KAMPALA INTERNATIONAL UNIVERSITY
COLLEGE OF ECONOMICS AND MANAGEMENT SCIENCES

ACCOUNTING INFORMATION AND PERFORMANCE
OF SMALL AND MEDIUM ENTERPRISES IN MAKINDYE DIVISION

BY

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DECLARATION

I, Bosa Hannington of Reg no.BBA/40393/132/DU do hereby declare that this research dissertation is my original work and the ideas, results, analyses and conclusions reported are entirely my own effort. I also certify that the work has not been previously submitted for any other award in any other institution, except where otherwise acknowledged.
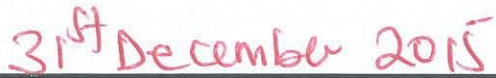
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SIGNATURE OF CANDIDATE

30th - 12 - 2015
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DATE

APPROVAL

This is to certify that this research dissertation has been submitted with my approval.

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SIGNATURE OF SUPERVISOR

_____
31st December 2015

DATE

DEDICATION

I dedicate this work to my mother Ms. BosaMillywho has worked so hard to make me what I am. May the almighty God bless you.

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A number of individuals have been so supportive in terms of financial needs, encouraging me in all difficult situations, giving me all constructive ideas about my education and also advising me morally throughout the course of three years.

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ABBREVIATIONS

Asia-Pacific

FASB - Financial Accounting Standards Board

IASB - International Accounting Standards Board

IASC - International Accounting Standards Committee

IBML IddBasajjabalaba Memorial Library

ICANZ - Institute of Chartered Accountants of New Zealand

KIU Kampala International University

PSF - Private Sector Foundation

SAC - Statement of Accounting Concepts

SFAC - Statement of Financial Accounting Concepts

SME - Small and Medium Enterprises

UIA - Uganda Investment Authority

UNCTAD - United Nations Conference on Trade and Development

UNESCAP - United Nations Economic and Social Commission for the

USSIA - Uganda Small Scale Industries Association

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ABSTRACT

information is critical to organizations' performance in today's highly competitive environment. The Statement of Accounting Concepts 3, International Accounting Standard Board (IASB) and Financial Accounting Standard Board (FASB, 1980) developed a conceptual framework for financial reporting where relevance, reliability, understandability and comparability are the qualitative characteristics that financial accounting information should possess.

The study covered relevance, reliability, understandability and accuracy. There is a belief that there is a relationship between these qualities and performance of small and medium size enterprises.

This dissertation investigates the correlation between quality of accounting information and performance of small and medium enterprises. 150 participants from different categories of selected small and medium enterprises (SMEs); with 120 (80%) usable responses received.

With the belief that there is a relationship between accounting information and the performance of small and medium enterprises, individual qualitative characteristics (relevance, accuracy, understandability, reliability) were tested with the performance.

From the findings of the study, it is recommended that for better decision making and improved performance of small and medium enterprises, accounting information should be relevant, accurate, understandable and reliable.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This research is about accounting information and performance of SMEs in Makindye division. This chapter presents an overview of the research starting with the background to the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study, significance of the study, and conceptual framework.

1.1 Background to the study

1.1.1 Historical perspective

The primary role of accounting is to collect and communicate data that can be used for analysis and decision making. The way financial data is provided and its content is of primary importance in its communication to information users (Hungerford, 1984). Part of the importance that surrounds data content is that we understand the characteristics that this data encompasses. The challenge to the accounting management, as well as to the senior management of a firm, is to develop strategies to achieve the primary and secondary qualitative characteristics of useful accounting information. When accounting information has these characteristics, the firm can provide the useful and needed quantitative information to decision makers (Ettredge, Shane, & Smith, 1995; Hungerford, 1984).

The IASC framework identifies four principal qualities that make information useful: understandability, relevance, reliability, and comparability. The FASB framework also identifies these characteristics, but it imposes a hierarchy on them. FASB Concepts Statement No. 2, Qualitative Characteristics of Accounting Information, identifies those qualities, defines them and explains how they interact with one another.

Concepts Statement 2 further explains that the primary qualities of accounting information are relevance and reliability, and that to be useful, information must possess both of those qualities. If either is missing completely from a piece of information, the information will not be useful (Kieso, Waygandt&Warfield, 2005)

1.1.2 Theoretical perspective

Small and medium enterprises' owners/managers either lack the technique for using financial statements (Byron &Friedlob 1984; DeThomas&Fredenberger 1985) or simply are unaware that they can use them to support the financial decisions. Although, some small and medium enterprises prepare financial reports for statutory purpose, many fail to use these reports (De Thomas &Fredenberger 1985). Poor record keeping and inefficient use of accounting information are a major cause of the small and medium size enterprises' failure (Berryman 1982 quoted in Siop 1997, Walton 2000, Wichmann, 1983, World Bank 1978).

1.1.3 Conceptual Background

The misuse and inaccuracy of accounting information causes small and medium size enterprises to inaccurately assess their financial situation, and make poor financial decisions, as well as leads them to face with the high failure rate (Byron &Friedlob1984; DiPietro&Sawhney 1977; Fredland& Morris 1976). Inefficient use of the accounting information to support small and medium size enterprises' financial decision-making (Ubonratchathanee University, 2000) and the low quality and reliability of financial data (Kingkaew&Limpaphayom 2001) are part of the main problems of small and medium enterprises in developing countries.

1.1.4 Contextual Background

Small and medium firms should recognize that accounting information can be a valuable component of a company management and decision-making systems, for financial data provides the ultimate indicator of the failure or success of a business strategic and philosophical direction (Duncan, 1988).

This study seeks to establish the relationship between the quality of accounting information and performance of small and medium size enterprises.

1.2 Statement of the problem

The quality of accounting information influences decisions made which in turn affect the performance level of small and medium size enterprises. Poor financial management is a major cause of business failure (Argenti, 1976) and accounting information is critical to

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organizations' success in today's highly competitive environment (HongjiangXu, 2004). There is poor level of record keeping in small and medium enterprises in Uganda(Ssejjaka, 1996) Poor record keeping and inefficient use of accounting information to support financial decision making are a major cause of the small and medium size enterprises' failure (Berryman 1982). Probably the poor performance exhibited in SMEs in Makindye Division could be due to shortcomings in accounting information which influences the decisions made and this influenced the researcher to investigate the relationship between accounting information and the performance of SMEs.

1.3 Purpose of the Study
The purpose of the study was to establish the relationship between quality of accounting information and performance in SMEs in Makindye Division.

1.4 Objectives of the Study
1. To establish the relationship between reliability of accounting information and the performance of SMEs in Makindye division
2. To assess the relationship between relevance of accounting information and the performance of SMEs in Makindye division.
3. To establish the relationship between understandability of accounting information and the performance of SMEsin Makindye division.

1.5 Research Questions
The study seeks to answer the following questions;
1. What is the relationship between reliability of accounting information and the performance of SMEs in Makindye division?
2. What is the relationship between relevance of accounting information and the performance of SMEs in Makindye division?
3. What is the relationship between understandability of accounting information and the performance of SMEs in Makindye division?

1.6 Scope of the study

1.6.1 Content scope
The study was centered on the relationship between quality of accounting information and performance in SMEs in Makindye Division.

1.6.2 Geographical scope
The study was conducted in Makindye division on one hundered (150) SMEs in Kabalagala, Kansanga, Bunga and Ggaba zones.

1.6.3 Time scope:
The study was conducted for a period of five (5) months from August to December 2015.

1.6 Significance of the Study
1. To provide information to owner-managers towards lasting solutions to poor quality accounting information and potential good performance in SMEs

2. To make contribution to the existing body of knowledge on performance and thus stimulate further research in both quality of accounting information and performance.

3. To enable owner-managers of SMEs and the general public grasp the value of quality of accounting information as a pillar for sound decision making and good performance in SMEs.

4. The study will also form part of reference materials for further research by different academicians upon appreciating

5. The researcher will also be able to gain more practical experience in to the variables studied

6. The study will act as a partial fulfillment of the requirement that the researcher needs to attain a Bachelor's degree of Business Administration of Kampala International University

1.8 Conceptual framework
The conceptual framework below indicates that once quality of accounting information is good, the resulting decisions can affect the level of performance of small and medium size enterprises. Accounting information can be used to improve SME performance, especially

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financial decisions (Naruanard, 2003). Different capital structures cause different degrees of financial risk and different financial plans affect SMEs' performance differently.

Figure 1.1 Conceptual Framework
Independent variable   **Dependent variable**

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┌──────────────────────────────┐              ┌──────────────────────────────┐
│    Accounting Information     │              │     Performance of SMEs       │
│                               │              │                               │
│   1. Reliability              │─────────────▶│   1. Sales                    │
│   2. Relevance                │      ▲       │   2. Profitability            │
│   3. Understandability        │      │       │   3. New markets              │
│   4. Accuracy                 │      │       │   4. New products             │
│                               │      │       │                               │
└──────────────────────────────┘      │       └──────────────────────────────┘
                           ┌───────────┴────────────┐
                           │  Accounting Procedures, │
                           │ Accounting Records and Tools │
                           └─────────────────────────┘
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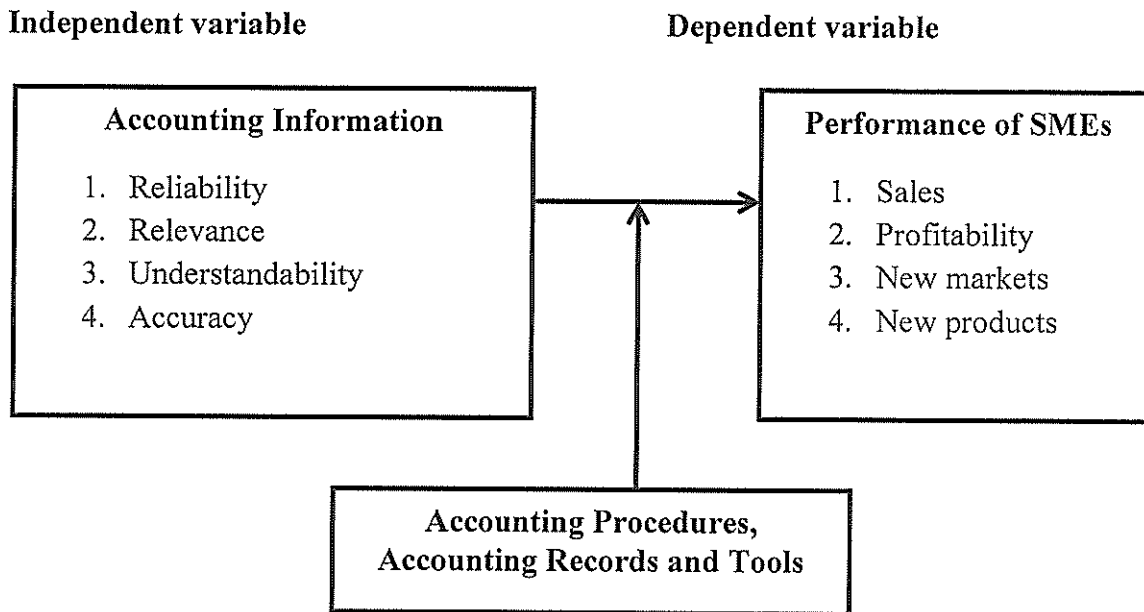
Source: Based on Esaete 2005, Barret 1995

The conceptual dimensions of accounting information are reliability, relevance, understandability and accuracy and those of performance are represented by three measures: business turnover / sales (Kalleberg&Leicht, 1991), new products, new markets and profitability (Lee, 1987)

The framework is supported by (Byron &Friedlob 1984; DiPietro&Sawhney 1977;Fredland& Morris 1976) who asserted that inaccuracy and misuse of accounting information causes SMEs to inaccurately assess their financial situation, and make poor financial decisions, as well as leading them to face high failure rate(Wichmann, 1983).

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CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The literature synthesizes the principles and concepts that have been explored and brought out by various authors in the existing literature on quality of accounting information and performance in small and medium size business enterprises.

The literature is reviewed under the following subheadings: role of accounting information in business decision making, qualitative characteristics of accounting information (relevance, reliability, understandability, and accuracy), performance in medium size enterprises (sales, profitability), technical competence, and definition of medium size enterprise and role of medium size enterprises.

2.2 Related literature

Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information (Wood, 1996). Accounting provides information for managers to use in operating the business. In addition, accounting provides information to other stakeholder's to use in assessing the economic performance and condition of the business.

Accounting information is information provided by accountants and accounting systems. This information is usually presented in financial statements such as the income statement and the balance sheet.

Accounting information signals that decisions are needed, and provides information useful to making decisions (Gibson 1963 quoted in Thomas &Evanson 1987).

Accounting information presented in financial reports helps in decision making by showing where and when money has been spent or earned, what commitments have been made and it helps to predict the future effects of decisions (Hongren et al 1996:3). Decision makers who use financial reports include managers, owners, investors and politicians (Hongren et al 1996: 2)

Accounting information is used to assess the profitability of alternative courses of action, measure performance, and evaluate the position of enterprises in terms of profitability, liquidity, activity and leverage. It can be used to improve SME performance, especially financial decisions (Naruanard, 2003).

According to (Kothari,1995), managers use accounting information in making investment decisions; investors use accounting information in valuing stocks, bankers rely on accounting information in deciding whether to lend money to business and in assessing the risk of the loan, and also accounting information is crucial in evaluating the performance of employees at various levels in an organization.

Figure 2.1 Users of Accounting Information
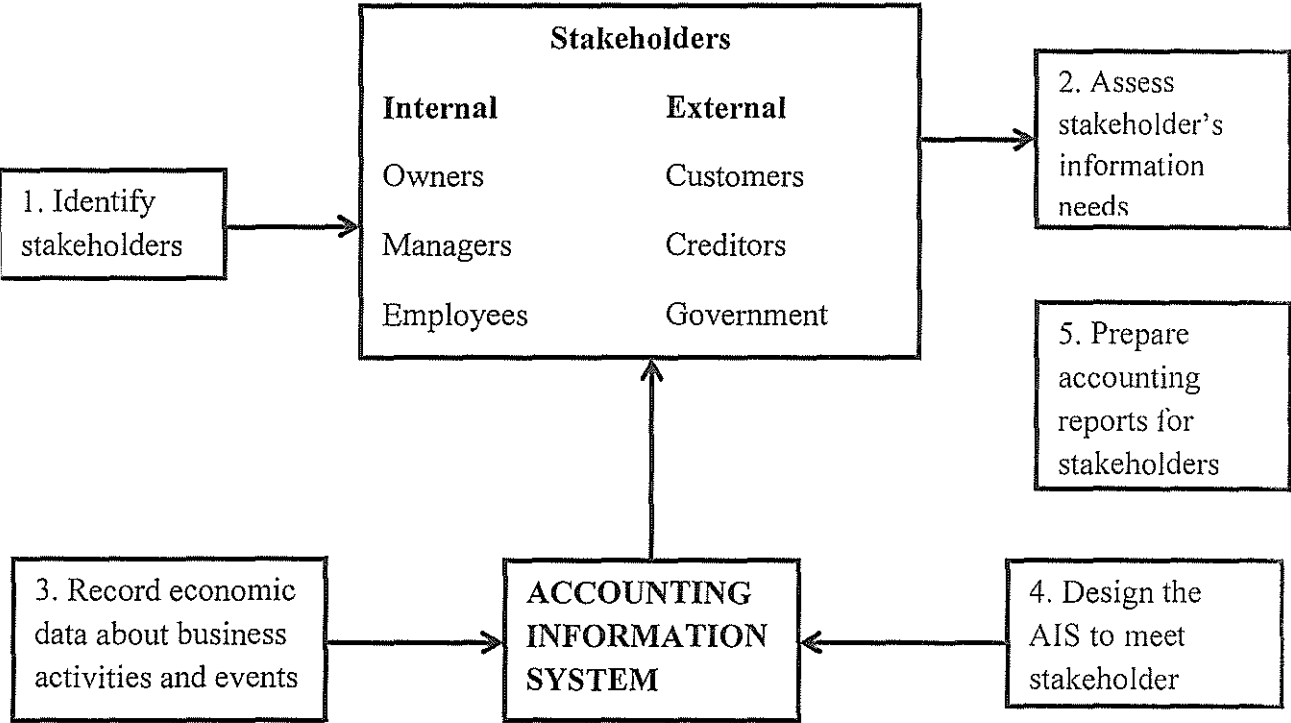
Adapted from (Accounting Strategies, Page 823)

2.3 Theoretical review

The primary objective of financial reporting is to provide useful information to interested parties. This information should have qualitative characteristics to be useful for decision making. According to (Weygandt&Kieso, 2005) qualitative characteristics of accounting information include relevance (information makes difference in decisions), reliability (information must be free of error and bias), comparability (ability to compare information of different companies because they use the same accounting principles) and consistency (use of same accounting principles and methods from year to year within the same company).

Furthermore, in evaluating the quality of information systems, (Kriebel, 1979) identifies attributes such as accuracy, timeliness, precision, reliability, completeness, and relevancy. Similarly, in assessing the value of an information system, (Ahituv,1980) proposes a multi-attribute utility function, and suggests relevant attributes such as timeliness, accuracy, and reliability. The International Accounting Standards Board has started a project to draft special financial reporting standards for SMEs that will generally be based on the IFRS framework, but yet tailored to meet the differing needs of less complex businesses (Business Times, 2005).

The IASC framework identifies four principal qualities that make information useful: understandability, relevance, reliability, and comparability. The FASB framework also identifies these characteristics, but it imposes a hierarchy on them. Concepts Statement 2 states that the qualities that distinguish —better (more useful) information from —inferior (less useful) information are primarily the qualities of relevance and reliability. (Stanga, 1980) states the importance of Statement of concepts 'definitions of the two qualitative characteristics of relevance and reliability so that their common meaning does not blur their accounting definitions.

Good record keeping provides SMEs with accurate information on which to base decisions, such as projecting sales and purchases, determining break-even points, and making other financial analyses. Empirical studies by (Gibson, 1992, Gibson and Wallsschutzky, 1992) and (McMahon, 1998) show that many small business owners use financial information

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rather to determine whether their capacity to generate future profits has been impaired, than to run their business more efficiently and cost effectively.

(Cordano, 1991) contends that good record-keeping systems can increase the chances of staying in business, the opportunity to earn larger profits and that good accounting records will indicate a business's level of profit and provide specific information on the profitability of certain departments or lines of goods within your business. (Stover, 1997) observes that, bluntly, a small business that fails to keep complete and accurate records places its long term success and continuance in grave doubt. Moreover the accounting regulatory framework is considered by most SMEs as something of a haphazard patchwork (Walton, 2000).

A study of 385 private limited companies that fell within the EU definition of small and medium businesses convinced the authors that financial management in small and medium size enterprises plays a critical role in their success and survival□ (Collis and Jarvis, 2000). (Kazooba, 2006) concurred that poor recordkeeping and a lack of basic business management experience and skills were major contributors to SMEs failure.

(McCannon, 2002) argued that many businesses fail because managers did not keep adequate records and could not make timely and important management decisions. (Berry et al, 1998) found that SMEs have not developed their financial management practices to any great extent and conclude that owner-managers should be made aware of the importance and benefits that can accrue from improved financial management practices. According to a study by (Okpara, John O.Wynn, Pamela, 2007), most business owners end up losing track of their daily transactions and cannot account for their expenses and profits at the end of the month. The prevalent lack of proper records has led to the closure of some businesses, thereby making it a significant issue for business success/performance.

New markets do not emerge nor do they appear but they are made by the activities of the firms (Anderson and Gatignon, 2003). New markets are created when firms correctly sense a latent need and communicate their solution to that need. A new market can be created by either carrying out marketing activities (product design, branding, promotion, pricing, sales and distribution) of established products or innovating new products (Pawakapan, 2000).

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Innovation increases public welfare and as such new markets are thought to rise because buyers recognize they will be better off (Anderson &Gatignon, 2003). For most firms, successful new products are engines of growth (Cohen, Eliashberg, & Ho, 1997). New products generate future profitability and prevent obsolescence of the firm's product line (Pauwels, Silva-Risso, Srinivasan, &Hanssens 2004). Indeed aggregate evidence suggests that profitable firms do innovate (Pauwels*et al.,* 2004).

2.4 Relationship between relevance of accounting information and performance of SMEs

(UBOS, 2003) defines a small business as one which employs less than five people. A small scale business is also defined as one which is independently owned and operated and not dominant in its field of operation. It can also be defined in terms of sales volume and by the number of employees in the business.

Small and Medium Enterprises (SMEs) constitute the backbone of many economies. They not only provide employment and therefore income opportunities to a large number of people, but are also at the forefront of technological innovation and export diversification(Wabwire, 1996).

Performance measurement is defined by Neely, Gregory and Platts, (1995) as _the process of quantifying the efficiency and effectiveness of action. Business performance measurement has been viewed as a challenging task, particularly for small and medium size firms. Essentially, the difficulties relate to defining key performance dimensions (Garengo, Biazzo et al. 2005). Although there is evidence to suggest that the key dimensions of performance are similar for large and small firms the role of management varies (Haber and Reichel, 2005).

The objective of accounting policy decisions is to produce accounting information that is relevant to the purposes to be served. Usefulness of information disclosed by a company is measured, among other things, by its relevance.

Relevance means that quality of financial information which exists when that information influences decisions by users about the allocation of scarce resources by helping them form predictions about the outcome of past, present or future events; and/or confirming or

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correcting their past evaluations (SAC 3, 1990). The American Statement of Concepts defines relevance as —...the capacity of information to make a difference in a decision ... ⌐ (ICANZ, 2001) describes relevant information as confirming or correcting prior expectations, or assisting in forming future decisions.

Relevance is also defined as the capacity of the information to make a difference in a decision by being predictive about the future and giving feedback values about the past performance (McDaniel et al, 2002). Similarly, (Hendriksen& Van Breda 1992:133-134) assert that information has the quality of relevance if it affects goals, understanding and decisions and that information can only be relevant if it has predictive and feedback value and arrives timely.

Predictive value relates to relevance in that information can make a difference to decisions by improving decision makers' ability to predict (FASB 1980, par 51) and feedback value refers to the ability of information to influence decisions by confirming or correcting earlier expectations of decision-makers (FASB 1980, para-51).

Timeliness implies providing information in the financial statements in a timely manner, which means recognizing all pertinent information (e.g. revenues, expenditures, changes in the value of assets) to enable the users of current financial statements to form an expectation about the future cash flows of the business.

Accounting reports prepared annually or in a shorter time period not only appraise the past performance but also assist in assessing future prospects of the entity. Such information is also very important for would-be-owners (Gupta, 2007). However, financial information inherently suffers from the lack of timeliness due to conservatism.

SFAC No.2 also states that timeliness is an ancillary aspect of relevance (FASB, 1980 para-56). Similarly, Abu-Nassar and Rutherford, (1996) found that timeliness was one of the most important criteria to affect users' perceptions regarding quality of financial information. This is consistent with Davies and Whittered, (1980) who concluded that timeliness is a necessary condition to be satisfied, if financial statements are to be useful. For accounting information

to be relevant it must be available to decision makers before it loses its capacity to influence their decisions.

Relevant accounting information furnishes substantial information about an organization' volume of business, such as how present and prior volumes compare, the amount of cash versus credit sales and the level and status of accounts receivable(Walton 2000).

IAS 18 (Para 3 and 4) defines the sale of goods to include goods produced by the enterprise for the purpose of sale and goods purchased for resale, such as merchandise purchased by a retailer or land and other property held for resale, whilerendering of services typically involves the performance by the enterprise of a contractually agreed task over an agreed period of time.

2.5 Relationship between reliability of accounting information and performance of SMEs

Small and medium business definition has no precise answer. It varies between countries (Barrow, 1992) and industries (Wabwire, 1996). (Balunywa, 2003) defined a small business (specifically sole proprietorship) as one that is characterized by single ownership, under one person's control with unlimited liability, having undivided risk with no government control and has no separate entity from the firm.

Small and Medium-Sized Enterprises (SMEs) are viewed as an essential element of a healthy and vibrant economy. They are seen as vital to the promotion of an enterprise culture and to the creation of jobs within the economy (Bolton Report, 1971). They are believed to provide an impetus to the economic progress of developing countries and its importance is gaining widespread recognition. Small and Medium size businesses are a vital spark in the economy, playing a big role in forward and backward linkages to large scale enterprises (Uganda Government, 2000).

There are numerous measures of performance but (Hvolby and Thorstenson, 2000) contend that selection of a suitable measure ought to be in the light of the firm's strategic intentions to suit the competitive environment in which it operates and the kind of business engaged in. The differences in the way small and medium size firms are managed are largely due to the

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structural and resource variations, as well as the motivations of the owner-manager for establishing the small and medium size business (Peacock, 1999). These differences can impact on the way performance is measured.

Reliable information is described as corresponding to underlying transactions, as well as being verifiable and neutral (ICANZ, 2001). It is also defined by the American Statement of Concepts as the quality of information that assures that information is reasonably free from error and bias and faithfully represents what it purports to represent (FASB, 2004, p. 39). (Agmon and Ahituv, 1987) presented three measures of reliability including internal reliability (the commonly accepted characteristics of data items), 2) relative reliability (the compliance of data to user requirements), and 3) absolute reliability (the level of resemblance of data items)

Reliability is depicted when information is reasonably free from error and bias and faithfully represents what it purports to represent, thus embraces verifiably, neutrality, representational faithfulness as well as comprehensiveness of disclosure (FASB, 1980). The Statement of Accounting Concepts 1990 defines reliability as the quality of financial information which exists when that information can be depended upon to represent faithfully, and without bias or undue error, the transactions or events that either it purports to represent or could reasonably be expected to represent. Figure 2.2 above portrays an outline of all the aspects of reliability.

According to SFAC No.2 (para-33), to be reliable, information must have representational faithfulness and it must be verifiable and neutral. The reliability of a measure depends on the faithfulness with which it represents what it purports to represent, coupled with an assurance for the user, which come through verification, that it has representational quality (FASB 1980).

Neutrality means information should be free from bias towards a predetermined result (FASB 1980, para-99). Although the SFAC No. 2 implies neutrality in standard setting as well as in standard implementing, the focus in this study is neutrality in financial report preparation.

Verifiability: the usefulness of accounting information is enhanced if verification of the information proves that the accounting measures represent what they purport to represent. Verification is more successful in measuring bias and thus contributes in varying degrees towards assuring that particular measures represent faithfully the economic things or events that they purport to represent☐ (FASB 1980: par 81.)

Accounting information should be reliable in use and this implies that the users should be able to rely on some basic assumptions about the quality of accounting information produced by accountants. It may be noted that financial reports, often the basis for quality measurement, are not prominent documents in SMEs.

Good accounting information will indicate a business's level of profit, and provide specific information on the profitability of certain departments or lines of goods within your business. Such analysis is important to avoid continuing product lines far beyond their profitability. In most cases, you can avoid losses if you maintain current records and analyze the information from, your records on an ongoing basis.

In business, profit is synonymous with survival. A business must earn enough profit to repay creditors and investors, finance its working capital requirements and buycapital assets. Profitability measures the firm's ability to generate revenues in excess of expenses, an accomplishment that is necessary if the firm is to be considered a "going concern." (Coleman, 2007)

A number of prior studies cite the firm's ability to generate profits as an important indicator of performance (Haber and Reichel2005; Watson 2002; Du Rietz and Henrekson 2000; Brush and Chaganti 1998; Cooper, Gimeno-Gascon, and Woo 1994; Kelleberg and Leicht 1991; Loscocco et al. 1991). Phillips (1999) argues that profitability in the short run is an important factor in the organization's ability to achieve its long term goals such as increased market share, brand names and reputations. (Cooley and Edwards 1983) reported that Small and Medium size firms consider maximization of net income to be the most important financial objective.

2.6 Relationship between understandability of accounting information and performance of SMEs

In Uganda, the (UIA SME Business Guide, 2008) defines a medium enterprise as an enterprise employing more than 50 people; annual sales/revenue turnover of more than Ugandan Shillings 360 million and total assets of more than Ugandan Shillings 360 million. In Uganda, these businesses are very small employing up to a maximum of 50 people, who in most cases are members of the same family (Tushabomwe, 2006).

The Ugandan economy is supported mainly by SMEs contributing about 90% of private sector production. They are the prime source of new jobs and play a crucial role in income generation (UIA, 2008). They have an annual growth rate of 15 to 20 percent (The New Vision, 2003) and contribute to 20 to 50 percent of non-agricultural GDP (Charme, 2000).

The most common non-financial measures adopted by the SMEs are number of employees (Orser, Hogarth-Scott, and Riding 2000; Robinson and Sexton 1994;Loscocco and Leicht 1993; Davidsson 1991; growth in revenue across time (Miller, Wilson, and Adams 1988) and revenue per employee (Johannisson, 1993).The goal approach, suggested by Quinn and Rohrbaugh, (1983) directs the ownersmanagersto focus their attentions on the financial measures. These measures include profits, revenues, returns on investment returns on sales and returns on equity rather than the non-financial measures.

Understandability means that quality of financial information which exists when users of that information are able to comprehend its meaning (SAC 3, 1990). The ability of users to understand financial information will depend in part on their own capabilities and in part on the way in which the information is displayed. It is not good having all the points attended to if the financial statements are then presented in a way difficult for users to understand.

According to the IASC framework, users are assumed to have abilities or reasonable knowledge of business and economic activities. Understandability measures text reader interaction and thus the ability of a reader to gain knowledge from the text. (SAC 3, 1990) states that it is the ability of users to understand financial information that depends upon their own capabilities and in part on the way in which information is displayed.

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For corporate information to be useful, it should be presented in an understandable manner. This reality was emphasized by Buzby (1974), who demonstrated that the annual report could be adequate and readable if the information contained in it is presented in an understandable manner and grouped and organized appropriately.

Similarly, Work et al (1992) contended that even if users of annual reports are assumed to be knowledgeable, the information itself could have different degrees of comprehensibility. Hence the quality of understandability is a characteristic of great concern to users and preparers of annual reports.

2.7 Relationship between accuracy of accounting information and performance of SMEs

The Companies Act 2006 (C.46 382(3),defines the qualifying conditions for a small size business to include turnover of not more than £5.6 million, balance sheet total of not more than £2.8 million and number of employees of not more than 50. The Companies Act 2006 (C.46 465(3), also defines the qualifying conditions for a medium size business to include turnover of not more than £22.8 million, balance sheet total of not more than £11.4 million. number of employees of up to 250.

For local communities, SMEs often have a vested interest in community development. Being local, they draw upon the community for their workforce and rely on it to do business. For the communities, they provide goods and services tailored to local needs and at costs affordable to local people. They are an important source of employment, particularly for low-skilled workers, as well as women and young people, who usually make up the greatest proportion of the unemployed in emerging economies (Siop 1997).

Small and Medium Size Enterprises (SMEs) have played an integral part in the drive towards poverty eradication. They have contributed positively towards the asset accumulation process, employment generation and enhancing the income earning capacity of the poor, thus making a positive contribution towards poverty reduction. (Atingi-Ego, 2002). A positive relationship has been documented between small and medium business enterprises'

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development and economic growth in developed countries (Harris and Gibson, 2006; Monk, 2000; Sauser, 2005; Birch, 1987; Birch, 1981)

According to Birley and Westhead, (1994) short-term financial measures, include revenues and profitability and reflect an organization's current state of performance. By accumulating the revenues and profits, these may become a useful pool of resources for future growth, expansion plan, help push the organization over its survival threshold (Barney, 1997) and support its growth strategy (Haber and Reichel2005).

Traditionally, data quality has often been described from the perspective of accuracy. Accuracy is that qualitative characteristic which occurs when the recorded value is in conformity with the actual value (HongjiangXu, 2003). Accuracy is also defined in terms of the frequency, size, and distribution of errors in data (Wang, Storey& Firth 1995).

Information relating to an entity is accurate if all data to that entity have been reflected in its records. The more accurate the information is the higher the quality and the more securely managers can rely on it in making decisions (Stoner et al, 1995).

Inaccurate and incomplete data may adversely affect the competitive success of an organization (Redman 1992). Indeed, poor quality information can have significant social and business impacts. For example, errors in an inventory database may cause managers to make decisions that generate overstock or under-stockconditions (Bowen 1993).

Through accurate accounting vital economic decisions are made more efficiently by individual investors and firm managers on how to channel resources to their best and highest use (Gene Steuerle, 2004). The misuse and inaccuracy of accounting information causes SMEs to inaccurately assess their financial situation, and make poor financial decisions, as well as leads them to face with the high failure rate (Byron &Friedlob 1984; DiPietro&Sawhney 1977; Fredland& Morris 1976).

Although there are many ways to measure SME growth and performance such as market share, productivity and return on capital, three important indicators are particularly useful for

policy makers: 1) employment growth; 2) sales growth; and 3) increase in profitability (UNESCAP, 2005).

Firm sales have been cited as a key measure of performance in prior research (Haber and Reichel 2005; Davidsson et al. 2002; Orser and Hogarth-Scott 2002; Gundry and Welsch 2001; Orser, Hogarth-Scott, and Riding 2000; Rosa, Carter, and Hamilton 1996; Kolvereid 1992). Entrepreneurs often measure performance through the sales of a firm (Barkham et al 1996 as quoted by Kimuli, 2007)

2.8 Conclusion

The quality of accounting information influences decisions made resulting into a given level of performance in SMEs. Accounting information is used to assess the profitability of alternative courses of action, measure performance, and evaluate the position of enterprises in terms of profitability, liquidity, activity and leverage and also be used to improve SME performance, especially financial decisions (Naruanard, 2003). Thus, proper accounting is a key to small business performance (Wichmann, 1983).

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter focuses on the description of the research methods that were used in carrying out the study. It describes the research design, study population, sampling method and procedure, data sources and collection instruments, data collection methods and procedure, research variables and their measurement, validity and reliability of instruments and data processing and analysis. The chapter ends with a review of the limitations during the execution of the study.

3.1 Research design

A blend of cross-sectional, descriptive and explanatory research was adopted. The study adopted a cross-sectional design to enable investigation on the different characteristics of the variables. Descriptive research design helped to provide a clear understanding of the perceived quality of accounting information and performance attributes in SMEs. Explanatory research design was used to explain the relationship between accounting information and performance in SMEs.

3.2 Study Population

Small and Medium enterprises can be classified into sectors of trade and services. In this study, SMEs that fall in business sectors of trade and services were considered, these being the most prevalent sectors in the study area. The sectors of trade and services were deemed appropriate based on (Sekaran, 2000) who points out those particular strata can be focused on for ease of data collection and attainment of meaningful results. The population comprised 160 SMEs in Makindye Division. Four zones in Makindye Division were covered from which a sample of one hundred sixty (160) SMEs was selected as shown in table 3.1 below;

Table 3.1 selection of sample from population

Zone	Population	Sample	Percentage
Ggaba	112	58	27.6%
Kabalagala	104	50	23.8%
Kansanga	124	62	29.5%
Soya-Bunga	100	40	19.1%
TOTAL	440	210	100%

Source: *primary data*

3.3 Composition of SMEs sampled

In the study, since the datain the sampling frame are considered comprehensive and can be easily divided intostrata based on the business sector and parishes, a stratified sampling technique is adopted. Stratified sampling improves the sampling efficiency by increasing the accuracy at a faster rate than the costs increase (Kumar et al., 2002).

Table 3.2 Composition of SMEs sampled

Type	Number of SMEs	Percentage
Beauty saloons	24	11.4%
Education services	22	10.4%
Hardware business	26	12.8%
Hotels and Restaurants	32	15.2%
Information technology	25	11.9%
Manufacturing	28	13.3%
Sports and games	22	10.4%
Super markets	30	14.6%
Total	**210**	**100%**

Source: *primary data*

3.4 Sample formula

The researcher applied the following Slovin's sample formulae:

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

Where, N is the target population, n is the sample size and e is the level of statistical significance and in this study was 0.05.

The field work sample comprised two hundred and ten (210) SMEs. The sample size satisfies the rule of thumb proposed by (Roscoe, 1975) as noted by (Sekaran, 1992). Sekaran noted Roscoe as suggesting, among others, that a sample size larger than 30 and less than 500 is appropriate for most research.

The sample was selected basing onKrejcie and Morgan's table, 1970 which states a sample size of 210 from a population of 440 SMEs.

3.5 Data Source and Collection Instruments

Primary data was collected using a questionnaire to obtain perceptions ofrespondents. Literature was reviewed using secondary data sources which included

The Idd Basajjabalaba Memorial Library,publications and research journal.

3.6 Data Collection Methods and Procedure

A structured questionnaire was used to collect the primary data about quality of accounting information. The questionnaire comprised closed ended questions based on existing theory in the literature. The questionnaire was divided into major sections to specifically address the research objectives of establishing the relationship between reliability of accounting information and the performance of SMEs, assessing the relationship between relevance of accounting information and the performance of SMEs and establishing the relationship between understandability of accounting information and the performance of SMEs.

3.7 Data Processing and Analysis

The data collected was edited, coded and analyzed using computerized analysis using the Microsoft office excel and Statistical Package for Social Scientists (SPSS)

3.8 Validity and Reliability of the instrument

3.8.1 Validity
To ensure the validity of the instrument (questionnaire), the research supervisor will act as an expert to assess the validity of the research instrument.

3.8.2 Reliability
The results of the study will be summarized using the Likert Scale of 1-5 shown in the table below;

Table 3.3 showing the Likert Scale

Scale	Equals
1	Strongly Disagree (SD)
2	Disagree (D)
3	Not Sure (NS)
4	Agree (A)
5	Strongly Agree (SA)

3.9 Ethical Considerations
To ensure ultimate confidentiality of the respondents, and the data provided to them, the following will be done;

1. All questionnaires will be coded to provide anonymity of the respondents
2. The authors quoted in this study will be recognized through citations and referencing
3. Presentation of findings will be generalized

3.10 Limitations of the Study
Limitations of the study may be attributed to the following;

1. Lack of financial records in SMEs in Uganda

2. Respondents' unwillingness to disclose information concerning their businesses and suspicion could create data collection problems This was overcome by convincing people that information was specifically meant for academic purposes and would be handled with confidentiality.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter presents the data collected from primary sources as well as the analysis, interpretation and discussion of findings, with reference to study objectives and related literature

4.2. Background Information

4.2.1 Response Analysis

Of the 210 questionnaires that were distributed, 168 were returned. This corresponds to an overall response rate of 80% and these were the ones used in the analysis of this research.

Figure 4.1 Response Rate verses Non Response Rate
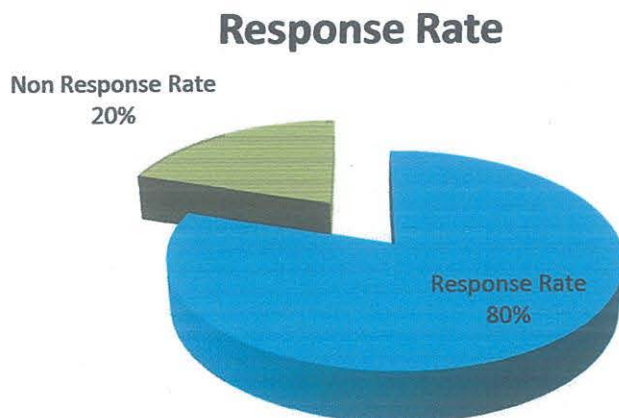
Source: primary Data

Figure 4.1 compares the number of questionnaires that were received (80%) to those that were not returned (20%).

4.2.2 Gender

Respondents were also analyzed by gender as shown in the figure below.

Figure 4.3 Respondents by gender
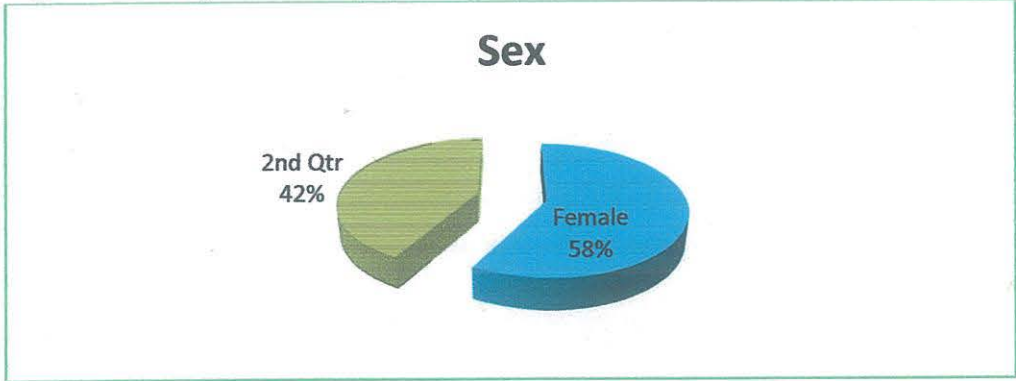
Source: Primary Data

As illustrated in figure 4.3 above, 58% of the respondents were female while 42%were male. The majority of SMEs (58%) in the area of study were managed by women.

4.2.3Age groups of respondents

Respondents were also grouped according to their age as shown in the figure below.
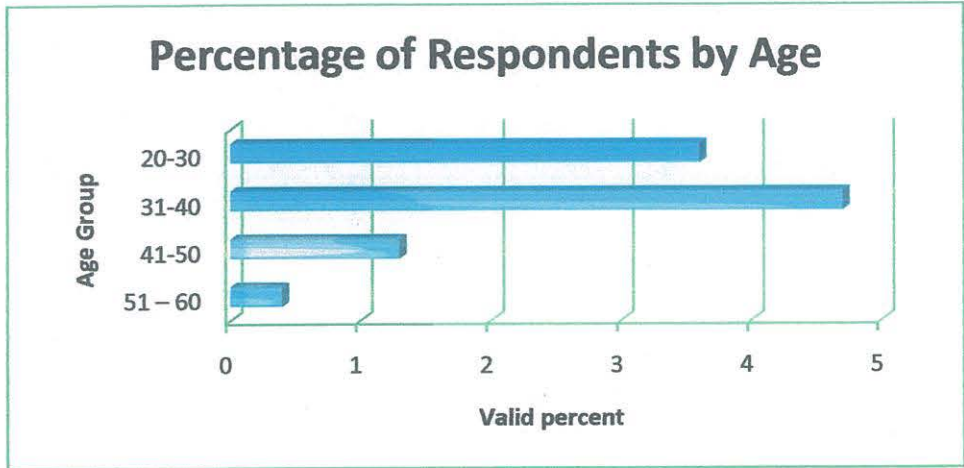
Source: Primary Data

Figure 4.4 above indicates that most respondents (47%) were within the age group of 31-40, followed by 20-30 (36%), 41-50 (13%) and 51-60 (4%) respectively.

One can say that the majority respondents were mature enough to give reliable responses

4.2.4 Respondents by formal education level

Table 4.1 below shows respondents according to formal education level

Table 4.1 Highest level of formal education

	Frequency	Valid Percent
O – Level	51	24.2%
A – Level	50	23.8%
Diploma	61	29%
Degree	42	20%
Other	06	3%
Total	210	100

Source: primary data

Table 4.1 above indicates that the majority of respondents (29%) have diplomas, followed by those with O-Level (24.2%), A-Level (23.8%), Degree (20%) and other (3%). These results indicate that 96% of the respondents were able to read, understand and write. So the responses were reliable.

4.2.5 Respondents by Job Titles

Respondents were categorized according to their respective job titles as shown in figure below.

Figure 4.5 Job Titles
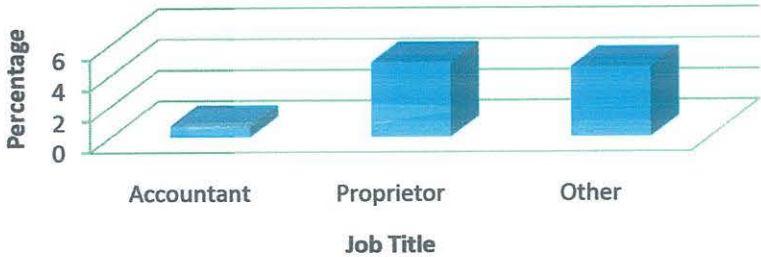
Source: Primary Data

Figure 4.5 illustrates that SMEs are characterized by a very small percentage (7%) of technical people in accounting and finance. In ascending order, the percentage of accountants is (7%) followed by others (45%) and proprietors (48%).

4.2.6 Departments
Departments were categorized as in the figure below

Figure 4.6 Departments
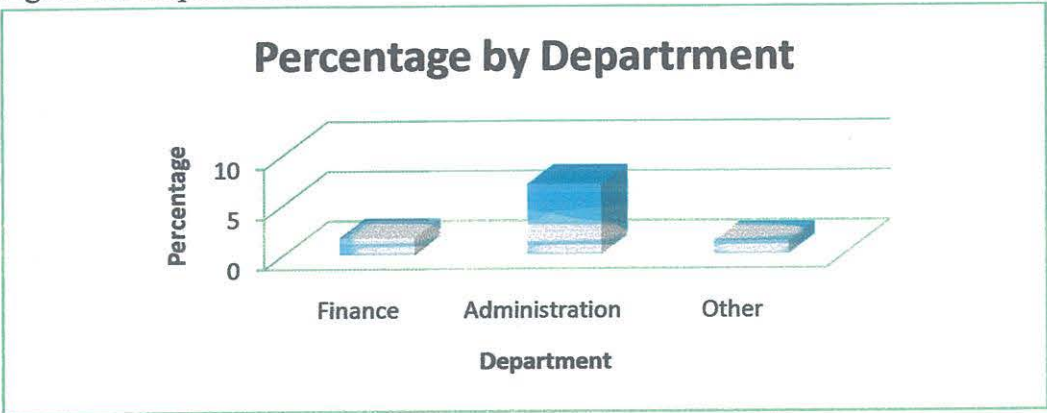
Source: Primary Data

Figures 4.5 and 4.6 above show that the finance department is almost non- existent Thisconforms to (Kingkaew&Limpaphayom,2001) that part of the main problems of SMEs in developing countries are a result ofthe low quality and reliability of financial data.

4.2.7 Training in Accounting and Finance
Respondents were characterized according to training in accounting and finance as shown below.

Figure 4.7 Level of Education in Accounting and Finance

Percentage of Training in Accounting
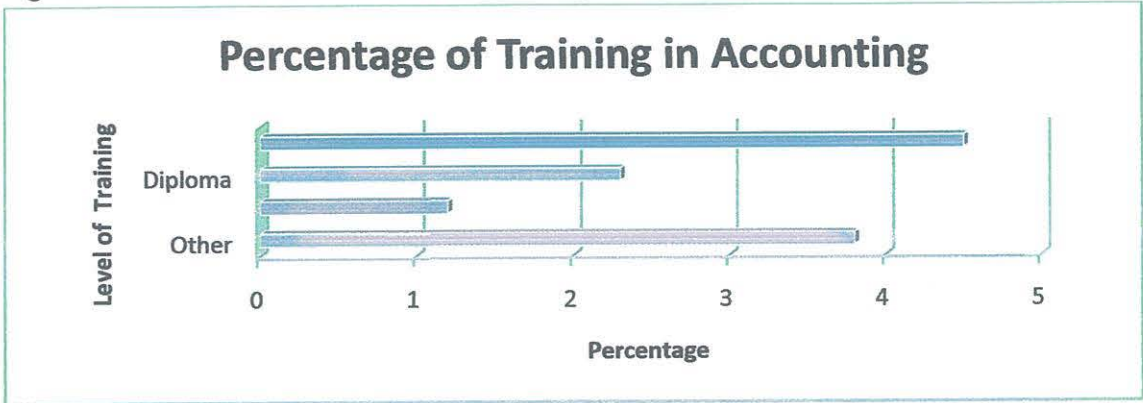
Source: Primary Data

There majority of the respondents (62%) in figure 4.7 have at least some knowledge in accounting and finance of which 12% with degrees, 23% with diplomas and 27% certificates. One can say that SMEs are characterized by managers/entrepreneurs (50%) with low levels of training in accounting and finance or no training at all (38%).

4.3 The relationship between reliability of accounting information and the performance of SMEs in Makindye division

4.3.1 Revenue and expenditure information is collected regularly
The researcher collected data on whether revenue and expenditure information was collected regularly to ensure reliability of accounting information.

Figure 4.8 showing whether revenue and expenditure information is collected regularly
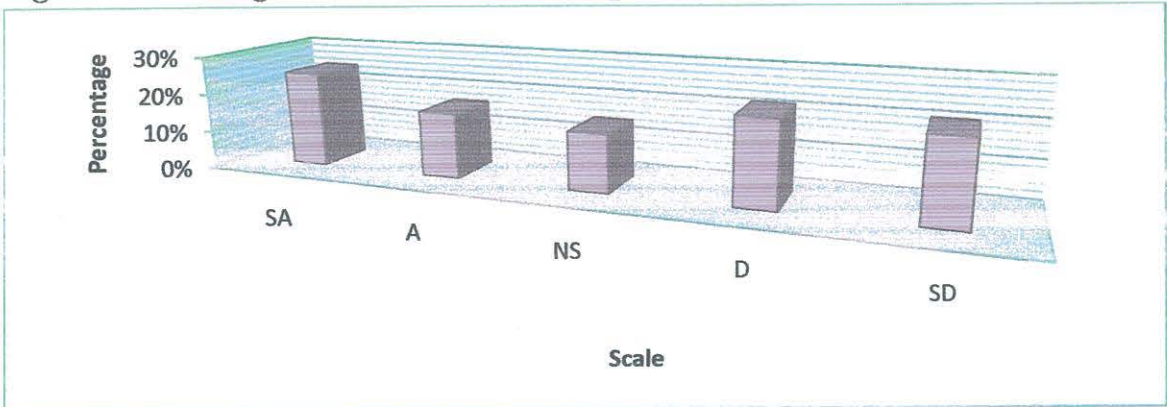
Source: *primary data*

Figure 4.8 above shows that 27% of the respondents strongly agreed that revenue and expenditure information is regularly collected, 18% agreed, 17% were not sure, 20% disagreed and the remaining 18% strongly disagreed.

4.3.2 Information is free from bias

The researcher collected data on whether information collected was free from bias in order to ensure reliability of accounting information.

Figure 4.9 showing whether the information is free from bias
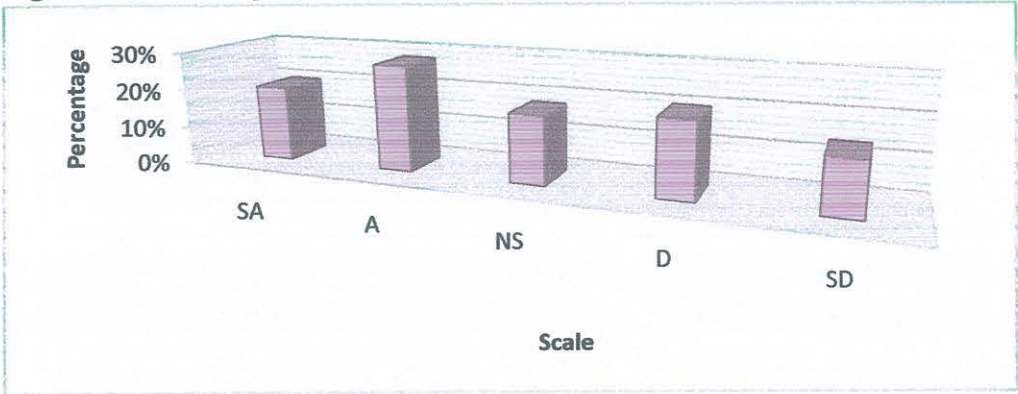
Source: *primary data*

Figure 4.9 above shows that 20% of the respondents strongly agreed that information is free from bias, 29% agreed, 17% were not sure, 19% disagreed and the remaining 15% strongly disagreed.

4.3.3 The information is free from error

The researcher collected data on whether the information was free from error in order to ensure reliability of the accounting information.

Figure 4.10 showing that the information is free from error

Source: *primary data*

Figure 4.10 above shows that 20% of the respondents strongly agreed that information is free from error, 24% agreed, 20% were not sure, 17% disagreed and the remaining 19% strongly disagreed.

4.3.4 Information is not fraudulent

The researcher collected data on whether the information was not fraudulent to ensure reliability of the accounting information

Figure 4.11 showing whether information is not fraudulent

Source: *primary data*

Figure 4.10 above shows that 30% of the respondents strongly agreed that information is not fraudulent, 20% agreed, 16% were not sure, 20% disagreed and the remaining 14% strongly disagreed.

4.3.5 Information is normally complete

The researcher collected data on whether the information was normally complete and ensures reliability of the accounting information

Figure 4.12 showing whether information is normally complete
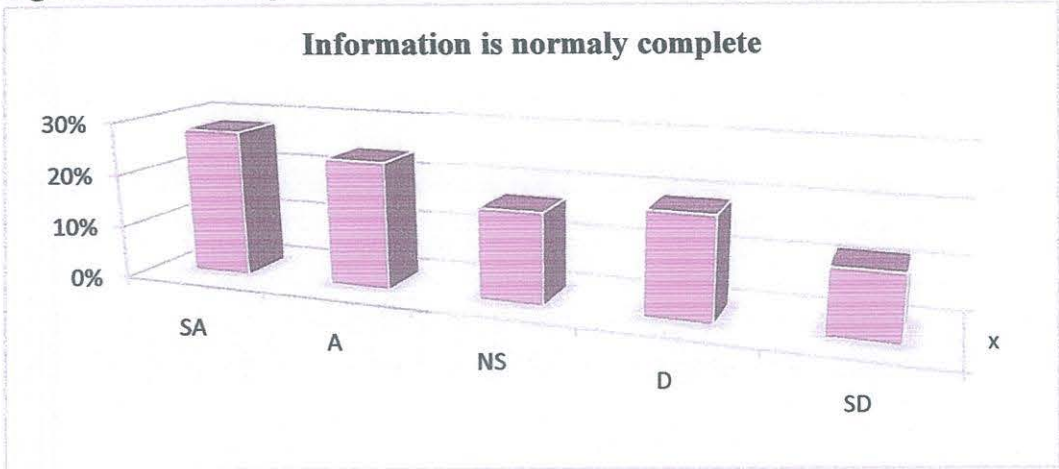
Information is normaly complete

Source: *primary data*

Figure 4.10 above shows that 29% of the respondents strongly agreed that information is normally complete, 25% agreed, 15% were not sure, 19% disagreed and the remaining 12% strongly disagreed.

4.3.6 Information is generally a good representation of sales revenue

The researcher collected data on whether the information was a good representative of sales revenue to ensure reliability of the accounting information

Figure 4.13 showing whether information is generally a good representation of sales revenue

Source: *primary data*

Figure 4.10 above shows that 24% of the respondents strongly agreed that information is generally a good representation of sales, 20% agreed, 15% were not sure, 20% disagreed and the remaining 21% strongly disagreed.

4.3.7 Information is generally a good representation of expenditure facts

The researcher collected data on whether the information was generally a good representation of expenditure facts to ensures reliability of the accounting information

Figure 4.14 showing whether the information shows good representation of expenditure facts
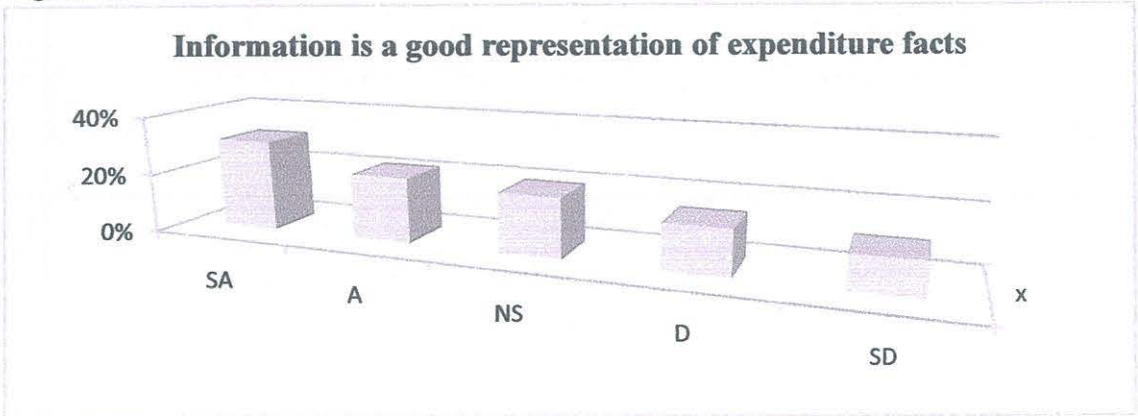
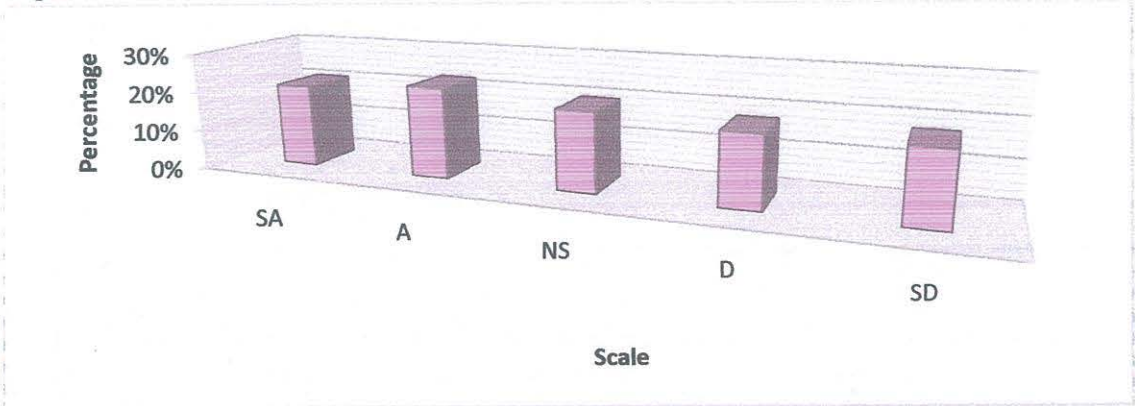
Source: *primary data*

Figure 4.10 above shows that 29% of the respondents strongly agreed that information is a good representation of expenditure facts, 25% agreed, 15% were not sure, 19% disagreed and the remaining 12% strongly disagreed.

4.3.8 Information is a good representation of the of the business assets

The researcher collected data on whether the information was generally a good representation of the business assets to ensures reliability of the accounting information

Figure 4.15 showing whether information is a good representation of the of the business assets
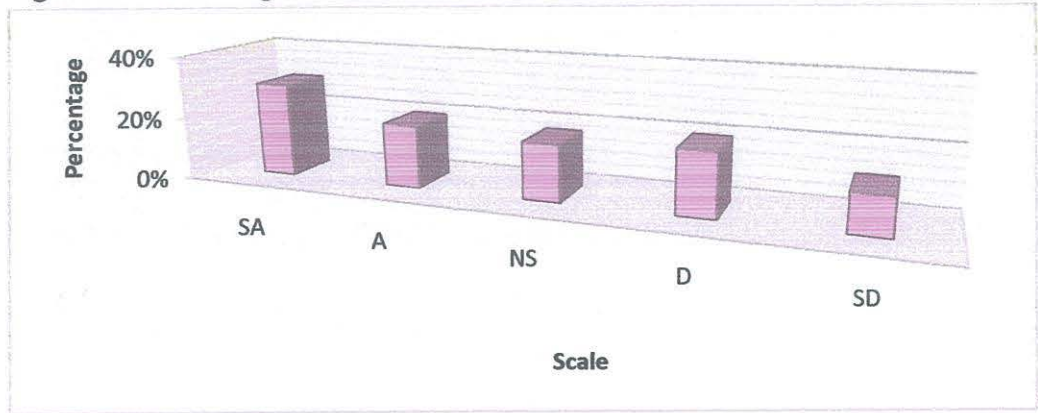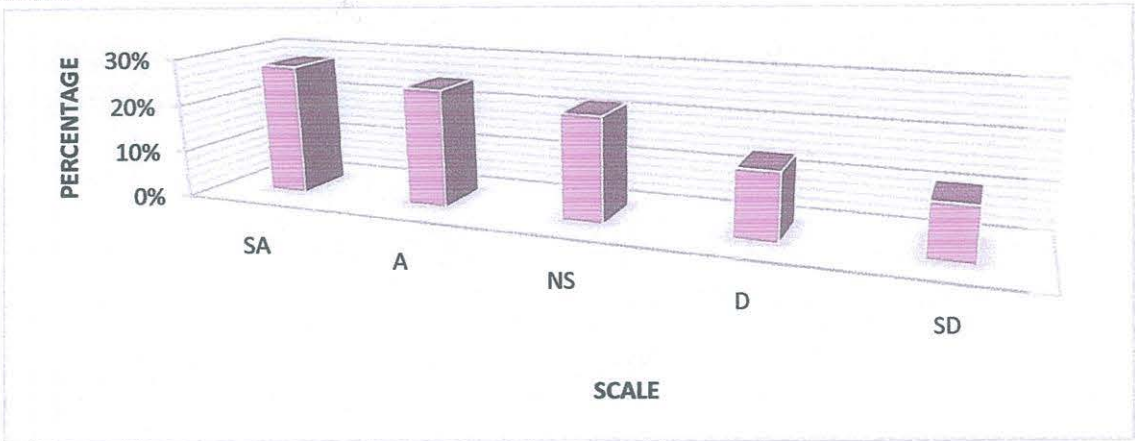

Source: *primary data*

Figure 4.15 above shows that 28% of the respondents strongly agreed that information is a good representation of business asstets, 24% agreed, 20% were not sure, 16% disagreed and the remaining 12% strongly disagreed.

4.3.9 Information is a good representation of the liabilities of the business

The researcher collected data on whether the information was generally a good representation of the business liabilities to ensures reliability of the accounting information

**Figure 4.17 showing that the information is a good representation of the business cash inflows and outflows**
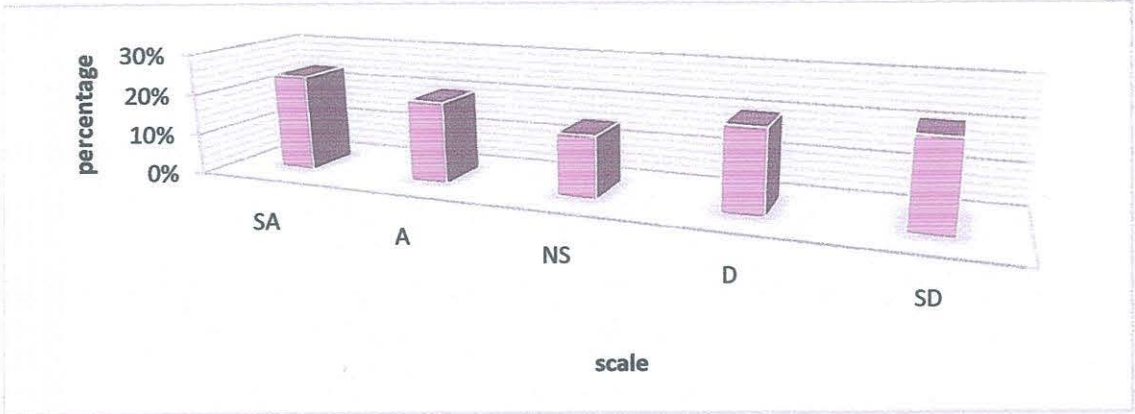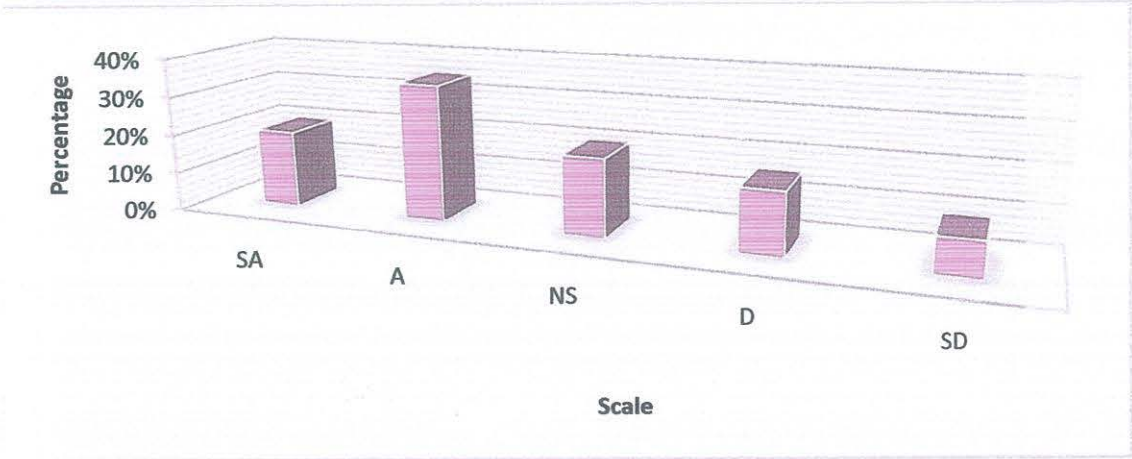

Source: *primary data*

Figure 4.17 above shows that 18% of the respondents strongly agreed that information is a good representation of cash inflows and outflows, 33% agreed, 20% were not sure, 15% disagreed and the remaining 14% strongly disagreed.

4.3.11 there is no cases of diversion of business funds for personal benefits
The researcher collected data on whether there were no cases of diversion of business assets for personal benefits to ensures reliability of the accounting information

Figure 4.18 showing that there is no cases of diversion of business funds for personal benefits
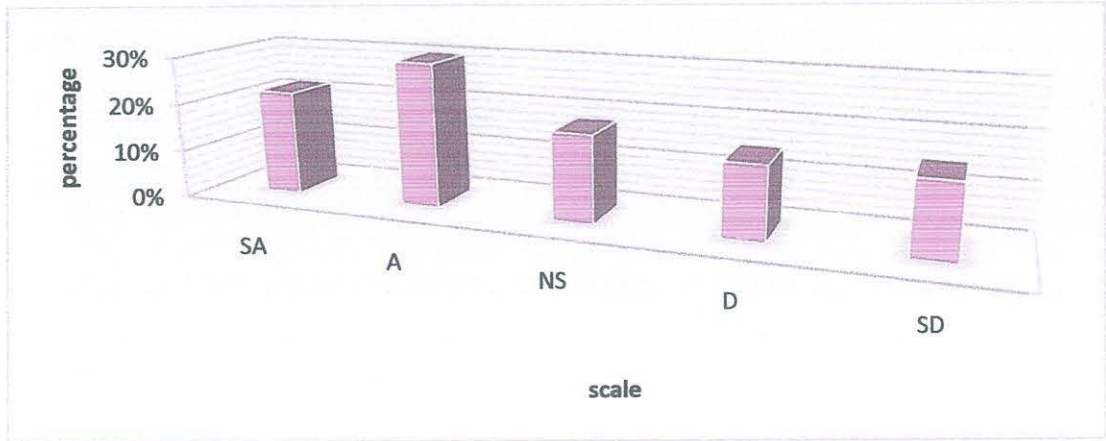
Source: *primary data*

Figure 4.18 above shows that 20% of the respondents strongly agreed that there is no diversion of funds for personal benefits, 30% agreed, 17% were not sure, 16% disagreed and the remaining 17% strongly disagreed.

4.3.12 There are no cases of un authorized Expenditures
The researcher collected data on whether there were no cases of cases of unauthorized expenditures to ensures reliability of the accounting information

Figure 4.19 showing whether there are no cases of un authorized Expenditures
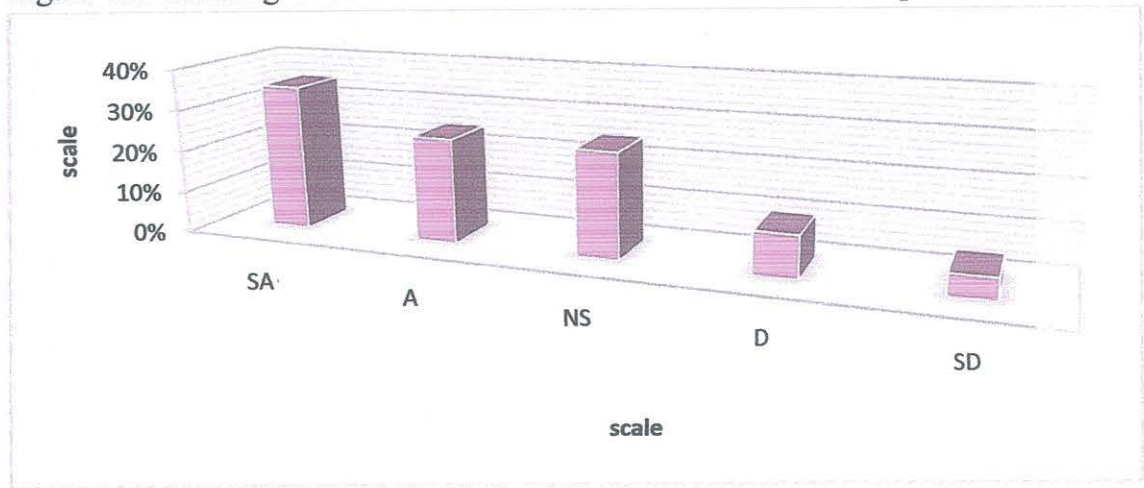
Source: *primary data*

Figure 4.19 above shows that 32% of the respondents strongly agreed that there are no cases of unauthorized expenditures, 24% agreed, 24% were not sure, 11% disagreed and the remaining 9% strongly disagreed.

4.4 The relationship between relevance of accounting information and the performance of SMEs in Makindye division

4.4.1 Business decisions are based on the financial reports
The researcher collected data on whether the business decisions are based on the financial reports to ensure relevance of the accounting information

Figure 4.20 showing whether the business decisions are based on the financial report
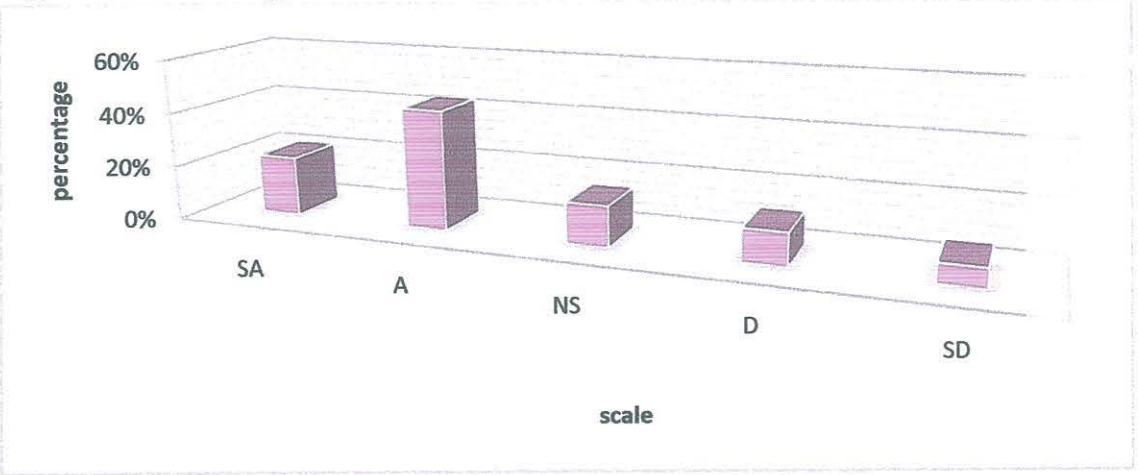
Source: *primary data*

Figure 4.20 above shows that 20% of the respondents strongly agreed that business decisions are based on the financial reports, 41% agreed, 16% were not sure, 14% disagreed and the remaining 9% strongly disagreed.

4.4.2 Contents of financial reports affect your opinion of the state of affairs of the business

The researcher collected data on whether the contents of the financial reports affect the opinion of the respondents on the state of affairs of the business to ensure relevance of the accounting information

Figure 4.21 showing whether contents of financial reports affect your opinion of the state of affairs of the business
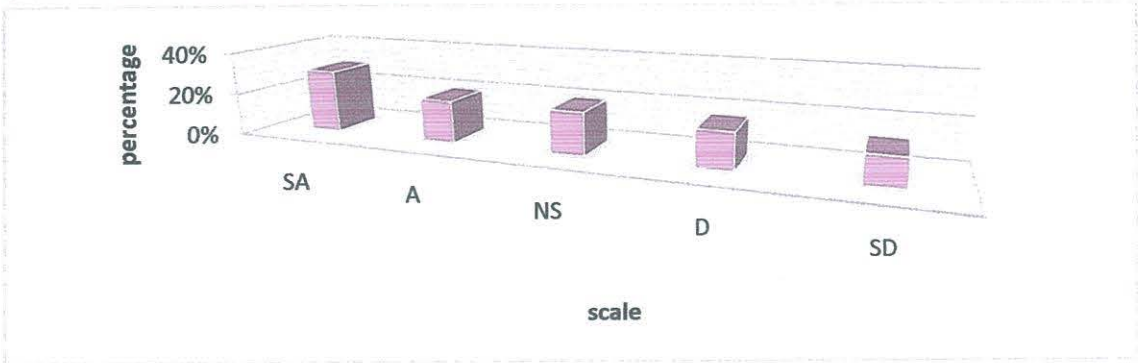
Source: *primary data*

Figure 4.21 above shows that 25% of the respondents strongly agreed that contents of financial reports affect your opinion of the state of affairs of the business, 18% agreed, 22% were not sure, 18% disagreed and the remaining 17% strongly disagreed.

4.4.3 Contents of financial reports affect economic decisions

The researcher collected data on whether the contents of the financial reports affect economic decisions to ensure relevance of the accounting information

Figure 4.22 showing whether contents of financial reports affect economic decisions
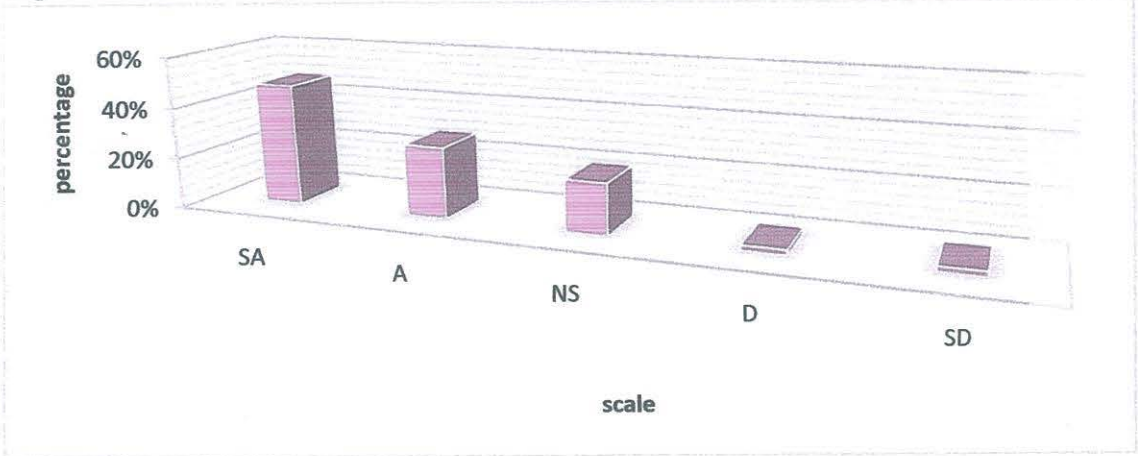
Source: *primary data*

Figure 4.22 above shows that 44% of the respondents strongly agreed that contents of financial reports affect economic decisions, 25% agreed, 20% were not sure, 6% disagreed and the remaining 5% strongly disagreed.

4.4.4 Information helps to predict and confirm sales revenue levels

The researcher collected data on whether the information helps to predict and confirm sales revenue levels to ensure relevance of the accounting information

Figure 4.23 showing whetherinformation helps to predict and confirm sales revenue levels
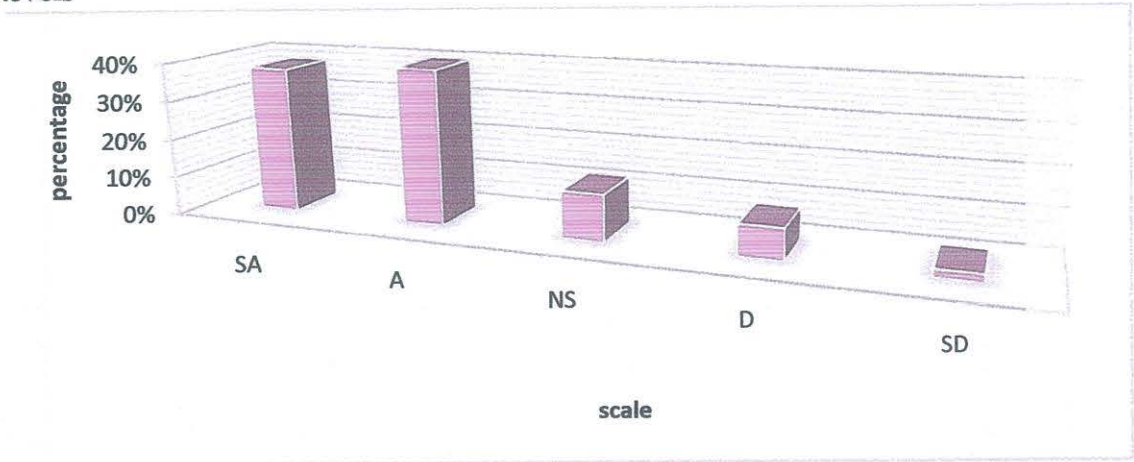
Source: *primary data*

Figure 4.23 above shows that 36% of the respondents strongly agreed thatinformation helps to predict and confirm sales revenue levels, 40% agreed, 15% were not sure, 6% disagreed and the remaining 3% strongly disagreed.

4.4.5 Information helps to predict and confirm expenditure levels
The researcher collected data on whether the information helps to predict and confirm expenditure levels to ensure relevance of the accounting information

Figure 4.24 showing whether Information helps to predict and confirm expenditure levels

Source: *primary data*

Figure 4.24 above shows that 20% of the respondents strongly agreed that information helps to predict and confirm expenditure levels, 15% agreed, 30% were not sure, 15% disagreed and the remaining 20% strongly disagreed.

4.4.6 Information presented assists in decision making on allocation of resources
The researcher collected data on whether the information presented assists in decision making on allocation of resources to ensure relevance of the accounting information

Figure 4.25 showing whether Information presented assists in decision making on allocation of resources

Source: *primary data*

Figure 4.24 above shows that 22% of the respondents strongly agreed that Information presented assists in decision making on allocation of resources, 36% agreed, 5% were not sure, 22% disagreed and the remaining 15% strongly disagreed

4.4.7 Information assists you in decision making about raising capital
The researcher collected data on whether the information presented assists in decision making about raising capital to ensure relevance of the accounting information

Figure 4.26 showing whether information assists you in decision making about raising capital
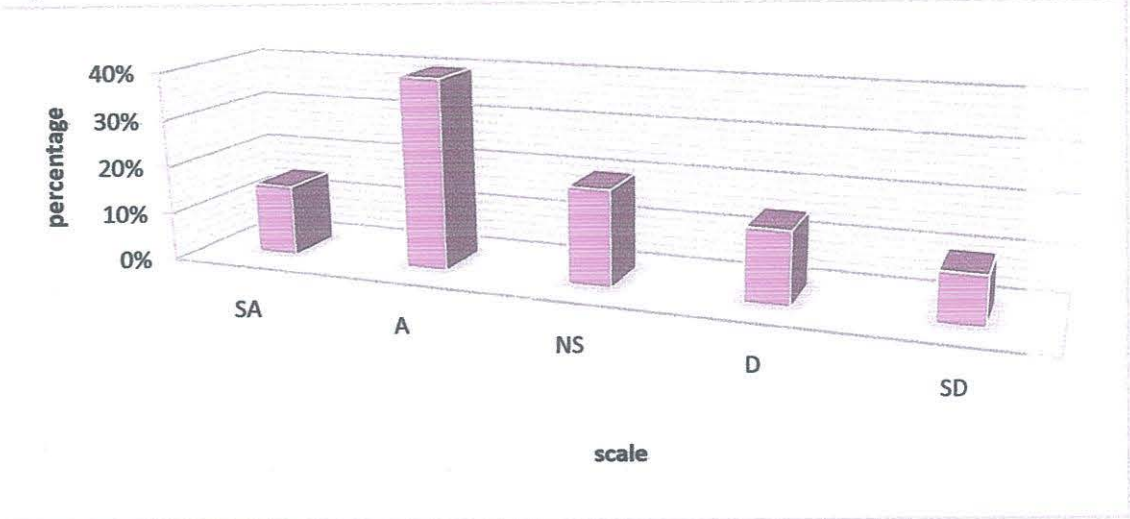
Source: *primary data*

Figure 4.24 above shows that 12% of the respondents strongly agreed that information assists you in decision making about raising capital, expenditures, 40% agreed, 20% were not sure, 15% disagreed and the remaining 13% strongly disagreed

4.4.8 Information helps to confirm the outcome of the planned activities
The researcher collected data on whether the information helps to confirm the outcome of the planned activities to ensure relevance of the accounting information

Figure 4.27 showing whether information helps to confirm the outcome of the planned activities
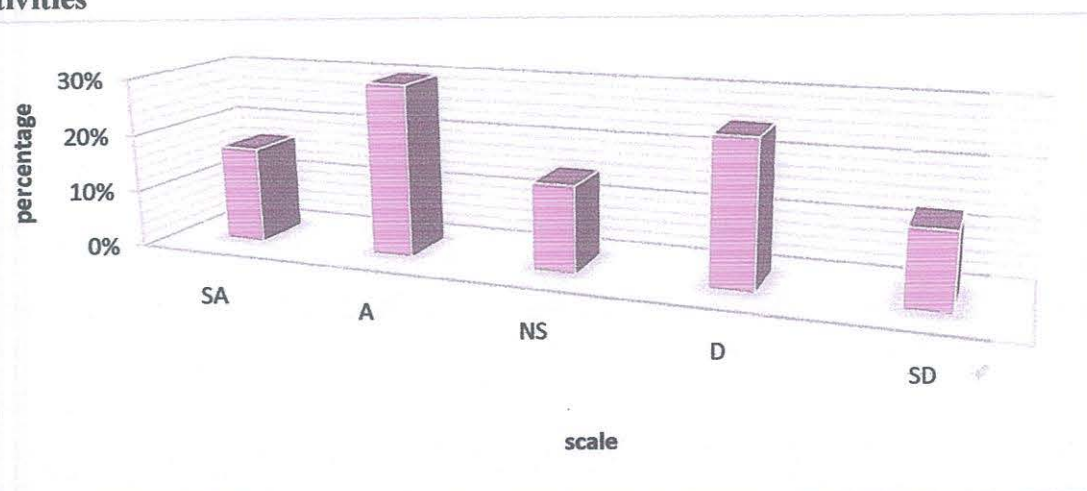
Source: *primary data*

Figure 4.24 above shows that 16% of the respondents strongly agreed that information helps to confirm the outcome of the planned activities, 30% agreed, 15% were not sure, 25% disagreed and the remaining 14% strongly disagreed

4.4.9 Information helps you confirm profitability levels of the business
The researcher collected data on whether the information helps you confirm profitability levels of the business to ensure relevance of the accounting information

Figure 4.28 showing whether information helps you confirm profitability levels of the business
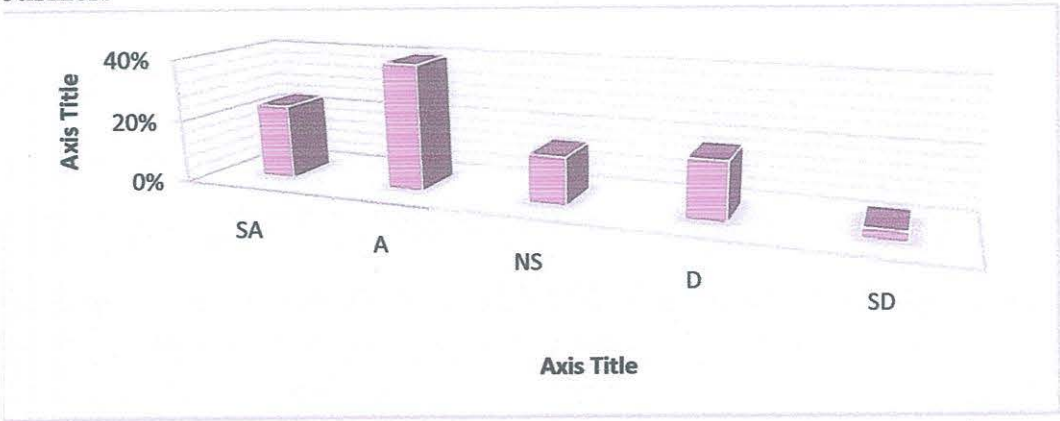
Source: *primary data*

Figure 4.28 above shows that 20% of the respondents strongly agreed thatinformation helps you confirm profitability levels of the business, 40% agreed, 14% were not sure, 17% disagreed and the remaining 9% strongly disagreed

4.4.10 Information helps you to confirm the indebtedness of a business
The researcher collected data on whether the information helps to confirm the indebtedness of a business to ensure relevance of the accounting information

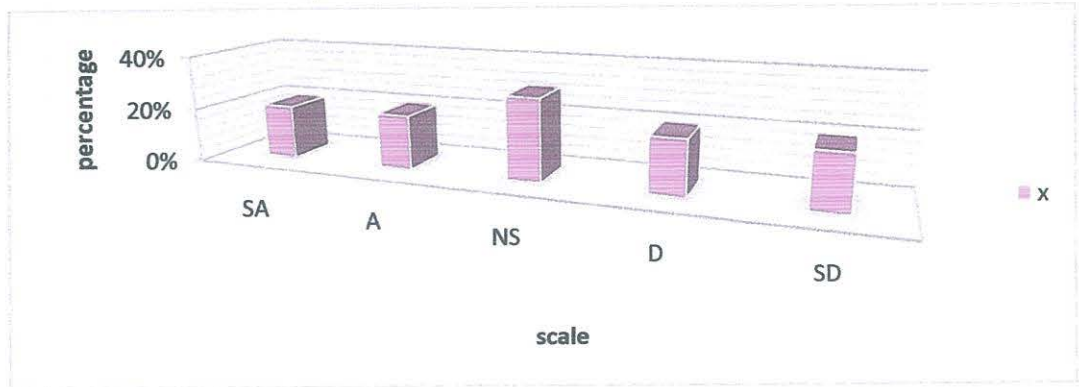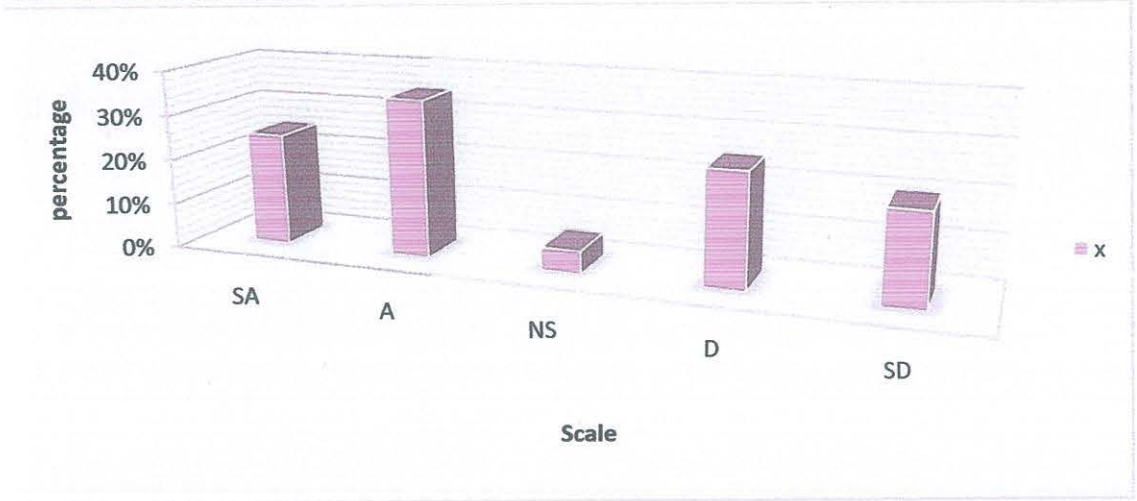**Figure 4.29 showing whether Information helps you to confirm the indebtedness of a business**
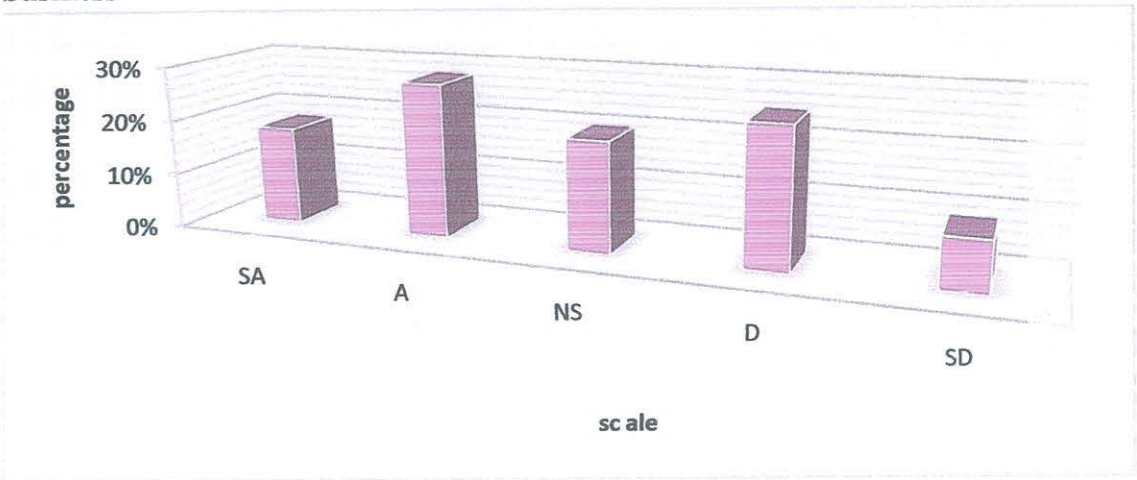
Source: *primary data*

Figure 4.29 above shows that 17% of the respondents strongly agreed thatinformation helps you to confirm the indebtedness of a business, 28% agreed, 18% were not sure, 25% disagreed and the remaining 12% strongly disagreed

4.4.11 No undue delays in the presentation of financial reports

The researcher collected data on whether there are**no** undue delays in the presentation of financial reports to ensure relevance of the accounting information

Figure 4.30 showing whether there are no undue delays in the presentation of financial reports
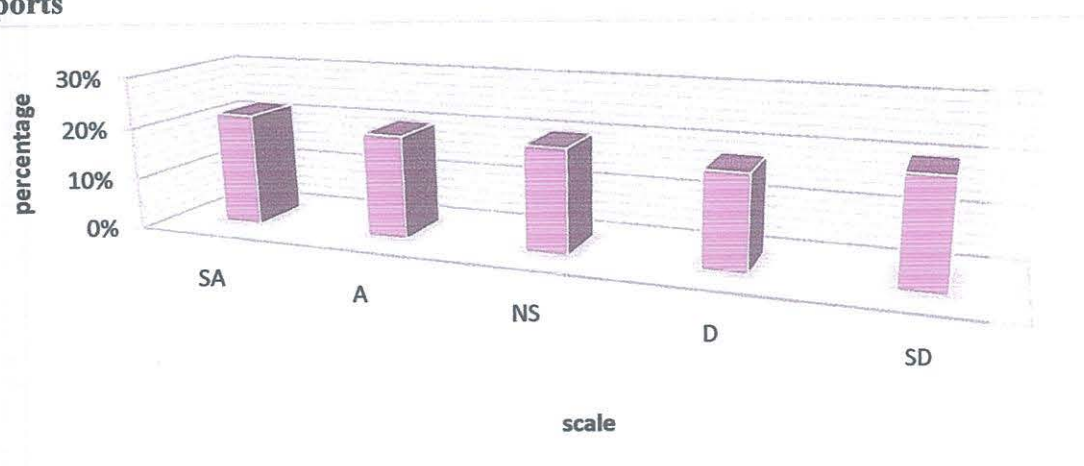
Source: *primary data*

Figure 4.30 above shows that 23% of the respondents strongly agreed that no undue delays in the presentation of financial reports, 20% agreed, 20% were not sure, 18% disagreed and the remaining 19% strongly disagreed

4.4.12 Financial reports are presented annually as required by regulatory bodies of accounting

The researcher collected data on whether financial reports are presented annually as required by regulatory bodies of accounting to ensure relevance of the accounting information

Figure 4.31 showing whether financial reports are presented annually as required by regulatory bodies of accounting

Financial reports are presented annually as required by regulatory bodies of accounting
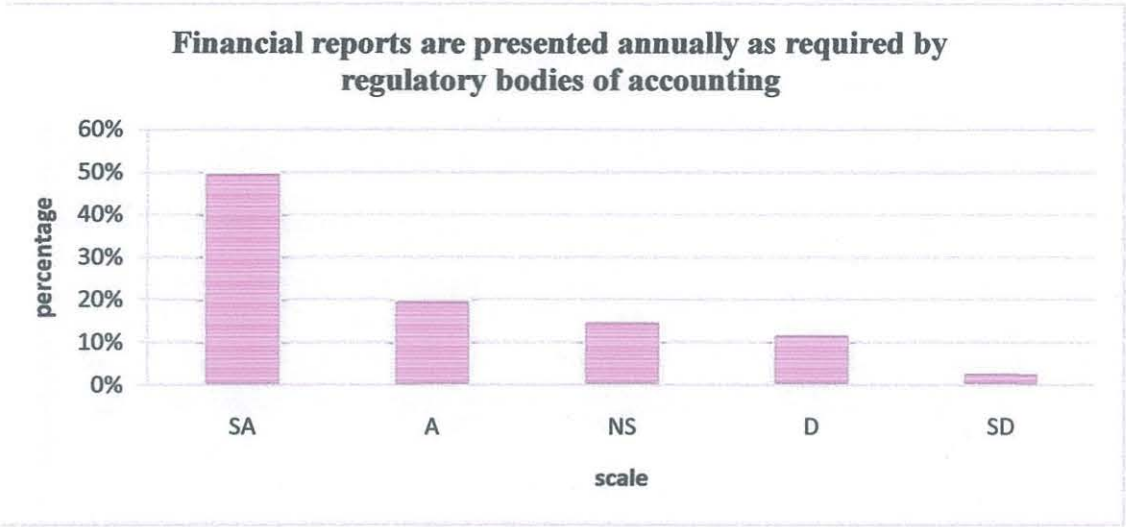
Source: *primary data*

Figure 4.31 above shows that 52% of the respondents strongly agreed that financial reports are presented annually as required by regulatory bodies of accounting, 21% agreed, 13% were not sure, 11% disagreed and the remaining 3% strongly disagreed

4.5 The relationship between understandability of accounting information and the performance of SMEs in Makindye division.

4.5.1 Information is presented in a readily understandable manner

The researcher collected data on whether financial reports are presented annually as required by regulatory bodies of accounting to show understandability of the accounting information

Figure 4.32 showing that Information is presented in a readily understandable manner

Information is presented in a readily understandable manner
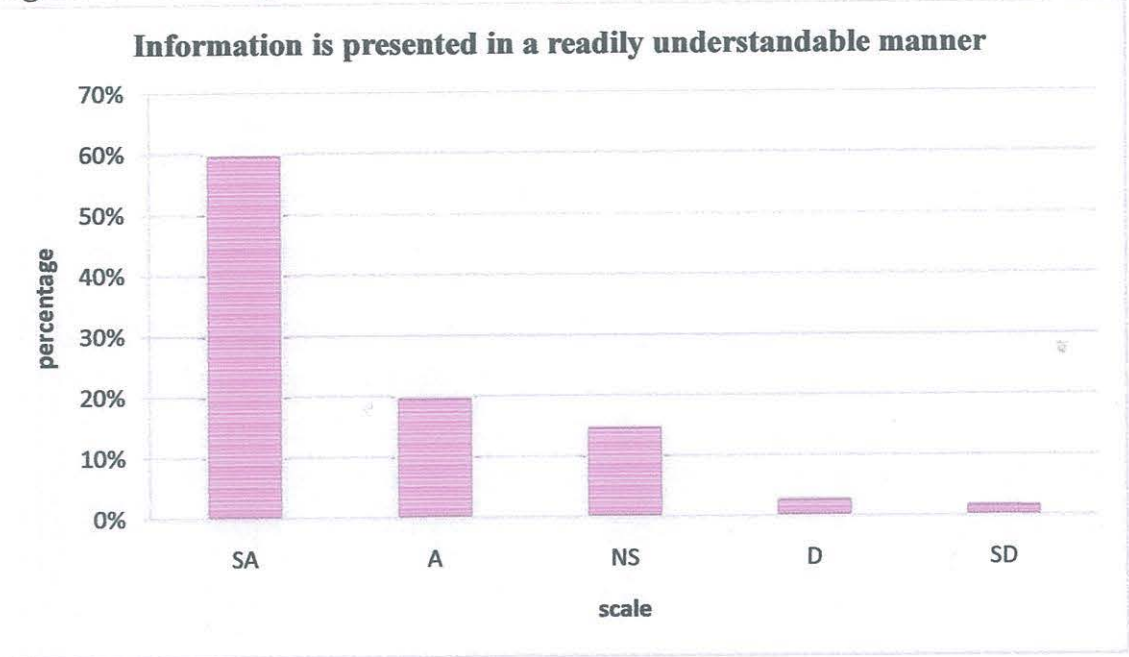
Source: *primary data*

Figure 4.31 above shows that 60% of the respondents strongly agreed that information is presented in an understandable manner, 20% agreed, 15% were not sure, % disagreed and the remaining 5% strongly disagreed

4.5.2 Sources and level of expenditure can easily be understood
The researcher collected data on whether sources and level of expenditure can easily be understood to show understandability of the accounting information

Figure 4.33showing whether sources and level of expenditure can easily be understood

Sources and level of expenditure can easily be understood
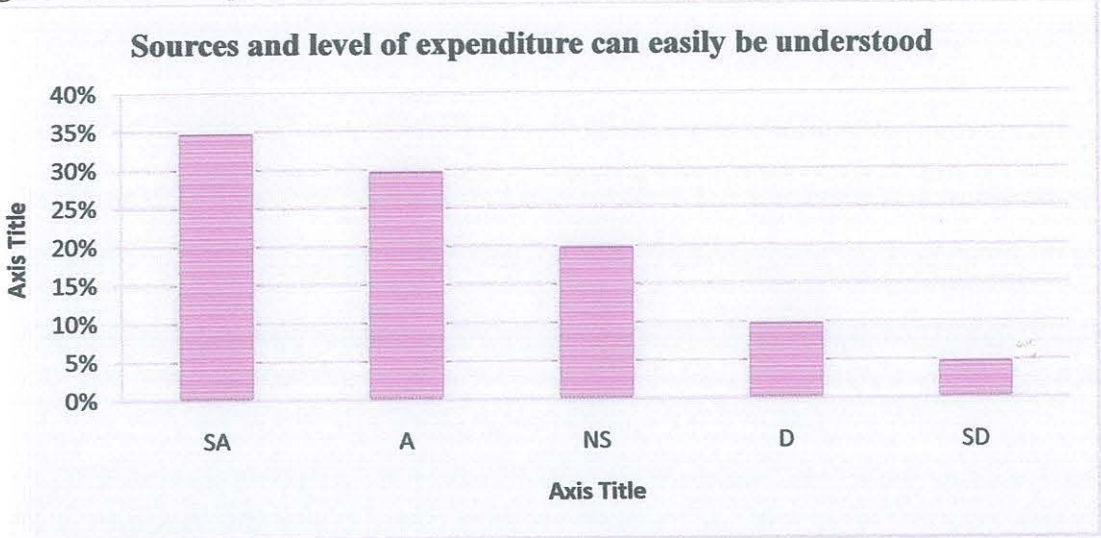
Source: *primary data*

Figure 4.31 above shows that 35% of the respondents strongly agreed that sources and level of expenditure can easily be understood, 30% agreed, 20% were not sure, 10% disagreed and the remaining 5% strongly disagreed

4.5.3 Expenditure items and levels can easily be understood

The researcher collected data on whether the expenditure items and levels can easily be understood to show understandability of the accounting information.

Figure 4.34 showing whether expenditure items and levels can easily be understood

Expenditure items and levels can easily be understood
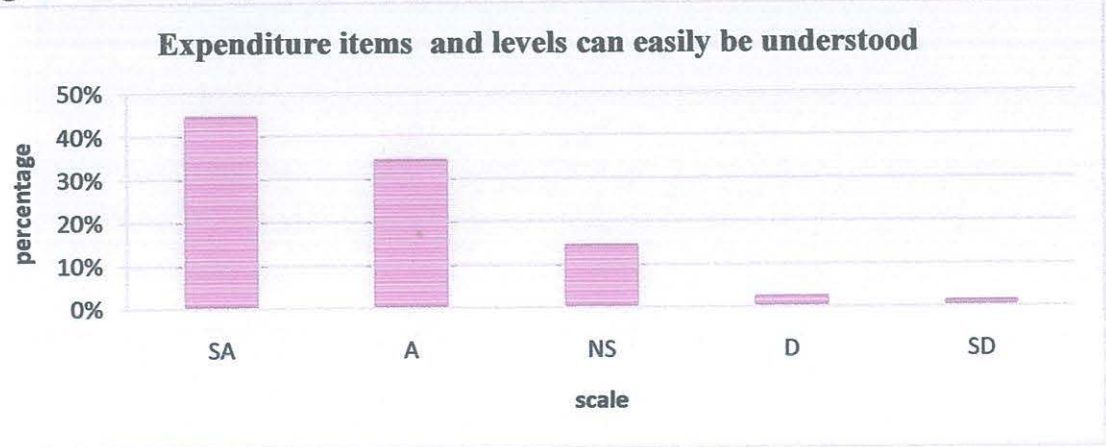
Source: *primary data*

Figure 4.34 above shows that 45% of the respondents strongly agreed that expenditure items and levels can easily be understood, 35% agreed, 15% were not sure, 3% disagreed and the remaining 2% strongly disagreed

4.5.4 Business assets are easy to know in terms of value and nature

The researcher collected data on whether the business assets are easy to know in terms of value and nature to show understandability of the accounting information.

Figure 4.35 showing whether the business assets are easy to know in terms of value and nature
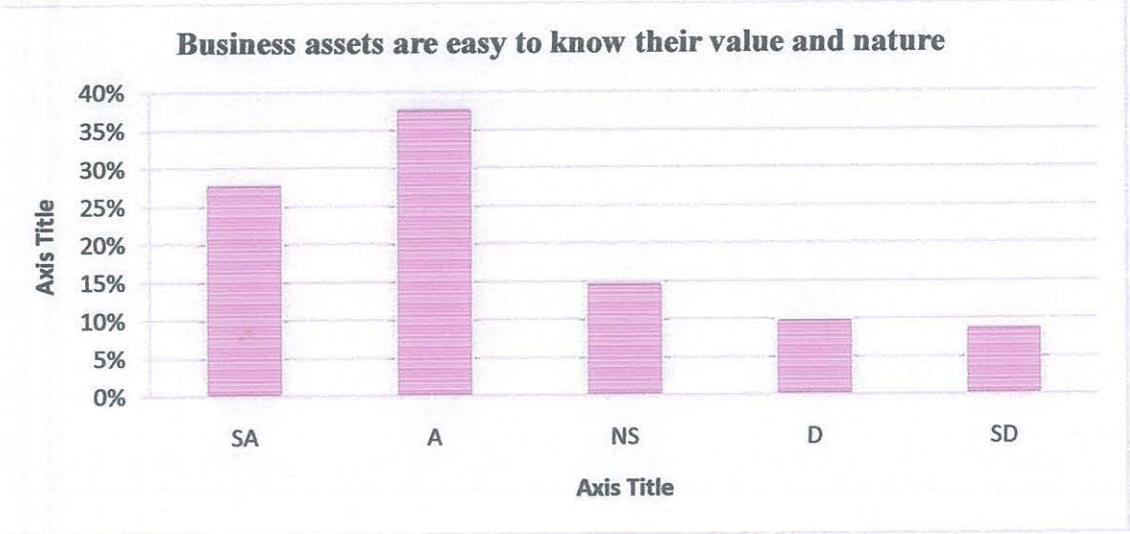
Business assets are easy to know their value and nature

Source: *primary data*

Figure 4.34 above shows that 28% of the respondents strongly agreed that expenditure items and levels can easily be understood, 38% agreed, 15% were not sure, 10% disagreed and the remaining 9% strongly disagreed

4.5.5 Business cash flows are easy to understand

The researcher collected data on whether business assets are easy to know their value and nature to show understandability of the accounting information.

Figure 4.36 showing whether business cash flows are easy to understand

Business cashflows are easy to understand
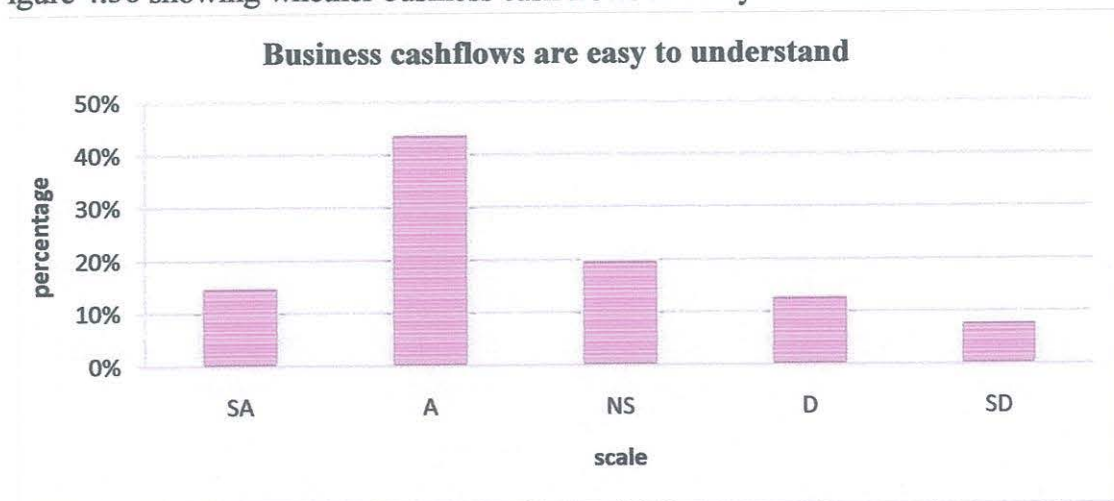
Source: *primary data*

Figure 4.36 above shows that 15% of the respondents strongly agreed that business cash flows are easy to understand, 44% agreed, 20% were not sure, 12% disagreed and the remaining 9% strongly disagreed

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATION

5.0 Introduction

This chapter includes the conclusions on the study objectives which are in harmony with study findings and the recommendations

5.1 The relationship between reliability of accounting information and the performance of SMEs in Makindye division

Accounting information in terms of relevance, accuracy and understandability, moderately and positively account for or contribute to the performance of SMEs in terms of sales and profitability new markets and new products. Accounting information is a determinant of the performance of SMEs.

Small and medium size enterprises owner-managers should develop competencies in order to improve on accounting information in form of relevant, accurate, understandable and reliable information for better decision making and improved performance.

Owner managers should ensure that records are well kept so that quality accounting information can be generated. With quality accounting information in place, unwillingness to disclose information will be reduced because they will be sure of what they are disclosing.

With increasing pressures on performance, SME owner-managers must see to it that they have accurate and relevant accounting information at their disposal

In terms of reliability, SMEs should ensure that accounting information is complete, free from error and not fraudulent. They should also ensure that income and expenditure information is regularly collected, information is a good representation of income and expenditure, cash inflows and outflows and helps the business to confirm profitability levels.

5.2 The relationship between relevance of accounting information and the performance of SMEs in Makindye division

Accounting information in SMEs is explained significantly by relevance, accuracy and understandability, and reliability as the most important components or factors of quality of accounting information of SMEs.

In terms of relevance, SMEs should ensure that accounting information guides them in predicting and confirming outcome of planned activities, profitability levels, inflows and outflows for correct decision making to improve performance. Information should also be timely so that decision makers can use it before it loses its capacity to influence their decisions and to avoid making incorrect decisions.

5.3 The relationship between understandability of accounting information and the performance of SMEs in Makindye division.

Performance of SMEs fairly depends on sales, profitability, new markets and new products with sales being the most contributing factor followed by profitability. The performance of SMEs is above average indicating that SMEs can sustain themselves in the market through profitability and sales.

In terms of understandability, accounting information should be presented in an understandable manner where income and expenditure items can be easily identified, cash inflows and outflows can be identified, currency and precision levels are clearly indicated and the nature and value of assets and liabilities are clear.

5.4 Recommendations

SMEs should ensure that income and expenditure values are correct and tally with the source documents values, assets and liabilities are recorded at their correct invoice values and other source document values. SMEs should also put in place internal controls to minimize issues of unauthorized expenditures. Although accounting information should be according to generally accepted accounting practice, it should be more user-friendly and compiled in such a way that the average entrepreneur can understand his or her own accounting information.

5.3 Further Research

A study on the relationship of other qualitative characteristics (comparability, consistency) and performance is recommended. Alternatively the same characteristics can be applied with performance measures other than sales and profitability.

Secondly, the relationship between financial decisions and performance can be studied in order to establish the extent of the relationship, if any.

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QUESITIONNAIRE

KAMPALA INTERNATIONAL UNIVERSITY

Accounting Information and Performance of SMEs in Makindye Division

Dear respondent,

I am BosaHannington of Kampala International University carrying out research on Accounting Information and Performance of SMEs in Makindye Division. The study is for *academic purposes only.* In order to accomplish this research, am kindly requesting you to complete this questionnaire by either ticking or filling in the space provided. The information provided will be treated with utmost confidentiality. Thank you for participating and making this study a success.

Instructions:

Please put a tick in the cell corresponding to the option that best suits your situation

Part A:

Personal data:

1. **Sex:**   Male ☐   Female ☐

2. **Agebracket:**

    21-30 years   31- 4☐   ☐

    41-50 years   ☐   above 50 years   ☐

3. **Maritalstatus:**

Single ☐   Married ☐   Divorced ☐

4. **Highest Level of Formal Education:**

PLE ☐   UCE ☐   UACE ☐

Diploma ☐   Bachelor's Degree ☐   Master's degree ☐

Others ☐

5. **Job Title:**

Accountant ☐   Auditor   Proprie ☐   Other ☐

Others ☐

6. **Department:**

Finance ☐   Audit ☐

Administration ☐   Others ☐

7. Experience in Accounting/Finance:

< 1year ☐   1-3 years ☐   4-7 years ☐

7-10 years ☐   > 10 years ☐

8. Qualification in Accounting

Certificate ☐   Diploma ☐   Degree ☐

Professional ☐   Others ☐

Part B:

The relationship between reliability of accounting information and the performance of SMEs in Makindye division

Use the scale below to answer the following questions.

Strongly agree (SA), Agree (A), not sure (NS), Disagree (D), and Strongly Disagree (SD)

No.	Question	SA	A	NS	D	SD
9.	Revenue and Expenditure information is collected regularly					
10.	Information is free from bias					
11.	The information is free from error					
12.	Information is not fraudulent					
13.	Information is normally complete					

14.	Information is generally a good representation of sales revenue					
15.	Information is generally a good representation of expenditure facts					
16.	Information is a good representation of the of the business assets					
17.	Information is a good representation of the business liabilities of the business					
18.	Information is a good representation of the business cash inflows and outflows					
19.	There are no cases of diversion of business funds for personal benefits					
20.	There are no cases of un authorized Expenditures					

Part C:

The relationship between relevance of accounting information and the performance of SMEs in Makindye division

Use the scale below to answer the following questions.

Strongly agree (SA), Agree (A), not sure (NS), Disagree (D), and Strongly Disagree (SD)

No.	Question	SA	A	NS	D	SD
21.	Business decisions are based on the financial reports					
22.	Contents of financial reports affect your opinion of the state of affairs of the business					
23.	Contents of financial reports affect economic decisions					
24.	Information helps to predict and confirm sales					

	revenue levels					
25.	Information helps to predict and confirm expenditure levels					
26.	Information presented assists in decision making on allocation of resources					
27.	Information assists you in decision making about raising capital					
28.	Information assists you in decision making about raising capital					
29.	Information helps to confirm the outcome of the planned activities					
30.	Information helps you confirm profitability levels of the business					
31.	Information helps to predict the outcome of the planned activities					
32.	Information helps you to confirm the indebtedness of a business					
33.	Information helps you to confirm inflows and outflows of a business					
34.	No undue delays in the presentation of financial reports					
35.	Financial reports are presented annually as required by regulatory bodies of accounting					

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Part D:

The relationship between understandability of accounting information and the performance of SMEs in Makindye division.

Use the scale below to answer the following questions.

Strongly agree (SA), Agree (A), not sure (NS), Disagree (D), and Strongly Disagree (SD) \

No.	Question	SA	A	NS	D	SD
36	Information is presented in a readily understandable manner					
37	Sources and level of expenditure can easily be understood					
38	Expenditure items and levels can easily be understood					
39	Business assets are easy to know in terms of value and nature					
40	Business cash flows are easy to understand					

Table for Determining Sample Size from a Given Population

N	S	N	S	N	S
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	210	4500	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	480	217	6000	361
110	86	550	226	7000	364

120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Source: *Krejcie and Morgan, 1970*

Note:

N is population size.

S is sample size.

APPENDIX C
RESEARCH REPORT BUDGET

NO	ITEM	QUANTITY	PRICE PER UNIT	AMOUNT
1.	Assistants	4Pax	150,000	600,000
2.	Transport	-	-	100,000
3.	Food	-	-	100,000
4.	Typist	3 Books	50,000	150,000
5.	Ruled paper	2 Rims	25,000	50,000
6.	Printing and binding	3 Books	22,000	66,000
7.	CD	2	1,000	2,000
8.	Pens	12 Pens	1,000	12,000
	TOTAL			1,080,000