 94% of the respondents have attended formal education with 53.3% accounting for O-Level and A-Level (18.9%) primary, (13.3) diploma (8.9%) degree. The remaining 5.6% attained other elementary education.

**Table 2 Profile of respondents**

<b>Age bracket of respondent</b>	Less than 25	42	46.7
	26-35	32	35.6
	36-45	13	14.4
	46-55	2	2.2
	56 and above	1	1.1
<b>Gender of respondent</b>	Male	45	45
	Female	45	45
<b>Educ. qualification of respondent</b>	Primary	17	18.9
	UCE O/A levels	48	53.3
	Diploma	12	13.3
	Degree	8	8.9
	Others	5	5.6
<b>Position held in the firm</b>	Owner	43	47.8
	Manager	14	15.6
	Accountant	3	3.3
	Support staff	30	33.3

Source: Primary data

**Information about the enterprise**

Table 3 below shows that; 33.3% of the SMEs in the study were manufacturers, 21.1% agriculturalists, 20% retailers, 13.3% wholesalers and 12.2% of the SMEs were operating in accommodation and catering as their line of business. Table 3 also shows that in the sample majority of firms have in operations below 5 years accounting for 76.6%.

Most SMEs in the sample were small with 73.3% accounting for SMEs with number of employees ranging from 1-4. The findings also indicate majority of the SMEs kept records constituting of 72.2% while 27.8% of the SMEs do not maintain records of their business transactions. In addition to that, 94.4% of the SMEs review their records at least monthly.

The study further indicates that 31.1% of the SMEs in the sample have a monthly sales turnover of 100,000-300,000 UGX, 28.9% have a monthly sales turnover of 50,000-100,000 UGX, 17.8% have a monthly sales turnover of less than 50,000 UGX and 11.1% have a monthly sales turnover of 300,000-600,000 UGX while 11.1% have a monthly sales turnover of above 600,000 UGX. The results of the study also show majority of the SMEs in the sample utilize single entry method of accounting which is termed as incomplete record keeping accounting 72.2% and were mostly utilizing the manual method of recording accounting for 72.2%.

**Table 3 Information about the enterprise**

<b>Line of business</b>	Agriculture	19	21.1
	Retail shop	18	20.0
	Whole sale shop	12	13.3
	Manufacturing	30	33.3
	Accommodation	11	12.2
<b>Record maintenance</b>	Yes	65	72.2
	No	25	27.8
<b>Years of operation</b>	less than a year	22	24.4
	1-5	47	52.2
	6-10	18	20
	11 years and above	43	3.4
<b>Method of accounting</b>	Single entry	65	72.2
	Double entry	25	27.8
<b>Technology used</b>	Manual	74	82.2
	Computerized	3	3.3
	Both	13	14.4
<b>Frequency of accounting review</b>	Weekly	58	64.4
	Monthly	27	30.0
	Quarterly	2	2.2
	Semi-annually	2	2.2
	Annually	1	1.1
<b>Number of employees</b>	Less than 2	37	41.1
	2-4	29	32.2
	5-10	14	15.6
	11-20	7	7.8
	20 and above	3	3.3

<b>Monthly sales turnover</b>	Less than 50,000	16	17.8
	50,000-100,000	26	28.9
	100,000-300,000	28	31.1
	300,000-600,000	10	11.1
	600,000 & Above	10	11.1

Source: Primary data

### Descriptive statistics

#### Types of accounting records maintained by SMEs

The study asked the respondents to compare with an average firm in their sector the extent to which they relatively utilize the different accounting practices. The responses were rated on a five point scale where: 5= very great, 4= extent greater extent, 3=moderate extent, 2=smaller extent and 1=very low extent. The mean and standard deviations are indicated in the table 4 below.

**Table 4 Types of accounting records**

<b>Statements on the types of accounting records maintained by a particular SME</b>	Mean	Std. Deviation
The firm records credit purchases	3.08	1.466
The firm keeps records of credit sales	3.49	1.240
The business records all its expenditures	3.14	1.390
The firm keeps records of employees	2.88	1.475
The business records all the assets related to the business	3.14	1.407
The firms keeps record of all the receipts and payments of the business	3.27	1.546

Source: Primary data

The findings in Table 4 show that majority of the respondents agreed to a moderate extent with the statements in establishment that, they carry out recording credit purchases (3.08), they keep records of credit sales (3.49), they record all expenditures (3.14), they keep records of all receipts and payments of the business (3.27). However, some of the respondents agreed to a smaller extent with the statement that the firm keeps records of employees with a mean score of 2.88. The findings therefore suggest most SMEs in Mukono central division conduct to a moderate extent record keeping.

#### Financial reporting among studied SMEs

The respondents were asked to compare to an average firm in their sector to what extent they utilize the different accounting practices. The responses were rated on a five point scale where: 5= very great extent, 4= greater extent, 3= moderate extent, 2= smaller extent and 1=very low extent. The mean and standard deviations are indicated in the table below.

**Table 5 Types of financial reports reported by SMEs in the study**

<b>Statements on financial reports generated by SMEs</b>	Mean	Std. Deviation
The business makes report on daily sales	2.33	1.238
The firm makes report of borrowed items by the business	2.59	1.247



The business makes report on total daily expenses incurred	2.56	1.159
The business reports cash coming in and out	2.73	1.138
The firm makes report on additional money brought into the business	2.82	1.283
The enterprise always writes a report on aged credit sales by customers	2.25	.999
The enterprise also always reports on aged credit purchases from suppliers	2.45	.982
The firm makes reports on stock of the business	2.51	1.098
The firm also makes reports on its bank balances	2.31	1.244

Source: Primary data

From the findings in the table above, all the respondents to a smaller extent agreed to the statements that in the enterprise they carry out reporting of daily cash sales (2.33), they make reports of borrowed items (2.59), they make reports of daily expenses incurred (2.56), they make reports of cash coming in and out (2.73), they make reports of additional money brought into the business (2.82), they make reports of credit sales to customers (2.25), they also make reports of credit purchases from suppliers (2.45), they make reports on stock of the business (2.51) and lastly, make reports on bank balances (2.31). However, majority of the SMEs in the sample supported the fact that they make reports on additional money brought into the business with the highest mean score of 2.8 and standard deviation of 1.283.

**Motivation for utilization of accounting practices by SMEs in the study**

The respondents were asked to compare to identify the extent to which different factors are underlying reasons for utilizing the formal accounting practices. The responses were rated on a five point scale where: 5= very great extent, 4= greater extent, 3= moderate extent, 2= smaller extent and 1=very low extent. The mean and standard deviations are indicated in the table below.

**Table 6 Motivation for utilization of accounting practices**

<b>Statements on motivation for utilization of accounting practices by SMEs in the study</b>	<b>Mean</b>	<b>Std. Deviation</b>
To make good decisions	2.78	1.392
To reduce the operational costs of the enterprise	2.72	1.191
To improve on the efficiency and productivity of the entity	2.91	1.151
To support the enterprise in verification and research	2.91	1.119
To help the business achieve scores of success	2.93	1.203
To help the establishment in detection of Fraud and theft	2.89	1.225
To increases on the profits of the business	3.01	1.249

Source: Primary data

The result from the table 6 above indicate that majority of the SMEs in the sample were in concurrence with the statement that utilization of accounting practices increases their profits with a mean of 3.01 and standard deviation of 1.249.

Nevertheless, the study also indicates that SMEs in the study agreed to a moderate extent with the statements that they utilize accounting practices to make good decisions (2.78), to reduce the operational costs of the enterprise (2.72), to improve the efficiency and productivity of entity (2.91), to support verification and research in the business (2.91), to achieve many success (2.93) and to detect fraud and

theft in the business (2.89). The findings therefore signifies that majority of SMEs in the study area recognizes the relevance of accounting practices in their daily business operations.

**Motivation against utilisation of accounting practices by SMEs in the study**

The respondents were asked to compare to an average firm in their sector to what extent they were not motivated to utilize the different accounting practices. The responses were rated on a five point scale where: 5= very great extent, 4= greater extent, 3= moderate extent, 2= smaller extent and 1=very low extent. The mean and standard deviations are indicated in the table below.

**Table 7. Motivation against utilization of accounting practices by SMEs**

Statements on motivation against implementation of accounting practices by SMEs	Mean	Std. Deviation
The accounting practices are too bureaucratic in their utilization	2.44	1.074
There is limited funds to implement these practices	2.44	1.063
There is Lack of training on the utilization of the accounting practices	2.35	1.120
The owners and managers of the businesses are conservative	2.34	1.030
There is too much dictatorship by the business owners	2.18	1.014
The firms fear to expose their financial position and performance	2.36	1.033

Source: Primary data

From the findings, all the SMEs agreed to the statements that accounting practices are too bureaucratic in their utilization (2.44), there is limited funds to implement these practices (2.44), there is lack of training on the utilization of the accounting practices (2.35), the owners and managers of the businesses are conservative (2.34), there is too much dictatorship by the business owners (2.18) and the firms fear to expose their financial position (2.36). From the above findings, most SMEs in the study area all agreed that utilization accounting is still a challenge among the SMEs in the study area despite their great desire to utilize them.

**Correlation Analysis**

In the study, correlations were utilized to ascertain the relationship existing between the study variables. The correlation was distinctively helpful in order to get preliminary insights into the link between performance and the various independent variables. The control variables were also included in the relationship to show how they are correlated with the crucial variables of interest before inclusion in the regression analysis. Table 8 below shows the relationships between the variables based on Pearson coefficient statistic.

**Table 8 Correlation analysis**

	1	2	3	4	5	6	7	8
Record keeping(1)	1							
Financial reporting(2)	.394**	1						
Performance(3)	.208*	.394**	1					
Age of the firm(4)	.029	.140	.098	1				

Trade (5)	-.018	.027	-.119	-.083	1			
Agriculture(6)	-.130	-.081	.065	-.158	-.366**	1		
Manufacturing(7)	.129	.085	.097	.196	-.500**	-.366**	1	
Number of employees(8)	.094	.106	.159	.270*	-.239*	.478**	-.251*	1

Levels of significance \*\*\*p<0.00, \*\*p<0.01, \*p<0.05 and N = 90

The results in table 8 above indicate a strong positive relationship between record keeping and financial reporting having a positive correlation coefficient of 0.393 and p<0.01. This implies that record keeping is associated with preparations of financial reports by SMEs.

The results also revealed that accounting practices of record keeping and financial reporting are significantly related to performance of SMEs with a correlation coefficient of 0.208 (P<0.05) and 0.394 (p<0.01) respectively. This implies that effective utilization of record keeping and financial reporting are both significant in association with performance of SMEs. In addition, the result of the analysis also showed a positive correlation between the utilization of accounting practices and age of the firm and manufacturing sector of the SMEs in the study context but these correlations are not significant.

**Regression analysis of the link between utilization of accounting practices and performance of SMEs**

The regression analysis was utilized in order to determine the extent to which utilization of record keeping and financial reporting can influence the performance of SMEs in the study area. In this analysis Ordinary Least Square Method (OLS) of estimation was utilized and all the variables: control and crucial variables were entered in the model at the same time. But for the regression analysis to give valid results some key assumptions have to be satisfied. In this analysis, Variance Inflation Factor (VIF) was used to ensure that the assumption of reasonable differences of the independent variables was satisfied. These were all below the threshold of 10 as shown in table 9 below.

It is also important that the variables to be included in the model have reasonable correlation for OLS to be meaningful. The respective correlations are given in Table 8 above. In the correlation matrix there was reasonable and significant correlations reported. The results of the regression analysis are presented in Table 9 below.

**Table 9 Results of regression analysis**

Variables	Model		
	<i>B</i>	<i>T</i>	<i>VIF</i>
<b>Control variables</b>			
Age of the firm	.057	.447	1.08
Trade	-.092	-.290	2.511
Agriculture	.277	.811	2.196
Manufacturing	.138	.438	2.509
Number of employees	.104	1.028	1.372
<b>Independent Variables</b>			
Record keeping	.062	.610	1.210
Financial reporting	.417	3.300***	1.21
<b>R<sup>2</sup></b>	<b>.193</b>		

<b>Adjusted R<sup>2</sup></b>	<b>.124</b>		
<b>F value</b>	<b>2.805**</b>		

N=90, \*P<0.05, \*\*P<0.01, \*\*\*P<0.001, <sup>a</sup> dependent variable: SME performance

In the model above, the differential contribution of the recordkeeping and financial reporting to SME performance is presented. The overall model comprising these variables and control variables on firm level performance is significant (F= 2.805 P<0.01). Based on the coefficients of this model, the relationship between utilization of recordkeeping in the study contexts is not supported (B=0.062, P>0.05). However, the findings of the study offer evidence for the positive and significant relationship between financial reporting as one of the accounting practices and performance of SMEs (B=0.417, P<0.001). Specifically, the coefficients reveal that for a 10% increment in the effort towards utilization of financial reporting, the SME in the sample would on average realize an increment in performance of 4.3%, other factors held constant.

From the study results, the model accounts significantly more variance in performance measured by profitability and growth of the business as indicated in the factor loadings than would be expected by chance. Therefore, the study has established variables of financial reporting as factors that influence performance of SMEs in the study context. Significantly, the study results further reveal that the regression model was also important and therefore fit for the study.

## DISCUSSION OF RESULTS

### Introduction

In this chapter the discussion of the study findings is presented. The discussion is organized around the three objectives of the study. In the section which immediately follows, the discussion regarding the findings of the first objective is presented. In this objective, the study sought to examine the extent to which the utilization of the different accounting practices influences the performance of the SMEs. This discussion is given in section 5.2. Section 5.3 presents the discussion pertaining to the second objective. In this objective, the study sought to examine the extent to which the motivation for and against utilization of accounting practices. Lastly, section 5.4 presents the discussion pertaining to the third objective. This objective sought to establish the extent of performance implications of the different accounting practices utilized by the SMEs.

### Discussion of the findings in relation to types of accounting practices utilized by the SMEs

Objective one sought to establish the extent to which the utilization of the different accounting practices influence the performance of SMEs. The results of the study revealed a moderate extent to which SMEs in the study context utilize records of business assets, credit purchases, credit sales and receipt and payment and employ records in decision making. This therefore means that SMEs in the study context are maintaining accounting records of their business transactions but the magnitude is still minimal as expected in the general practice in accounting.

These results are also in concurrence with the findings of Abdul and Onaolapo (2014) who also found out that the morale of SMEs to keep accounting records is low. They argued that, SMEs assume that since their business are small with few transactions; keeping records would not do much to the business. Despite this attitude by the SMEs, in the Ugandan case it is revealed that majority of them at least maintain one type of accounting records such as; record only cash sales, purchases and expenditures.

In addition to that, the findings also suggest that majority of the SMEs to a smaller extent utilize financial

reports such as reports of daily sales, reports of expenses, reports of money coming and going of the firm and reports on additional money brought into the firm by the owners in reporting about their business transactions. This result is eminent among SMEs because of the fact that financial reporting is mostly utilized by big corporations who have variety of stakeholders who solemnly depend on these reports to make critical decisions unlike in SMEs where the stakeholders are few.

More so, the desire to utilize financial reports among SMEs in the study context is still an upcoming practice in the SME sector which needs to be accorded much attention. This therefore, justifies the smaller extent towards utilization of these financial reports. This is also in agreement with the findings of Kurniawati and Hermawan (2012) who asserted that, financial reports are necessary for any business in enhancing good decision making especially in corporations but they also recommended that SMEs utilize these financial reports in running their businesses effectively and efficiently.

### **Discussion of the findings in relation to Motivation for and against utilization of accounting practices among SMEs**

Objective two sought to examine the motivation for and against the utilization of accounting practices by SMEs in the study context. The findings concluded that SMEs in the study context are willing to utilize these accounting practices to help them make good decisions, be in position to detect fraud and theft, reduce on the operational cost, improve on productivity and most importantly accelerate the profit levels of the business. These are the ultimate goals of any business entity whether big or small. Therefore, the desire to utilize these accounting practices by the SMEs in the study context is dependent on the extent to which they perceive their relevance to their daily business operations.

Reed (2006) and Aruwa (2005) also emphasized in the same line of argument that SMEs must keep proper books and adequate records not only for the ordinary conduct of the business but also because it helps SMEs reduce the possibilities of early failure, increase chance of business survival, increase the chance of profitability, serve as a basis for planning and controlling business operations and also helps to keep business in a sound and healthy state to face competition which are core indicators of a good performing entity.

From the above findings, it is eminent that most SMEs in the study context agreed to the fact that utilization of accounting practices has been faced with some challenges in their attempt to embrace them in the daily business operations. These challenges or limitations included too much bureaucracy involved in accounting, lack of adequate training in accounting and conservatism of some of the SMEs as shown by the mean and standard deviation.

In addition to that, most of the records in these SMEs are kept by owners and supporting staffs who are UCE/UACE certificate holders, with only few who are degree holders and diploma graduates which explains the lack of adequate training and conservativeness of the SMEs towards accounting. This is also consistent with findings of Maseko and Manyani (2011) who found that majority of the SMEs do not keep complete accounting records due to lack of accounting knowledge resulting from lack of training in accounting in a similar study context.

### **Discussion of the findings in relation to the performance implications of the different accounting practices utilized by SMEs**

Objective three sought examine the performance implications of the different accounting practices utilized by the SMEs. The results of study indicate that proper utilization of accounting practices in the form of record keeping and financial reporting significantly influences the performance of SMEs. This is also evident from the regression analysis which showed that accounting practices explain 18.3% of



performance of SMEs. It can therefore, be concluded that an effective utilization of accounting practices in terms of proper record keeping and financial reporting significantly contributes to better performance of these SMEs in the study context.

This coincides with Mukherjee (2002) who argues that utilization of accounting practices can lead to changes in business performance due to readily available information from which good decisions are made. Thus, the critical part is the quality of information produced in form of financial reports by the business itself which are relevant in making decisions, hence influencing performance subsequently.

More so, the study concluded that financial reporting contributes significantly to performance than record keeping in the study context. This is evident from the regression and correlation analyses which both showed positive significant coefficients as exhibited in the tables 8 and 9 above. This finding is supported by the decision usefulness theory which is a more recent approach to the use of financial statements (Kam, 1990; Perera & Mathews, 1996) and notes that the accounting records and reports should provide information useful for economic decision-making.

More so, such a view also implies a future-oriented perspective accounting where accounting information should assist in guiding the decision-maker in his or her judgment of future performance of the business (Artsberg, 2003). It is therefore, the quality of the financial reports generated from the records that can necessitate accurate decision making hence influencing performance of the business in the long run. This therefore, justifies why there is a significant relation between financial reporting and performance as shown in the regression model.

In addition to that, the study further reveals that, record keeping in particular does not contribute significantly to performance of the business but the quality of the records is necessary for good financial reporting on which accurate decisions can be made to influence performance of the business. This is explained by the strong positive correlation between recordkeeping, and performance.

This finding on record keeping from the study context is also supported by the study of Okoli (2011) which linked proper record keeping and performance (profitability) of SMEs. The results revealed that, record keeping does contribute to performance of firm but through the financial reports which are generated from the records. This provides a good basis for decision making for the business.

Lastly, the study revealed that effective utilization of a combination of record keeping and financial reporting contributes only 19.3% to performance of SMEs in the study context while the remaining 81.7% is contributed by other factors that can influence performance. This is also consistent with the findings of Homes and Nicholls (1988) who also concluded that utilization of accounting practices in SMEs is one of the factor that determine the performance of the business but their study also acknowledges that there other factors such as age of business, size of the business, and the nature of the industry that are capable of influencing performance.

## **CONCLUSION AND RECOMMENDATIONS**

### **Introduction**

In this chapter the conclusion and recommendations of the study are presented.

### **Conclusion**

The aim of this study was to examine the different accounting practices utilized by SMEs in Mukono and their performance outcomes drawing on the empirical context of Mukono central division. The study investigated the utilization of two accounting practices by the SMEs in manufacturing, accommodation

and catering, wholesale shops, retail shops and agriculture sector. These practices included record keeping and financial reporting.

The study adopted quantitative research approach to achieve the three study objectives namely; to examine the types of accounting practices that are mostly utilized by the SMEs in Mukono central division; to examine the motivation for and against utilization of the different accounting practices among the SMEs and lastly, to examine the performance implications of the different accounting practices utilized by SMEs in Mukono central division. The study adopted purposive sampling method to select the SMEs of interest for the study. Specifically, the focus was on owners of the SME. A total of 90 SMEs participated in the study. The study utilized correlation analysis and mean and standard deviation and regression analysis to address objectives one and three of the study. In addition to that, motivation for and against the utilization of accounting practices was addressed using mean and standard deviation.

The first objective examined the extent SMEs in the study context utilized the different accounting practices to influence their performance as compared to three competitors in the industry. The result showed to a moderate extent, majority of the SMEs utilized these accounting practices to influence their performance. This was also further supported by the significant positive correlation that exists between accounting practices of record keeping and financial reporting and the performance of the SMEs in Mukono central division. The second objective probed to examine the extent to which SMEs are motivated or not to utilize accounting practices to influence their performance.

With respect to objective two, the findings indicated majority of the SMEs are willing to utilize these accounting practices to influence their performance from decisions made out of the accounting records and reports to a moderate extent especially with a core aim of earning more profits and business growth. However, the study also discovered that most of the SMEs are constrained from utilizing these practices mostly because of lack of training in accounting and the too much bureaucracy involved in utilization of these practices. In addition to that, some of the SMEs are so conservative with their local methods of accounting which makes them perceive accounting to be too bureaucratic and time consuming.

Concerning the last objective which sort to examine the performance of implications of accounting practices utilized by the SMEs, the results revealed that actually accounting practices of record keeping and financial reporting have some signification implications on the performance of the SMEs in the study context. This finding was based on the regression analysis which indicated that at least accounting practices contribute significantly to performance.

### **Recommendations of the study**

Based on the study's findings, the following recommendations were made on the utilization of accounting practices and the performance of SMEs in the study context.

Managers and owners of SMEs should undertake basic training in record keeping and financial reporting or hire support staffs who are knowledgeable in these areas of accounting. Specifically, the owners and managers should pay much attention to financial reporting. This will help to avail accurate financial records on which decisions such as whether to continue with business or not, whether to borrow or not and whether to invest or save the proceeds can be made effectively. This will enable the SME owners and managers have effective control of their business activities effectively and efficiently.

The study found that accounting practices in most of the SMEs in the study context is not automated. This exposes the business to human errors and inaccuracies which would otherwise be corrected using technology such as accounting software like tally and quick books. The study recommends use of such technologies in recording and reporting so as to ease decision making and enhance their performance.

The study established that SMEs who utilize accounting practices in the study context review their practices on weekly basis. This period is too short for the business to evaluate its performance effectively and efficiently. Thus to deal with this problem, it is recommended that reviews be done on at least quarterly or semi-annually basis to relieve the business from making short-term decisions without considering the broader impact.

Lastly, the study found that SMEs in the study context to a smaller extent do utilize accounting practices in their businesses which is not adequate enough to influence performance and might render their business prone to anticipated business risks and some inefficiency. It is recommended that awareness be stepped up by policy makers to the SMEs on the importance of the accounting practices in business operations. This can be through annual conferences organized specifically for SMEs in this area of interest.

### Further Research

The study collected data from the SMEs which are operating in Mukono central division using survey research design. However, the findings on the accounting practices in Mukono, Uganda could be different in some ways compared with other regions. Thus a similar study should be undertaken in other regions to get a better understanding of this phenomenon using other different designs.

In addition to that, even though, there is evidence of a positive correlation between record keeping, financial reporting and SME performance, the researcher argue that, it is not only maintaining proper record and reports that boosts performance among SMEs. Understanding the combined effect of accounting practices with such factors as improved customer relations, access to sustainable finance, technology diffusion, and expanding the frontiers of access to internal and international markets can be interesting avenues of future research.

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