

Role of financial accounting on the growth of small and medium enterprises in Uganda: a case study of Ntenjeru sub-county, Mukono District


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A dissertation submitted to the School of Statistics and Planning in partial fulfillment of requirements for the award of the degree of Bachelor of Business Statistics, Makerere University

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DECLARATION

I do declare that this research report as my original work and has not been submitted for any other degree award to any other University or Higher Institution before.

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APPROVAL

I certify that this dissertation has been carried out under my supervision and its content is true and is ready for examination.

Signature.....

Date



18th Sept 2023

Ambrose Serunjogi

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DEDICATION

This piece of work is dedicated to my parents Mrs Nakasolya Lydia and Mr. Sonko Ronald my brothers Raymond Lutaaya and my sisters Yvonne Nabalamba, Lyton Nalumansi for the unconditional love and support that they have always showed me in my academic journey and for giving me the enthusiasm to work harder every single day that passes in my life.

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LIST OF ACRONYMS

SMES	Small and Medium Enterprises
UIA	Uganda Investment Authority
USE	Uganda Securities Exchange
SPSS	Statistical Package for the Social Sciences
Std. Dev	Standard Deviation

ABSTRACT

The objective of the study was to determine the effect of financial accounting on the growth of small and medium enterprises in Mukono district, Ntenjeru Sub-county. Specifically, financing options (borrowing and saving) and book keeping as factors that affect growth on small and medium enterprises were investigated. Primary data was used in this study and it was collected using questionnaires from 120 respondents who were business men and women and analysis was done using frequency distribution tables, Pearson chi square test for independence.

Results show that more than half of the respondents (53.3%) were businessmen and business women accounted for 46.7%. 42.5% were aged 40 and above years and 65.8% were married/cohabiting with most of them (37.5%) having attained primary education as the highest level of education. Majority of the respondents (33.3%) were Protestants. Majority of the respondents (41.7%) participated in cottage industry and 30.8% of the respondents reported having been in business for a period of 7-10 years. Findings depict high level of awareness about financial management among business men and women (66.7%) with the most educated being more aware (20.9%, post-secondary, 23.8% secondary education).

Findings show that relatively high level of financial accounting (60.4%) by business men and women. Borrowings, savings and book keeping had a significant impact on the growth of the business (P -values < 0.05). Findings show that SMEs are motivated to utilize accounting practices by factors such as enabling them to increase profitability, influences better decision making, reduces on business costs and eases filing of taxes.

Based on the findings of the study, the following recommendations can be made. There is need for people in business to properly account for their finances if they are to continuously realize business growth. This is based on the finding that business men and women who were able to account for resources realized business growth.

Business men and women need to carryout record keeping for the growth of businesses. This includes recording business sales, inventory, income and expenditure among others. In addition to this, record keeping needs to be done on a daily basis to avoid missing out important information.

Business men and women need to establish different financing options such as borrowing and using savings for the growth of their businesses. This is evidenced in the findings as those who had used and properly managed borrowings and savings realized business growth in the recent two years.

CHAPTER ONE: INTRODUCTION

1.0 Introduction

This chapter covers the background of the study, the problem statement, the objectives of the study, research questions, scope of the study, significance of the study, justification of the study, and definition of key terms.

1.1 Back ground to the study

Small Medium Enterprises (SMEs) by number dominate the global world's business stage, the current estimates suggest that more than 95% of the enterprises across the world are SMEs approximating to 60% of the private sector employment (Ayyagari, et al, 2011). Japan has the highest proportion of SMEs among the industrialized countries (EIU, 2010). India according to its ministry of micro, small and medium enterprises had 13 million SMEs in the year 2008, equivalent to 80% of the country's business (Ghatak, 2010).

Small and medium enterprises are privately owned businesses whose capital, workforce, and assets fall below a certain level according to the national guidelines (SMEs, 2021). Currently, the number of SMEs operating in Uganda's economy is estimated to exceed 1,100,000, and SMEs contribute approximately 80% to Gross Domestic Product. SMEs are the drivers of the Ugandan economy for they make up close to 90% of the businesses in Uganda. Despite their major role in the Ugandan economy, an SME is yet to list on the Uganda Securities Exchange (USE). However empirical evidence shows that private equity and debt capital which ranges from business angel to venture capital financing provide a platform upon which SMEs can tap into the potential of Uganda's capital markets. Private Equity and debt markets offer specialized mechanisms that address the difficulties associated with SMEs. The financial intermediaries that operate in these markets actively screen, contract with, and monitor the small businesses they invest in over the course of their relationships.

Sound financial management has a significant impact to the survival and wellbeing of small scale businesses of all types. The SMEs form one of the best markets in the country and play a big role in forward and backward linkages to large-scale enterprises. The concept of financial accounting means properly recording all of the monetary (and some nonmonetary) transactions, reporting those transaction sin standard forms that show the financial position and performance of the

organization and ensuring that the organization's funds are safeguarded and used prudently, now and in the future. It also involves accounting, information management and planning. One must secure the funds needed to operate, record the activities of operation, analyse the results on an on-going basis and report on activities and financial position. And one must repeat the process month after month and year after year. Sound financial accounting requires careful tracking and prudent management of the organization's financial resources and cash flows. With good financial accounting, an organisation can understand its costs and incomes; without it, an organisation compounds any operational problems. According to Nansamba (2011), Small business enterprises are a part of the informal sector and they bridge the gap of slow growth of the informal sector in the development of the country. Because of the different economies, the definition of such enterprises may vary, depending on the number of employees, business sales turn over and assets (Nansamba, 2011).The European Union member states define them as enterprises employing between 50-250 people, with annual turnover of 5-10 million dollars and balance sheet totals of between 10-43 million dollars .Contrary to the above definition, the Uganda Investments Authority (UIA) defines such enterprises as those employing a minimum of 5 people, with annual sales turnover and total assets of not less than 360 million Ugandan Shillings.

The context of the study is that Small Medium Enterprises in Mukono District like elsewhere in Uganda often face a lot of constraints and challenges in their operations. According to UIA, these small entrepreneurs operate against heavy odds and slight changes in the external environment hit them strongly. They are often confronted with fierce local and international competition, lack general skills in management, marketing and financial planning, limited access to information on market opportunities and sources of competitive technology. These constraints limit substantially the productive capacity and efficiency of Small Medium Enterprises (SMEs) in Uganda to be competitive within the context of globalization

1.2 Problem statement

Many Small and Medium Enterprises are launched daily in Uganda today but many don't live long enough to celebrate their first birthdays, and a very small number thrive and grow through the different stages (Summit Business Review, 2013). Small Medium Enterprises in Uganda are faced with diverse challenges that lead to business failure, with more than 50% of businesses

failing in the first five years and fighting an uphill battle from the start. Financial accounting is important for the growth of any businesses yet it is a highly neglected area in Small Medium Enterprise. Poor financial accounting, there is lack of business plans, lack of capital, and wrong pricing which are some of the causes of the small- scale business failures (Tushabomwe, 2003). The businessmen and women cannot access financial institutions because of lack of business record and do not follow the cash flows in the running of the businesses. Therefore, the study thought to investigate the role of financial accounting in the growth and development of Small Medium Enterprises.

1.3 Objectives of the study

1.3.1 General objective of the study

The general purpose of the study was to examine the role of financial accounting on the growth of small and medium enterprises in Uganda and focuses on Mukono District, Ntenjeru Sub-county.

1.3.2 Specific Objectives of the study

- I. To establish the extent to which financial accounting is being used by SMEs in Mukono district.
- II. To find out the motivating factors for and against the use of financial accounting among SMEs in Mukono district.
- III. To determine the performance implications of different financial accounting practices among different SMEs in Mukono district.

1.4 Hypotheses

- H₀₁: The extent of financial accounting usage among SMEs in Mukono District, Ntenjeru Sub-county, is not significantly high (i.e., it remains at a low or moderate baseline level).
- H_{a1}: The extent of financial accounting usage among SMEs in Mukono District, Ntenjeru Sub-county, is significantly high.
- H₀₂: Perceived motivating factors (e.g., access to finance, regulatory requirements) and inhibiting factors (e.g., cost, complexity) have no statistically significant influence on the

adoption of financial accounting practices among SMEs in Mukono District, Ntenjeru Sub-county.

- H_{a2}: Perceived motivating factors have a statistically significant positive influence, while inhibiting factors have a statistically significant negative influence, on the adoption of financial accounting practices among SMEs in Mukono District, Ntenjeru Sub-county.

- H₀₃: There is no statistically significant relationship between the type/comprehensiveness of financial accounting practices adopted and the business performance (growth in revenue, profitability, or asset base) of SMEs in Mukono District, Ntenjeru Sub-county.

- H_{a3}: There is a statistically significant positive relationship between the adoption of comprehensive/detailed financial accounting practices and the business performance (growth) of SMEs in Mukono District, Ntenjeru Sub-county.

1.5 Scope of the study

1.5.1 Content Scope

This study was limited to examining the role of financial accounting on the growth of SMEs in Uganda. The variables studied include financial accounting practices, record keeping and cash flow management and their effect on growth and development of Small Medium Enterprises.

1.5.2 Geographical Scope

The study was carried out in Mukono District, Ntenjeru Sub-county. Mukono District is located in Central Uganda. It is bordered by Kalagi to the north, Kira Town to the west, Lake Victoria to the south and Lugazi to the east. It lies 27 Kilometres (17 miles) east of the central business district of Kampala, Uganda's capital and largest city.

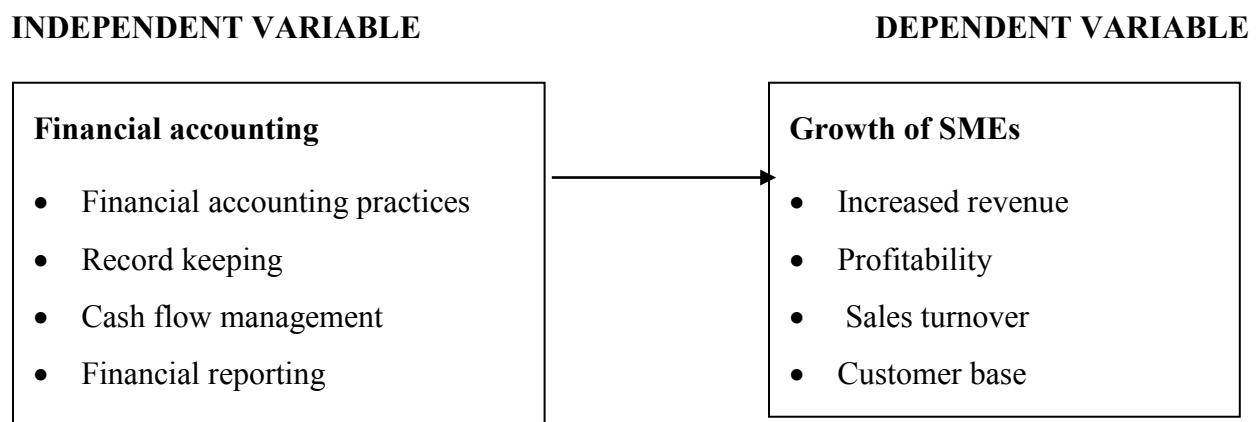
1.5.3 Time scope

The study was done in a period of 5 months. This period involved data collection, analysis and report writing.

1.6 Conceptual framework

The conceptual framework of the research study was based on financial accounting and growth of SMEs. It consists of the dependent variable and independent variable. The Independent Variables are the financial accounting practices which include; financing options preparation of books of accounts, record keeping, cash flow management and financial reporting and dependent Variable are the factors for the growth of SMEs which include; increased revenue, profitability, sales turnover and customer base

Figure 1.1: Conceptual framework



1.7 Significance of the study

The study will enable owners and managers of SMEs and the general public grasp the value of accounting as a pillar for sound decision making and growth of a business.

The study will further help the business community in Mukono District, Ntenjeru Sub-county and Uganda to improve on the methods of proper financial accounting systems for efficiency and effective performance of Small Medium Enterprises (SMEs) hence contributing to the existing wealth of knowledge on accounting.

The study will add on the body knowledge for both students and researchers through transforming theories learnt in class into practice. It will help researchers gain more knowledge about the relevant books of accounts prepared in business organizations and the financial statements prepared in the practical field of accounting.

CHAPTER TWO: LITERATURE REVIEW

2.1 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 utilization of those practices, performance implications of these practices.

2.2 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.

2.2.1 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. 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.

2.2.2 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. 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.

2.3 Empirical review

From the proceeding sections, the key aspects derived for empirical investigation are performance, record keeping 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 adopt the practices affect the performance of the SMEs effectively.

2.3.1 Growth of SMEs

In the study about the growth of SMEs in Argentina,

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.

2.3.2 Record keeping

According to Ademola, Olukotun, & Ifedolapo (2012), record keeping is 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. 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.

2.3.3 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.

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.

2.4 Record keeping and Performance

Many scholars have called for the need of record keeping for firms to enhance their performance. Record keeping is the recording of business transactions in systematic manner so that the financial position of an organization can be ascertained at any point in time (Olukotun et al, 2012). Financial records, for example the sales day book (sales journal), purchases day book (purchases journal), cash receipt book, cheque payments book, petty cash book ,general journal, nominal ledger, debtors' ledger and creditors' ledger must be kept and maintained in a sound accounting system (Maseko & Manyani, 2011). Keeping accurate and up-to-date records is vital to the success of any business. Businesses must realize that records are one of the most important management tools that need to be maintained. Business owners look for maximum return from their investment and maintaining good records is part of that equation. Good record keeping is vital in regards to meeting the financial commitments of the business and providing information on which decisions for the future of the business can be based. Good records will keep the business individual on toes and enable him or her to monitor every situation (Queensland government, 2011). Two common record keeping systems used by businesses and other organizations are the single- entry bookkeeping system and the double-entry bookkeeping system. Single-entry bookkeeping uses only income and expense accounts, recorded primarily in a revenue and expense journal. Single-entry bookkeeping is adequate for many Small Medium Enterprises. Double-entry book keeping requires posting (recording) each transaction twice, using debits and credits. The primary bookkeeping record in single-entry bookkeeping is the cash book, that allocates the income and expenses to various income and expense accounts. Separate account records are maintained for petty cash, accounts payable and receivable, and other relevant transactions such as inventory and travel expenses (Olukotun et al, 2012). The double-

entry bookkeeping is more advanced and requires accountancy skills to maintain. Expenses are recorded in a 'General Ledger' as they are incurred, rather than when the bill is actually paid; and when income is earned rather than when received. By recognizing financial obligations when they occur, not when they are paid or received, this overcomes the problem of time lags, giving a truer picture of the financial position. 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. Scholars such 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.

2.5 Performance implications of different accounting practices utilized by SMEs

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 enables firms not to suffer from over taxation due lack of records and reports on which the taxes are supposed to be based on. 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 jeopardized 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, lack of accounting information in SME management can

harm their planned operations hence affecting their performance in the long run effectively (Prihatni et al, 2012).

2.6 Motivation for and against adoption of accounting practices by 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 are motivated to utilize the accounting practices in order to keep track of their business activities (Mwangi, 2011). SMEs owners who utilize these practices are specifically interesting in reflecting changes in wealth of their business. This can explain why major economic decisions in business are centered on financial performance as measured by profitability. 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, utilization of accounting practices provides essential information about the business's performance to 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 recognize when sales start slowing down, or costs start to rise unacceptably. 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.

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.

CHAPTER THREE: METHODOLOGY

3.0 Introduction

This chapter provides information on the research design, study area and target population, sampling technique, data collection methods, procedure for data collection, and finally data management and analysis.

3.1 Research design

The study adopted a Cross Sectional design quantitative approach. The cross-sectional design was chosen because it provides an opportunity for studying a wide range of respondents from different categories while taking a snapshot of the study population at a certain time, thus allowing for conclusions about phenomena across a wide population to be drawn.

3.2 Study area and target population

The study was carried out from Ntenjeru Sub-county, Mukono district in Uganda. Primary data was collected from business men and women using a well-designed and pretested questionnaire.

3.3. Sampling technique

3.3.1 Sample size determination

The study utilized the Cochran's formula (1963) in determining the sample size as shown below.

Cochran's Formula

$$n = \frac{z^2 * p * q}{e^2} \dots \dots \dots (1)$$

Where; n- the sample size to be determined.

p- Degree of variability (0.5).

e- The desired level of precision (0.1).

z- The Standard Z-statistic of normal distribution.

α - significance level (5%).

The following values will also be assumed

P= 0.5

q = 1-p = 0.5.

α =5%

e=0.1

By substituting these values in the equation (1) above,

$$n = \frac{1.96^2 * 0.5 * 0.5}{0.1^2} = 96.04$$

Sample size	Target sample	Reached sample
	96	120

3.3.2 Sampling technique

The simple random sampling technique was used. A random sampling technique is a type of sampling in which participants are selected to participate in the study without following any criteria. From the nine parishes that make up Ntenjeru sub-county, the study focused on a selected sample of parishes for assessment. The parishes chosen for the study included Mpunge, Buyoye, Nsanja and Terere. 120 Respondents (27 Mpunge, 40 Buyoye, 33 Nsanja and 20 Terere) were randomly selected from the villages in each parish respectively.

3.4 Data collection methods

A self-administered questionnaire was used to collect data from the respondents. The questionnaire consisted of two sections A and B. The first section of the instrument addressed questions on demographic and socio-economic data and section two addressed questions of assessing the role of financial accounting. In each section, the respondents were given clear instructions on how to complete the questions under it.

3.4.1. Procedure for data collection

It was made clear that the participation is voluntary and that the respondent was free to decline or withdraw at any time during the questionnaire filling process. The participants were guaranteed that their information would not be made available to anyone who is not involved in the study and used for the purposes it was intended for. Research participants were fully informed about the procedures involved in the research.

3.5 Reliability and validity of the study

To ensure the quality of the research process, items included in the study were based on earlier studies to determine the gaps and also build on what was already existing. In testing the validity and reliability of the research questionnaire, the researcher pretested the questionnaire to help rectify the inadequacies in the instrument before administering it. Respondents were fully explained to the purpose of the study and this made them to genuinely give responses.

3.6 Data management and analysis

Quantitative and qualitative data from completed questionnaires was entered using excel software. It was then cleaned, sorted, and checked for errors which were corrected and later analysis was done using both excel and SPSS software. Analysis was done in two stages i.e. univariate analysis and bivariate analysis.

3.6.1 Univariate analysis

Under this level, data was explored and summarized to determine the patterns. The patterns were then described using measures of central tendency, frequency distribution tables, pie charts and bar graphs.

3.6.2 Bivariate analysis

Under this stage, analysis was done using the Pearson chi-square test for independence. This test helped to measure the association between each independent variable (borrowings, savings, and book keeping) and the response variable (growth of the enterprise).

The test statistic used is shown below;

$$\chi^2 = \sum_{i=1}^n \sum_{j=1}^n \frac{(O_{ij} - E_{ij})^2}{E_{ij}}$$

Where O_{ij} = Observed value ; E_{ij} = Expected value

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presents the findings of the study which were obtained from business men and women. It presents a summary of the analysis of the data involving univariate analysis that is frequency tables, descriptives such as mean and standard deviation and charts, bi-variate analysis i.e. graphs and measures of association with Pearson's chi-square test for independence

4.1 Demographic Characteristics

This section presents the demographic characteristics of the study. This information is important to depict the respondent's demographics such as gender, age, marital status among others.

Table 1. Demographic characteristics

	Frequency(n=120)	Percent (%)
Gender		
Male	64	53.3
Female	56	46.7
Age groups		
Below 20 years	7	5.8
20-29 years	20	16.7
30-39 years	42	35
40 and above	51	42.5
Marital status		
Single	23	19.2
Married(Cohabiting)	79	65.8
Divorced(separated)	8	6.7

Widowed	10	8.3
Education Level		
Primary education	45	37.5
Secondary education	30	25
Post-secondary	28	23
Non-formal	17	14.5
Religion		
Protestant	40	33.3
Catholic	35	29.2
Muslim	25	20.8
Others	20	16.7

Source: Primary data

According to the table above, results show that more than half of the respondents (53.3%) were businessmen and business women accounted for 46.7%. in reference to age, majority of the respondents (42.5%) were aged 40 and above years, 35% were aged 30-39 years, 20-29 years (16.7%) and the least were those aged below 20 years (5.8%).

Majority of the respondents (65.8%) were married/cohabiting, 19.2% were single, and 8.3% and 6.7% were widows/widowers and divorced respectively. In addition, majority of the respondents (37.5%) had attained primary education, 25% attained secondary education and 23% and 14.5% attained post-secondary and non-formal education. 33.3% were protestants, 29.2% were Catholics, Muslims (20.8%) and 16.7% belonged to other religions.

4.2 Socio-Economic factors

This section shows the socio-economic factors of the respondents

Table 2. Socio-economic characteristics

	Frequency	Percent (%)
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Type in Business		
Retail shops	47	39.1
Wholesale Trading	20	16.7
Super Markets	3	2.5
Cottage Industry	50	41.7
Years in Business		
1 -3 years	21	17.5
4-6 years	32	26.7
7 - 10 years	37	30.8
11 years and above	30	25.0

Source: Primary data

From the table above, majority of the respondents (41.7%) participated in cottage industry, 39.1% operated retail shops, and whole traders accounted for 16.7% and 2.5% of the respondents operated supermarkets. Of these, 30.8% were in business for a period of 7-10 years, 4-6 years (26.7%) and 25.0% and 17.5% were in business for 11 years and above and 1-3 years respectively.

4.3 Financial reporting by SMEs

The study engaged respondents to ascertain information about financial reporting by SMEs. To ascertain this, they were asked questions about financial reporting and their responses were rated on a Linkert scale where: 5= strongly agree, 4= agree, 3=neutral, 2= disagree and 1= strongly disagree. The mean and standard deviations are indicated in the table below. Majority of the respondents in SMEs agreed that they were keeping separate books of accounts of business from those of family expenses (mean =3.21), used savings in business in the last 2 years (mean =3.00), used borrowings in the business in the last 2 years (mean =3.01). On the other hand, moderately accepted that they prepared books of accounts.

Table 3. Financial reporting by SMEs

	Mean	Std. Dev

The business prepares books of accounts	2.99	1.563
The business keeps separate books of accounts of business from those of family expenses	3.21	1.421
The business has used borrowings in the last 2 years	3.01	1.421
Have used savings in my business in the last 2 years	3.00	1.387

Source: Primary data

4.4 Motivation for and against utilization of accounting practices

The study engaged respondents to identify factors that motivate and demotivate them from utilization of accounting practices. The responses were rated on a Linkert scale where: 5= strongly agree, 4= agree, 3=neutral, 2= disagree and 1= strongly disagree. The mean and standard deviations are indicated in the table below. Findings indicate that majority of the SMEs in the study agree that that utilization of accounting practices increases their profits with a mean of 3.10 and standard deviation of 1.232. In addition, respondents averagely agreed that utilization of accounting practices influences better decision making (2.80 mean;1.432 std. dev) reduces on business costs(2.64 mean; 1.254 std. dev) and eases filing of taxes (2.98 mean; 1.281 std. dev)

The study further investigated factors that discourage SMEs from utilizing accounting practices, respondents averagely agreed that utilization of accounting practices requires a lot of funds to implement them with mean 2.11, std. dev (1.120); requires technical knowledge with mean 2.16, std. dev (1.013) and finally they averagely stated that they do not utilize accounting practices due to conservatism that is they are reluctant about changes in new advancements in accounting.

Table 4.Motivation for and against utilization of accounting practices

	Mean	Std. Dev
Motivation factors		
For better decision making	2.80	1.432
To reduce on the business costs	2.64	1.254

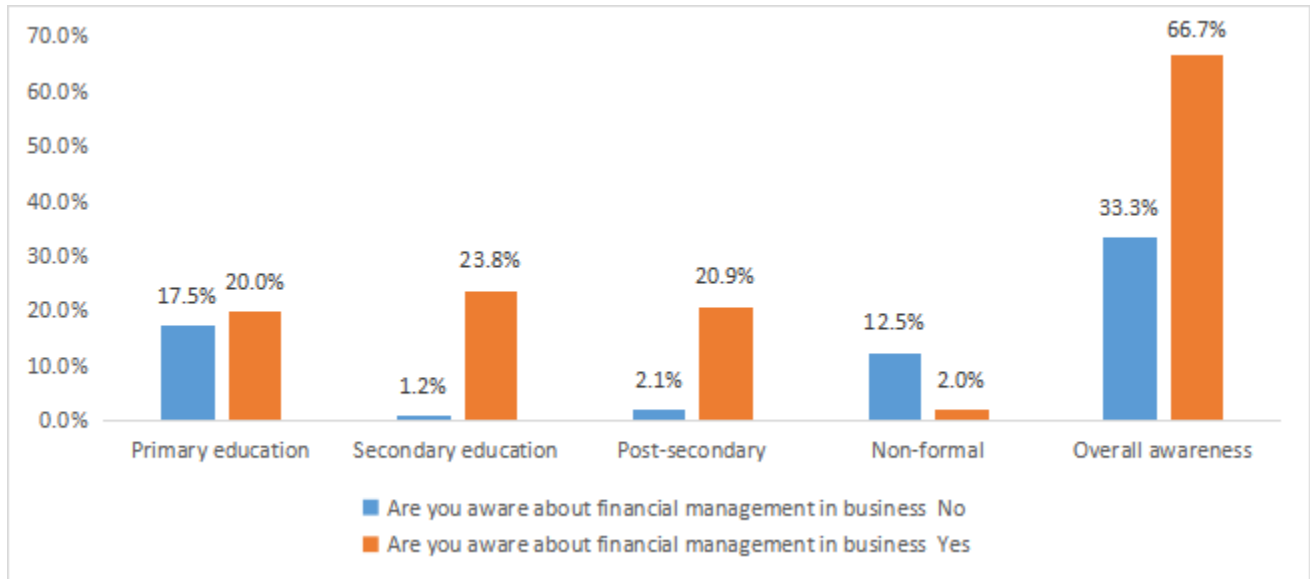
To increase business profitability	3.10	1.232
To enable in filing taxes	2.98	1.281
Demotivation factors		
Requires a lot of funds to implement accounting practices	2.11	1.120
Accounting practices require technical knowledge	2.16	1.013
Conservatism	2.51	1.020

Source: Primary data

4.5 Awareness about financial management

The study also endeavored to find out whether business men and women were aware about financial management. Findings depict high level of awareness about financial management among business men and women (66.7%) with the most educated being more aware (20.9%, post-secondary, 23.8% secondary education) and the less educated business women and men reporting low level of awareness (2.0%, Non-informal) and (20.0%, primary education). This shows that one's level of education has much impact on knowledge about financial management of businesses.

Figure 1. Awareness about financial management disaggregated with highest level of education

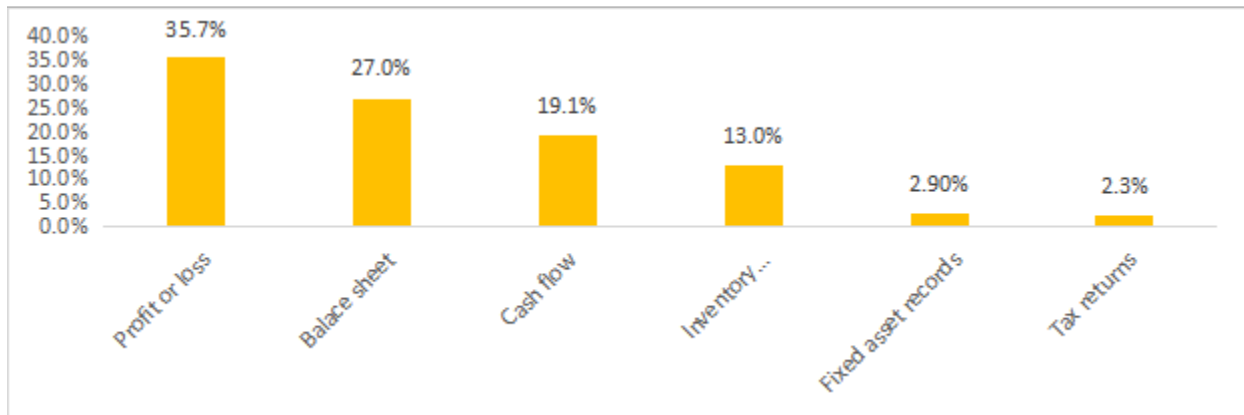


Source: Primary data

4.6 Books of accounts/records prepared in business

Majority of the business men and women (35.7%) reported that prepare profit or loss reports, balance sheet (27.0%), cash flow statements (19.1%), inventory analysis/taking (19.0%) whereas 2.9% and 2.3% reported that they prepare fixed asset records and tax returns respectively.

Figure 2. Books of accounts/records prepared in business

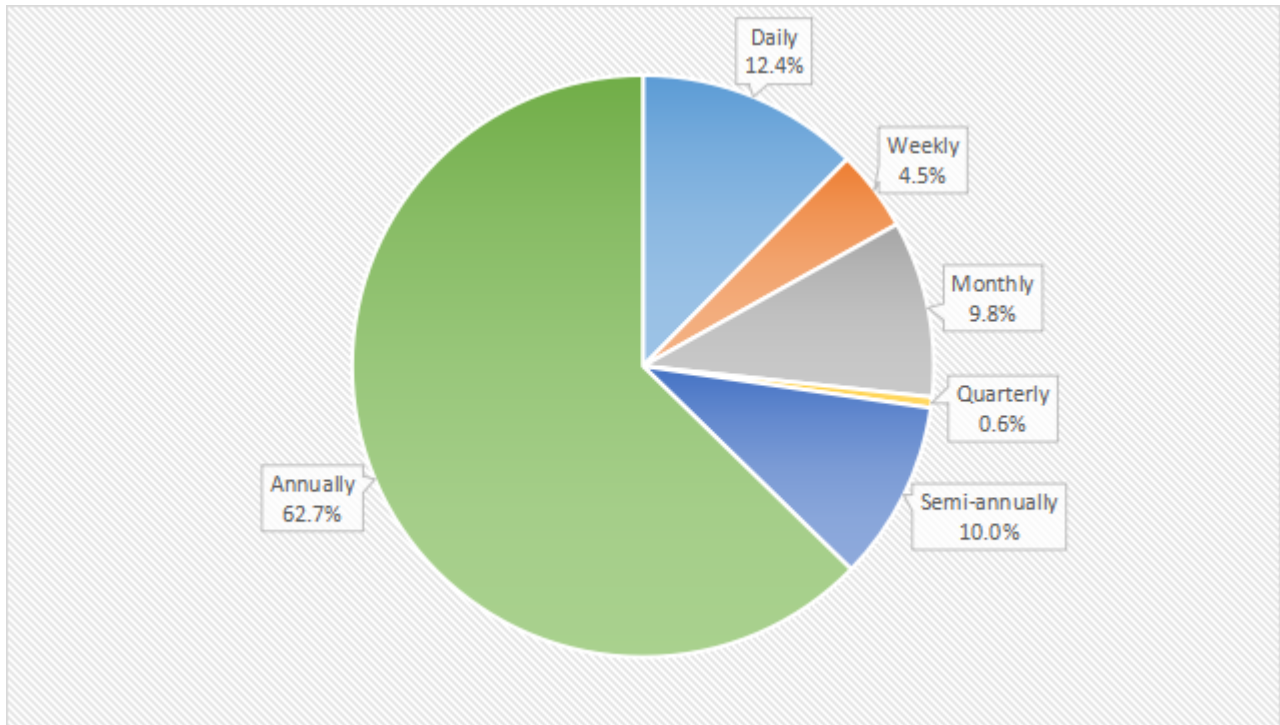


Source: Primary data

4.6 Frequency of preparation of books of accounts

Business men and women were engaged to find out how often they prepare books of accounts/records and results show that majority (62.7%) prepared books on annual basis, daily (12.4%), semi-annually (10.0%), monthly (9.8%) while 4.5% and 0.6% prepared books of accounts on weekly and quarterly basis respectively.

Figure 3. Frequency of preparing books of accounts

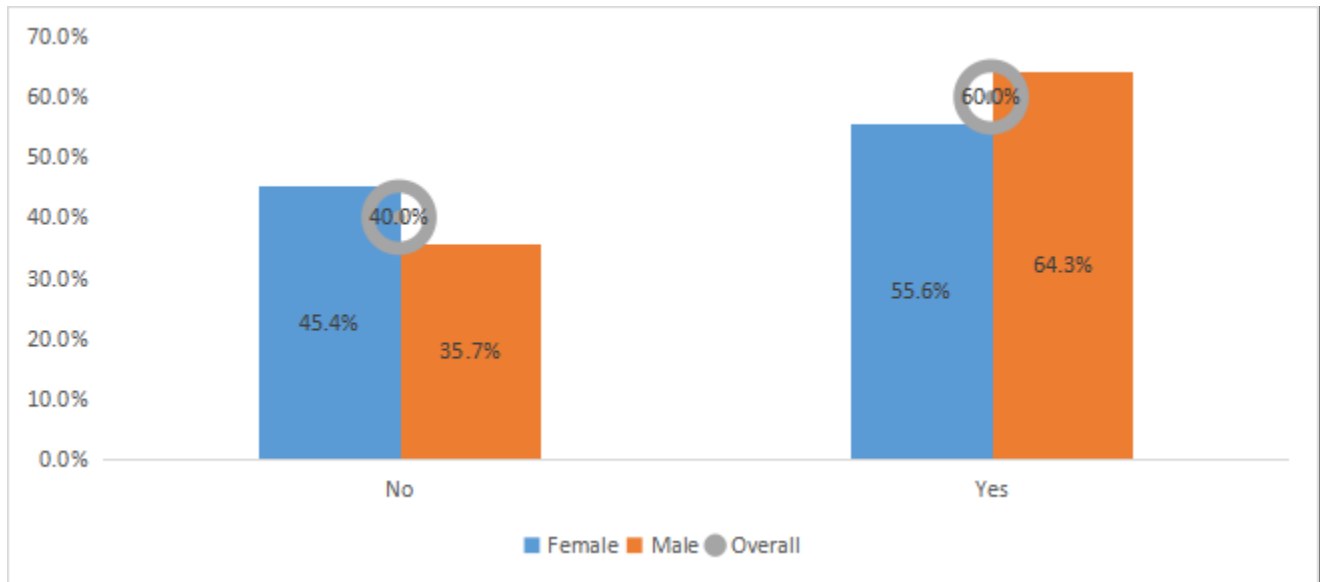


Source: Primary data

4.7 Have experienced business growth (increase in profits, capital and customers) in the recent 2 years

During the study, business men and women were asked whether they have realized growth in their businesses in recent 2 years. Findings show that majority of respondents (60.0%) realized growth in their businesses with business men (64.3%) doing well compared to their women counterparts (55.6%). Despite of the majority reporting growth of their businesses, 40.0% reported no growth in their businesses in the recent two years. The study went ahead to find out reasons for failure of growth of these businesses. Factors such as high taxes, bad debts, low customer turnover, changes in prices among others were attributed to failure of businesses.

Figure 4. Business growth of small and medium enterprises



Source: Primary data

4.8 Effect of financial accounting on the growth of small and medium enterprises

To ascertain the role of financial accounting on the growth of businesses, business men and women were asked questions on a Linkert scale that is from strongly disagree to strongly agree and the general performance of financial accounting was measured as shown in the table below. Findings show that financial accounting by business men and women was at 60.4% which shows average financial accounting in business. The research further investigated whether use of borrowings, savings and proper management of books of accounts had a significant effect on the growth of businesses in the recent two years and it can be concluded that borrowings, savings and book keeping have a significant impact on the growth of the business (p-values < 0.05).

Table 5. Effect of financial accounting on growth of small and medium enterprises

Question Items	SD (#,%)	D (#,%)	N (#,%)	A (#,%)	SA (#,%)	P- Value	Comment
Preparing book of accounts of the business have led to business growth	15 (12.5%)	25 (20.8%)	5 (4.2%)	25 (20.8%)	50 (41.7%)	0.01*	Significant

Having separate books of accounts of business from those of family expenses have led to business growth	20 (16.7%)	45 (37.5%)	10 (8.3%)	9 (7.5%)	36 (30.0%)	0.00*	Significant
Using borrowings in my business in the last 2 years has led to business growth	10 (8.3%)	30 (25.0%)	10 (8.3%)	25 (20.8%)	45 (37.5%)	0.04*	Significant
Using savings in my business in the last 2 years has led to business growth	10 (8.3%)	0 (0.0%)	10 (8.3%)	40 (33.3%)	60 (50%)	0.00*	Significant
Overall financial management	11.5%	20.8%	7.3%	39.8%	20.6%		

***Significant at 0.05 level of significance.**

Source: Primary data

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings made from the study, conclusions drawn, recommendations made based on findings from the study and areas for further research.

5.2 Summary of findings

The main objective of the study was to examine the effect of financial accounting on the growth of small and medium enterprises. Results show that more than half of the respondents (53.3%) were businessmen and business women accounted for 46.7%. Majority of the respondents (42.5%) were aged 40 and above years and 65.8% were married/cohabiting with most of them (37.5%) having attained primary education as the highest level of education. Majority of the respondents (33.3%) were Protestants.

Majority of the respondents (41.7%) participated in cottage industry and 30.8% of the respondents reported having been in business for a period of 7-10 years. Findings depict high level of awareness about financial management among business men and women (66.7%) with the most educated being more aware (20.9%, post-secondary, 23.8% secondary education). Majority of the business men and women (35.7%) reported that they prepare profit or loss reports and majority (62.7%) prepared books on annual basis. Findings show that majority of respondents (60.0%) realized growth in their businesses with business men (64.3%) doing well compared to their women counterparts (55.6%).

Findings from the study indicate that utilization of accounting practices enables SMES to determine their performances and this is in agreement with Akande, 2011 who stated that utilization of accounting practices provides essential information about the business's performance to outside parties such as investors, creditors, lenders

Findings show that financial accounting by SMEs was at 60.4% with majority of the respondents agreeing that use of borrowings, savings and book keeping had a significant impact on the growth of the business (P -values < 0.05). This was also stated by Katsime, 2017 who found out a positive and significant relationship between financial reporting as one of the accounting practices and performance of SMEs ($B=0.417$, $P<0.001$).

Furthermore, in relation to motivation factors for and against utilization of accounting practices, findings show that majority of the respondents agreed that they are motivated to utilize accounting practices because they enable them increase their profits with a mean of 3.10 and standard deviation of 1.232, influences better decision making (2.80 mean; 1.432 std. dev), reduces on business costs (2.64 mean; 1.254 std. dev) and eases filing of taxes (2.98 mean; 1.281 std. dev). This is in agreement with Maseko & Manyani (2011) who stipulated that SMEs are encouraged to maintain proper records and reports of their daily business transactions because keeping accurate records is actually what creates a profitable business. (Mwangi, 2011) also added that one of the reasons as to why most of upcoming SMEs are motivated to utilize the accounting practices in order to keep track of their business activities.

However they reported being motivated by factors such as requiring a lot of funds to implement them with mean 2.11, std. dev (1.120); requiring technical knowledge with mean 2.16, std. dev (1.013) and finally they averagely stated that they do not utilize accounting practices due to conservatism that is they are reluctant about changes in new advancements in accounting.

5.3 Conclusions

According to this study, the following conclusions can be drawn. Majority of the SMEs are under management of males and majority of the business men and women attained primary education as the highest level of education. Majority of the respondents participated in cottage industry and on the other hand, majority respondents reported having been in business for a period of 7-10 years. Findings depict high level of awareness about financial accounting among business men and women with the most educated being more aware about financial accounting. . Majority of the business men and women reported that they prepare profit or loss reports and financial books on annual basis. Findings show that majority of respondents realized growth in their businesses with business men doing well compared to their women counterparts.

Performance of SMEs is attributed to proper utilisatization of accounting practices and they are motivated by factors such as enabling SMEs to increase profitability, influences better decision making, reduces on business costs and eases filing of taxes.

Results from this study showed that borrowings, savings and book keeping had a significant effect on the growth of small and medium enterprises in Ntenjeru Sub-county ($p < 0.05$) and

factors such as education level were found to have an association with awareness about financial management.

5.4 Recommendations

Based on the findings of the study, the following recommendations are key;

There is need for people in business to properly account for their finances if they are to continuously realize business growth. This is based on the finding that business men and women who were able to account for resources realized business growth.

Business men and women need to carryout record keeping for the growth of businesses. This includes recording business sales, inventory, income and expenditure among others. In addition to this, record keeping needs to be done on a daily basis to avoid missing out important information.

Business men and women need to establish different financing options such as borrowing and using savings for the growth of their businesses. This is evidenced in the findings as those who had used and properly managed borrowings and savings realized business growth in the recent two years.

5.5 Areas for further research

The study only investigated the impact of financial accounting on the growth of small medium enterprises. However, there is need for investigation of other factors influencing the growth of small and medium enterprises.

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APPENDIX 1.QUESTIONNAIRE

Dear Sir/Madam

My name is Kivumbi Calvin a finalist student at Makerere University pursuing Bachelor's Degree in Business Statistics. I am currently undertaking a study on the topic "The role of Financial Accounting on the growth of Small Medium Enterprises in Ntenjeru Sub-county, Mukono District" in fulfillment of the Requirements for the Award of Bachelor's Degree in Business Statistics at Makerere University

The information is required only for academic purposes. Participation is entirely out of your free will and necessary for the success of this work. Information provided will be handled with utmost confidentiality. Thank you.

SECTION A: BACKGROUND INFORMATION

Demographic factors

Qn1. Gender of the respondent.

Male

Female

Qn2. Marital status of the respondent

Single

Married (Cohabiting)

Divorced (separated)

Widowed

Qn3. Religion of the respondent

Protestant

Catholic

Muslim

Others

Qn4. Age of the respondent

Below 20 years

20-29 years

30-39 years

40 and above years

Qn4. Highest level of education of the respondent

Primary education

Secondary education

Post-secondary

Non-formal

Socio-economic factors

Qn5. Number of years in the business

1 - 3 years

4-6 years

7 - 10 years

11 years and above

Qn6. Type of business

Retail shop

Wholesale shop

Cottage industry

Supermarket

Qn7. Are you aware about financial accounting?

Yes

No

Qn8. Do you do financial accounting for your business?

Yes

No

Qn8a. If yes, which books of accounts/records do you prepare in business? Tick all that apply

Profit or loss

Balance sheet

Cash flow

Inventory analysis/taking

Fixed asset records

Tax returns

Qn8b. How often do you prepare the records/books of accounts?

Daily

Weekly

Monthly

Quarterly

Semi-annually

Annually

Qn9. Have you experienced business growth in the recent 2 years?

Yes

No

SECTION B: Response on the Research Variables

Indicate the extent to which you agree with the following variables on a scale of 1- Strongly disagree; 2- Disagree; 3- Not sure; 4- Agree; 5- Strongly agree.

Question Items	SD 1	D 2	NS 3	A 4	SA 5
Preparing book of accounts of the business have led to business growth					
Having separate books of accounts of business from those of family expenses have led to business growth					
Using borrowings in my business in the last 2 years has led to business growth					
Using savings in my business in the last 2 years has led to business growth					