RESEARCH ARTICLE

THE IMPACT OF ACCOUNTING INFORMATION SYSTEM ON THE PERFORMANCE OF SMALL AND MEDIUM SIZED ENTERPRISES (SMES); A CASE STUDY OF SELECTED SMES IN KAMPALA

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Areport to help Entrepreneurs

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ABSTRACT

The study focused on the impact of accounting information system on the performance of small and medium sized enterprise. The objectives of the study were; to examine whether SMEs keep proper books of accounts, to examine the quality of financial statements produced by SMEs and to find out the relationship between accounting information and performance of SMEs. The study employed descriptive, cross sectional and associational research designs. The study was carried out in Kampala Central on the management and accounting departments in small and medium businesses in Kampala Centra. Both primary and secondary data was collected from existing journals and management reports. The findings revealed that accounting information is vital for small and medium sized enterprises as it enables to improve decision making. It also reveals that computerized information is at a low level in SMEs. It is revealed that there is a positive relationship between accounting information and small and medium sized enterprises and therefore managers should consider the use of accounting reports to manage their enterprises.Finally, the study recommends that SMEs need a well-designed and operating accounting information system to enable them manage its most valuable resource which is information and moving forward, based on the AIS chosen emphasis should be put on system threats in a firm. Where accountants and business owners must put in place security measures like anti viruses, training and creating a culture of security so as to avoid attacks on the AIS which leads to loss of data and valuable accounting information.

INTRODUCTION

This chapter presents the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study, study hypothesis, significance of the study and operational definition of key terms.

Statement of the Problem: There has been persistent poor performance of many SMEs in Uganda. Majority of them do not survive to witness their second birthday. (Balunywa, 2007). SMEs opt not to use proper accounting methods and have not grabbed the associated benefits of good accounting records, thus managers find it difficult to control business costs and proper tax assessments. Although there might be other factors affecting the financial performance of SMEs, lack of reliable and relevant information for decision making is the major factor limiting their performance.

Purpose of the Study: The purpose of the study was to explore the impact of accounting information on the performance of SMEs.

Specific Objectives

- To examine whether SMEs keep proper books of Accounts.
- To examine the quality of financial statements produced by SMEs.
- To find out the relationship between accounting information system and performance of SMEs.

Research Questions

- Do SMEs keep proper books of accounts?
- Do SMEs keep qualified financial statements based on accounting regulations?
- What is the relationship between accounting information and SMEs?

Scope of the Study

Content Scope: More emphasis was put on accounting information which is the dependent variable and small and medium sized enterprises which is the independent variable.

Geographical scope: The study was conducted in the selected SMEs in Kampala District, Uganda to explore the impact of accounting information on the performance of SMEs.

Time Scope: The study was conducted for a period of 5 Months that is, from August 2020 to December 2020.

Significance of the Study

The importance of carrying out this research includes the following:

- This study will serve as a reference to policy makers when modifying polices or formulating new policies.
- This study will highlight SMEs and other business organizations in the areas of accounting.
- Various businesses will also learn from this research and improve their accounting practices.
- The future academicians will also use this research as part of their literature review in developing their own research.

Conceptual framework: The conceptual framework draws relationship between the variables; it clearly indicates how the dependent and independent variable relate.
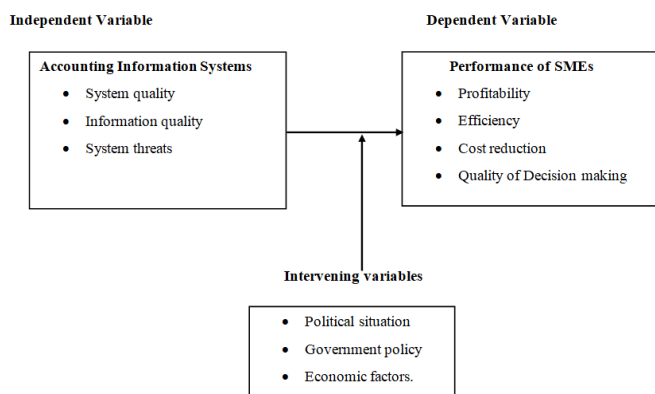
Source; Primary data

METHODOLOGY

Introduction

This chapter describes how the activity of research was carried out. It highlights the research design, area and population of study, sample selection and sample size, data collection instruments and procedures, data analysis and ethical considerations.

Research design: The study was carried out using a combination of descriptive research design, cross sectional and associational research design to find out the relationship between accounting information and SMEs.

Sample size: The sample for this study consisted of 20 respondents from different small and medium enterprises in

Kampala i.e. supermarkets, wholesale and retail, fast foods, bakery and small Rolex kiosk.

Sampling design: The researcher randomly selected SMEs proposed in the sample selection and made appointments with each of them specifying the date, time and the intended duration of filling the questionnaire. Each questionnaire filling took at least an hour. Questionnaires were delivered to the offices of the respondents at the agreed date and time by the researcher and were filled in by the respondent. However, some appointments were rescheduled due to unavoidable circumstances from either party but largely from the respondents' side.

The researcher conducted the study in person so as to make sure that the respondent who was selected to participate in the study is the one who completed the questionnaire. The researcher had an opportunity to supplement the respondents' answer with observational data. This was through describing the physical, socio-economic background of the respondent, their attitudes and reactions to the survey and were even able to assess the validity of the answers. This information aided and guided the researcher in data analysis.

Data Collection and tools: Questionnaires: Draft questions on the questionnaire was pretested to remove ambiguity and achieve high degree of precision: any information omitted will be rectified. Questionnaires were chosen because they are economical, less time consuming and are more reliable since biasness of the interviewer is avoided. Open questionnaires were used to obtain respondents views while closed questionnaires were used to elicit more specific and direct type of information. Interviews: Personal interviews were employed in data collection exercise. Interviews were used because of the following importance it provides in depth data, guard against confusing questions, they are more flexible, the interviewer was able to clarify the purpose of research and obtain more information by probing, they yield higher response rates and may elicit more sensitive information.

Data analysis: Data was analyzed by the researcher during collection and after collection. Then the researcher came up with conclusion basing on the findings and Generally Accepted Accounting Principles. The collected data was edited and coded. This served the purpose of cleaning up the data to ensure that data was of high quality.

Ethical Considerations: The researcher ensured confidentiality of the information provided by the respondents and ascertain the practice of ethics in this study. The researcher sought permission through an introductory letter from the College of Economics and Management to the selected SMEs in Kampala to be included in the study, respondents were asked to sign in Informed Consent Form, acknowledge the authors quoted in this study and the author of the standardized instrument through citations and referencing, findings were presented in a generalized manner. During the study, an informed consent form was attached to each questionnaire, and interview guide which were required to be filled and signed by the respondents before any attempt to partake in this study. This form, as attached to the appendices sought to ensure that the respondents were not force into taking part in the study but did it out their own will to make the research program a success.

Limitations of the Study: During the study, the researcher encountered a challenge uncooperative behavior of some respondents, un-approachable respondents and those who were reluctant to give information. Some respondents required more time to respond to the questionnaires especially the students since most of them are not serious and dedicated. Assessing data was a problem since many respondents doubted the confidentiality of research project. Limited funds. Funds needed for; transport, feeding and stationery. Time limit, some respondents did not honor their appointments which necessitated rescheduling the appointments for a future date and time. This made it impossible for the researcher to complete the study with in the budgeted time.

PRESENTETATION, INTERPRETATION AND ANALYSIS OF FINDINGS

Introduction

This chapter comprises of the findings that were gathered by the researcher from selected Small and Medium Enterprises in Kampala in relation to the topic; The impact of accounting information system on the performance of small and medium sized enterprises (SMEs). The data is presented and interpreted in view of the objectives mentioned in chapter one of this research. The interpretation also seeks to answer the research questions that were raised in chapter one. Presentation and interpretation of data in this chapter has been done with the aid of quantitative and qualitative methods for example the use of graphs, pie chats tables, percentages and personal analysis and interpretation presented in essay form. Questionnaires were provided to 20 respondents who filled them to the best of their knowledge.

Nature of Accounting Information System

Status of books of accounts

Table 3.5. Showing if SMEs keep books of accounts

SMEs condition	Frequency	Percentage (%)
Keep books of accounts	20	100
Do not keep	0	0
Total	20	100

Source; Primary data, 2021

The table shows that all SMEs keep books of accounts. This indicates that at least all SMEs have some accounting information though varying in quantity and quality. The researcher is yet to establish at what level the SMEs keep the different types of books of accounts.

Balancing Books of Accounts: The table shows that no person balance off on a daily basis. 10% does it weekly, 20% one month basis, 05% quarterly while 65% on an annual basis.

Table 4.6. Showing how often SMEs balance off their books of accounts

Period	Frequency	Percentage (%)
Daily	-	-
Weekly	2	10
Monthly	4	20
Quarterly	1	05
Annually	13	65
Total	20	100

Source; Primary Data, 2021

This indicates that a large number of SMEs carry out book keeping and it shows that a large number balance off books annually which seems to be risky especially for SMEs which do not have enough labour to handle this. This is displayed in the chart below;
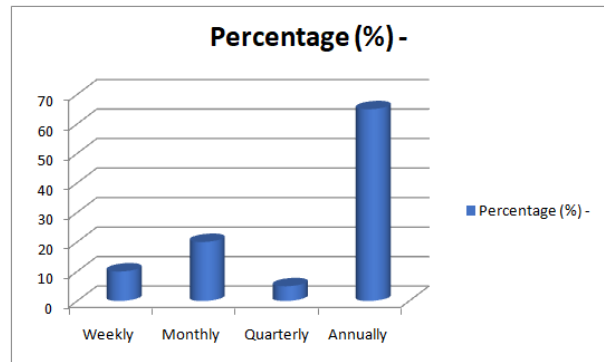
Examining the quality of financial statements prepared by SMEs: When respondents were asked the different types of financial statements they produce, it was found out that a big number of SMEs do not prepare a full set of financial statement but only a few of them. The most highly prepared financial statement they commented was the cash flow statement while others prepared the income statement however it was found out that the quality of financial statements produced was not up the required standard.

Existence of a Computerized Accounting System: In this question, respondents were asked whether small and medium sized business operate computerized accounting system, the findings were as follows.

Table 3.7 Findings on the existence of a Computerized Accounting System

Response	Frequency	Percentage (%)
Yes	05	25
No	15	75
Total	**20**	**100**

Source: Primary Data, 2021

This was intended to find out whether SMEs keep proper books of accounts. This shows that 05 people said yes while 15 people said no with 25 and 75 in percentages. It was discovered that SMEs use computerized accounting information.

Method of accounting information system used: In this question respondents were asked to tell the method of accounting used when recording data in their businesses and the following are the findings.

Table 3.8 Findings on the method used when recording accounting data

| Method	Frequency	Percentage (%)
Accrual	09	45
Cash	11	55
Total	20	100

Source: Primary Data, 2021

This question was asked to find out the method of accounting used when entering information. Nine (09) people answered accrual method while eleven (11) answered cash method giving 45% and 55%. This shows that cash method is the most desired method when recording business data.

Computer accounting package used: Respondents were asked to tick the type of computer accounting package used while entering business information and the following were the findings. The researcher wanted to know the package of accounting used when entering accounting information. Three (03) people use quick books, fifteen (15) use the tally system, no person us pastel and only two (2) use other methods with percentages 15, 75 and 10 respectively. This shows that accounting information is highly relied on in different departments. It is illustrated in the chart below.

Table 4.9 Findings on computer accounting package used

Accounting package	Frequency	Percentage (%)
Quick books	03	15
Tally	15	75
Pastel	-	-
Others	02	10
Total	20	100

Source: Primary Data, 2021
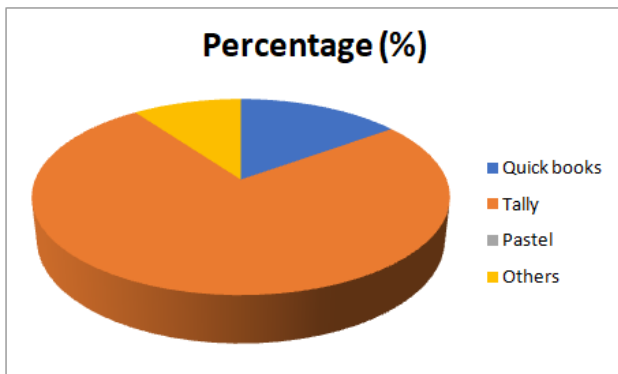
Source: Primary Data, 2021

Level of accounting in small and medium sized enterprises: Respondents were asked to show the level of accounting information and its impact on small and medium enterprises. The researcher wanted to acquire knowledge about the current level of accounting in SMEs. Three (03) people show that it's high, ten (10) shows that it's medium and seven (07) shows that it's low, with percentages 15, 50 and 35. This shows that the level of accounting in SMEs don't satisfy activities performed in SMEs.

Table 4.10 findings on the level of accounting in SMEs

Level	Frequency	Percentage (%)
High	03	15
Medium	10	50
Low	07	35
Total	**20**	**100**

Source: Primary Data, 2021

Respondents were asked to state the solution to the low use of accounting information in the small and medium sized enterprises. The researcher wanted solutions to the low level of accounting practiced in SMEs. 15 people suggested that, it's the lack of knowledge about accounting packages that limit the use accounting information, they also suggested that, lack of enough capital to support the use and recording of information and poor managers who have failed to take concern on accounting bundles. This implied that SMEs have a big problem to solve in order to overcome the problems in collecting accounting information and putting it to use.

Table 4.11 findings on the current level of accounting information in SMEs and responsibility of members

Response	Frequency	Percentage (%)
Yes	07	35
No	13	65
Total	20	100

Source: Primary Data, 2021

Respondents were asked whether they are concerned about the current level of accounting information in their organizations. The researcher wanted to point out figures and their concern about the current level of accounting information in their businesses. Seven (07) people answered yes and the thirteen (13) people answered no to this question. This enabled the researcher to reveal that majority of SMEs were concerned about the current standings of their businesses. Respondents were asked to comment or show their concern with the current level of accounting information in their businesses.

Respondents were asked to comment or show their concern with the current level of accounting information in their businesses: The researcher wanted to acquire knowledge from members concerned about the current level of accounting information 13 people answered this question and had a common answer that is, everyone in the organization is concerned about accounting information but what differs is the level of use to different members in the organization. They all believe that accounting information is not at its best as the case of Uganda because manipulation of data and interpretation of information is not easy for managers thus limiting the use of accounting information. Organizational objectives can only be attained with a collective effort.

Respondents were asked to tell the constraints that limit the use of accounting information in SMEs: Respondents were asked to tell the constraints that limit the use of accounting information in SMEs Respondents were asked to tell whether there are constraints that limit the use of accounting information in organizations.

Table 3.12 Findings on constraints that limit the use of accounting information in SMEs

Response	Frequency	Percentage (%)
Yes	19	95
No	01	5
Total	20	100

Source: Primary Data, 2021

The researcher wanted to know whether there are constraints that limit the use of accounting information. Nineteen (19) people said yes while only one (01) person said no, presenting 95% and 5% respectively. This revealed that there are constraints that limit the use of accounting information by SMEs. It is illustrated in the table below.

Respondents were asked to state some of the factors that limit the use of accounting information in small and medium sized enterprises: The researcher wanted to know some of the constraints. Twenty (20) people answered this question and they stated the following constraints; inadequate funds of the SMEs limit the use accounting information since it is expensive to acquire machines, lack of knowledge specifically in accounting packages since many employees have limited knowledge to these packages, and government failure to teach citizens the benefits of accounting packages to the SMEs. This shows accounting information is associated with limitations.

Respondents were asked whether accounting information has enabled them to gain as planned in their organizations: The researcher wanted to find out whether SMEs have gained with the use of accounting information. Ten (10) answered yes while (10) answered no to this question, expressing 50% and 50% respectively. These shows that proper use of accounting information can enable a business obtain its objectives.

Table 4.13. Findings on whether accounting information has enabled organizations achieve their objectives

Answer	Frequency	Percentage (%)
Yes	10	50
No	10	50
Total	20	100

Source: Primary Data, 2021

Respondents were asked to state the factors that have limited organizations achieve their objective by use of accounting information: The researcher wanted to know the factors that limit organizations to obtain their objectives. This question was answered by all members and the common factor stated was lack of enough information to check the business' competitiveness with other members, limited funds to finance business operations, lack of qualified labor to run business operations, poor managers, government regulations and taxation, poor infrastructure and high inflation rates which has caused commodity prices to rise almost times two. From the findings it shows that SMEs have a big problem to solve if they are to achieve positively from accounting information.

Respondents were asked to comment on the overall role of accounting information on small and medium sized enterprises: The researcher wanted the respondents to state all the advantages achieved from the use accounting information. Twenty (20) people responded to this question and they all believe that accounting information enables business organization achieve their objectives, accounting information can enable organizations fulfill their objectives thus spend business monies in respect to the budget settings.

Respondents were asked to provide solutions and means to improve the accounting information flow in their organizations: The researcher wanted respondents to state all the solutions to the problems stated nineteen (19) people responded to this question and a common answer was, acquiring technical machines like computers and employing technical labor with technical knowledge to accounting packages and government assistance by providing financial assistance to SMEs.

Relationship between accounting information and survival of SMEs: To establish whether there is a relationship between accounting information and survivals of businesses, respondents were asked to show in their opinion whether there is a relationship between accounting information and failure of businesses, finding are as in the table below;

Table 3.14. Presentation of findings on the relationship

Responses	Frequency	Percentage
Yes	20	100%
No	0	0%
Total	20	100%

Source; Primary Data, 2021

The table above shows that all respondents agreed that there is a relationship between accounting information and survival of businesses this is evidenced by twenty (20) respondents which give a percentage of 100%. This implies that accounting information has a greater influence on survival of businesses hence need to be handled with greater care. Respondents also admitted accounting information has many benefits like reliable and relevant information, preparation of financial statements, monitoring performance, tax evaluation among other however, the respondents admitted that keeping accounting information has got some challenges like limited skills, high cost of paying workers, lack of awareness among others.

Nature of the Relationship: To find out the nature of the relationship, respondents were asked to describe the nature by showing their choices. The findings are as in the table below

Table 3.15. Presentation of findings on the nature of the relationship

Responses	Frequency	Percentage
High	13	65%
Medium	05	25%
Low	02	10%
Total	20	100%

Source; Primary Data, 2021

From the above table, it was found that out of twenty (20) respondents; thirteen (13) representing 65% answered that there is a high relationship, five (05) representing 25% answered that there is a medium relationship, and six (6) representing 10% answered that there is low relationship. It is therefore, implied that survival of businesses is highly influenced by accounting information. The researcher went on to determine the strength of the relationship using Pearson's correlation coefficient.

Suggestions for further research: Ratios Analysis and Capital Budgeting

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