

**THE IMPACT OF ACCOUNTING INFORMATION  
SYSTEM ON THE PERFORMANCE OF SMALL SCALE  
ENTREPRENEURS IN KIKUUBO  
TRADING CENTRE.**

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**A RESEARCH REPORT SUBMITTED TO THE SCHOOL OF BUSINESS AND  
MANAGEMENT IN PARTIAL FULFILLMENT OF THE AWARD OF DEGREE IN  
BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY**

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**Date: March 2006**

### **DECLARATION:**

I **BUTIMBYE JAMES** do hereby declare that this report is my original work and has not been presented for any award to any institution before. Where work of others has been cited due acknowledgement has been given.

Signature  .....

Date 22<sup>nd</sup> March 2006 .....

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## APPROVAL

This is to certify that this research report entitled The impact of Accounting Information System on Performance on Small Scale Entrepreneurs in Uganda, submitted in partial fulfillment of a degree of Bachelor of Business Administration of Kampala International University by Butimbye James was under my supervision and guidance and is now ready to be submitted to the school of business and management with approval.

Signature .....  .....

MR. MALINGA

Date ..... 22/03/06 .....

KIU LECTURER

### **DEDICATION:**

I dedicate this work to my parents and my sponsors for their invaluable support, effort and advice financial and morally during my course of the study. May The Almighty God bless you abundantly.

## **ACKNOWLEDGEMENT**

I acknowledge the assistance extended to me by my lecturers especially my supervisor Mr. Malinga and entire staff of KIU and traders along Kikuubo lane for providing me with the information relevant to the study.

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## **LIST OF ABBREVIATIONS:**

<b>ACCA</b>	Association of Chartered Certified Accountants.
<b>GDP</b>	Growth Domestic Product
<b>PSF</b>	Private Sector Foundation
<b>U (sh)</b>	Uganda Shillings
<b>UIA</b>	Uganda Investment Authority
<b>ICPAU</b>	Institute of Certified public Accountancy Uganda
<b>IAS</b>	International Accounting Standard
<b>SSAPs</b>	Statement of Standard Accounting Practices



## **ABSTRACT:**

Accounting information system is the portion of information system concerned with the measurement and prediction of income, wealth, and other economic events of the organisation and its subparts and entities for example order processing, general ledger, payroll, Accounts payable and Accounts receivable.

Accounting information system in small scale entrepreneurs in Kikuubo has not been given the first priority in the operation of businesses. Suggestions and proposals have come as to why and how accounting information system affects the performance of small scale entrepreneurs.

Account Information System records and reports business transactions and other economic activities/events as it is based on the double entry bookkeeping concept. For that matter, the study will look deeply on the financial reporting in small scale entrepreneurs.

The study intended to establish how business transactions are recorded, the nature of financial reports prepared, effect of Accounting Information System and how they are related the performance of small scale entrepreneurs/businesses along Kikuubo trading centre.

The study intended also to reveal the quality of reporting by small scale entrepreneurs as a result of the availability of Accounting Software packages and the relationship of several Accounting Information Systems commonly used.

Questionnaire was used as the basic research tool and sampling as the method used in Research. The study involved field research, library research and document analysis.

## **CHAPTER ONE**

### **RATIONALE OF THE STUDY**

#### **1.0 General Introduction:**

Accounting Information Systems are the oldest and most widely used Information systems in business. They record and report business transactions and other economic events. Accounting Information Systems are based on the double-entry book keeping concept, which is hundred of years old, and other, more recent accounting concepts such as responsibility accounting and activity based costing.

Computer based accounting systems record and report the flow of funds through an organisation on a historical basis and produce important financial statements such as balance sheets and income statements such systems also produce forecast of future conditions such as projected financial statement and financial budgets. A firm's financial performance is measured against such forecast by other analytical accounting reports.

For that matter, financial reporting is an important concept in the performance of small scale entrepreneurs in Uganda. It was started in 1971 by the accounting standard and it replaced SSAP2. It provides information about financial positions of the firm and acts as the basis for making economic decisions by a wide range of users like shareholders and government for tax purposes.

Financial reporting for small scale entrepreneurs was issued in 1997 that provides guidelines and rules of how financial statements of smaller businesses should be prepared and reported.

Since Accounting Information System is the application of analytical tools to generate purpose of financial statements and related data for making business decisions, then it calls for the need of financial analysis, which moves transforming data into useful information. This reduces reliance on hunches guesses and intuition. It reduces uncertainty in decision-making, but does not

lessen the need for expert judgment, but it provides with entrepreneurs (owners) an effective and systematic basis for business decision.

Today, one million of new entrepreneurs come with small businesses but only a half live as long as 18 months and only one in 5 lives as long as 10 years.

According to Colin Barrow, due to lack of Accounting Information System, new business people often see regular accounting as a bureaucratic nonsense carried out for the benefit of the inland Revenue alone. For them the end of the 1<sup>st</sup> year is often the end of the business.

### **1.1 Background to the study:**

Globally small scale entrepreneurs are pivotal to Economic growth, essentially they outclass big firms in terms of job creation and are the channel through which thousands of citizens enter work force (Banya) 2004).

In Uganda, the small-scale business sector contributes 20-30% of GDP and the sector is estimated to employ more than 2.6 million people UIA (1996). To expand the production base, it is necessary to address the small business constraints. Top on the list is to ensure that small scale entrepreneurs have to sit at the policy making table. There is need to improve the business regulations, the overall environment within which small scale entrepreneurs operate, and improving financial management.

To effect this, Levis and David (1992) maintain that financial statement preparation is a must as they provide financial information about the financial position of the enterprise that is useful to a wide range of users in making economic decision.

Griffith (2003) maintains that small scale entrepreneurs in Uganda are not good at maintaining records of their transactions yet transaction records are regarded as



the foundation of financial reporting. Poor record affects the quality of financial report prepared.

As per the study topic, the study was confined along Kikuubo trading centre in Uganda Kampala district as it was taken to be the busiest place for small scale entrepreneurs in Uganda. Kikuubo lane is occupied by over 1000 small businesses with retail and wholesale business types this qualifies to give a fair presentation of all small businesses in Uganda.

As per the 1992 records of death rate of small businesses in Uganda, its evident that most small scale entrepreneurs are failing simply because they do not know their financial position hence calls for help in acquiring well defined Accounting Information System.

## **1.2 Purpose of the study:**

To establish the effect of Accounting Information System on the performance of small-scale entrepreneurs along Kikuubo lane Kampala. And the study looked on the financial reporting and into the nature of financial reports and ways through which Accounting Information System and financial reporting can be improved among small-scale firms.

## **1.3 Objectives of the study:**

### **General objectives**

- i. The study aimed at determining the Accounting Information System of selected small-scale entrepreneurs in Uganda.

### **Specific Objectives:**

- ii. To determine the profile of the respondents as to;  
Entrepreneurs  
Age  
Gender  
Place of origin  
Educational level
- iii. To establish the effect of Accounting Information System and relate it to the performance of small scale entrepreneurs/businesses along Kikuubo trading centre.

- iv. To establish the nature of financial reports prepared by small scale businesses or entrepreneurs.
- v. To suggest ways through which financial reporting and Accounting Information System can be improved.

#### **1.4 Statement of research problem:**

Accounting Information System has not been given the first priority in the operation of businesses. There is some difficulty and lack of clarity in most small-scale enterprises in Kikuubo as regards to Accounting Information System and their performance. Its because of this reason that the research chose to undertake the study on the subject matter

#### **1.5 Research questions:**

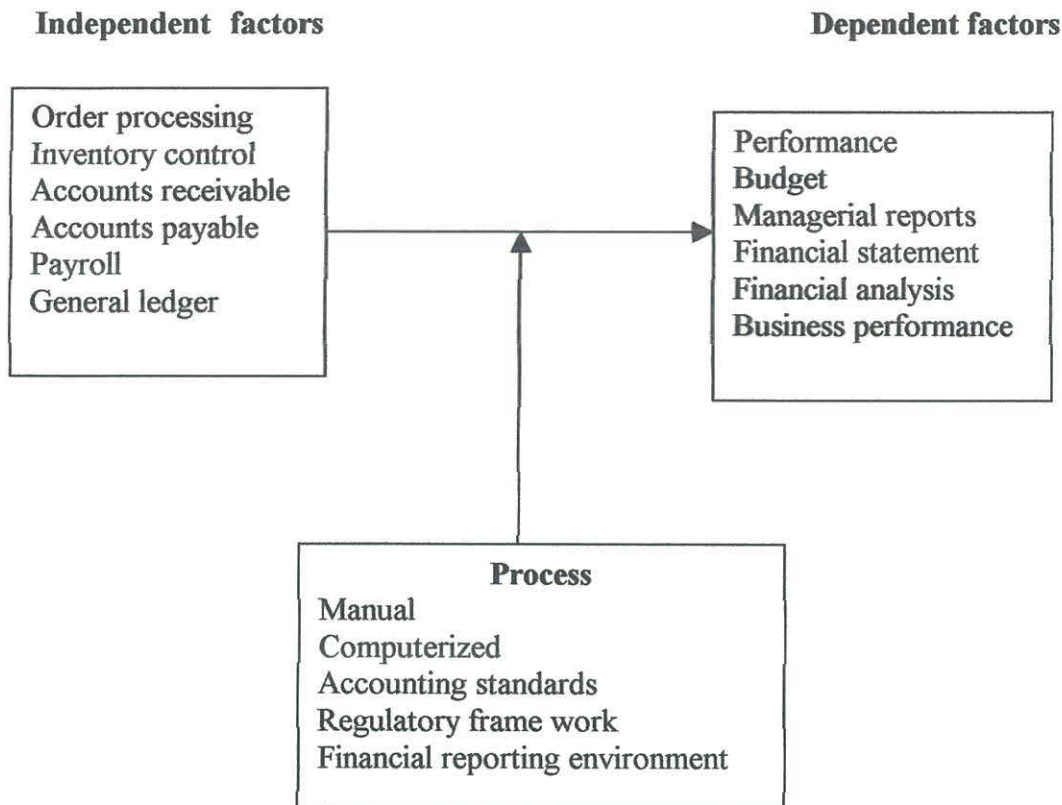
- i. What is the nature of Accounting Information Systems used by small scale entrepreneurs?
- ii. What is the nature of financial reports prepared by small businesses?
- iii. How is the performance of small-scale entrepreneurs or businesses affected by the nature of reports and Accounting Information System?
- iv. What are the ways through which financial reporting and Accounting Information System can be improved?

#### **1.6 Scope of the study**

The study was carried out on small-scale entrepreneurs along Kikuubo trading centre Kampala District based on the nature of Accounting Information System they use, Nature of financial reporting, and the effect of such reports on the performance of small-scale entrepreneurs. The respondent included cashiers, salesmen, entrepreneurs, shareholders and the businesses considered for the study were those of 4 years in existence as the period of reference is from 2002-2005. The research was be carried out on businesses with some account system/background along Kikuubo since its taken to give a fair representation of all small scale entrepreneurs/businesses in Uganda.

### ***Theoretical framework.***

In conceiving this study “the impact of Accounting Information System on the performance of small scale entrepreneurs in Kikuubo” will benefit both Researchers and Entrepreneurs. However, this was determined by a combination of factors both independent and dependent.



### ***1.6 Justification of the study***

- i. The study intended to bring out ways through which Accounting Information System affects the performance of small-scale entrepreneurs.
- ii. It intended to bring to the Researcher more knowledge about the preparation of financial statement and research.



- iii. Other Researchers can get information in carrying out related research and other parties faced with the problem of poor financial reporting and poor accounting system will be helped by this research.

## **1.7 Research theory:**

According to Frank wood (2002), an Accounting Information System is the total suit of components that all together comprise the inputs, storage, transaction processing, collecting and reporting of financial transaction data. It is in fact the infrastructure that supports the production and delivery of accounting information.

The objective of an Accounting Information System is to collect and store data about account transactions in order to generate meaningful output for decision making. The shoe box containing receipts for all purchases and cheque book kept by the corner shop keeper is in itself an accounting system as it is a set of day books and ledgers kept by the local department store and the integrated computerized system of a company.

An information system computerized or manual can of course produce whatever reports you wish as long as the relevant data stored within or accessible to the accounting information system.

## CHAPTER TWO:

### 2.0 LITERATURE REVIEW

#### 2.1 Introduction:

This chapter focuses on the related literature. It gives in depth the view of small scale entrepreneurs, Accounting Information System, review of financial reporting and regulatory framework of accounting.

#### 2.2 Accounting Information System:

Robert A. Leitch/K, Socoe Danis (1993), defines Accounting Information System as that portion of information system concerned with the measurement and prediction of income, wealth and other economic events of the organisation and its sub parts and entities.

##### Accounting Information Systems:

- (i) **Order Processing:-** Capture and process customer orders and produce data from inventory control and accounts receivable.
- (ii) **Accounts receivable:-** Records amounts owned by customers and produce invoices, monthly customer statements and credit management reports.
- (iii) **Accounts payable:-** Records purchases from, amounts owned to, and payments to suppliers, and produce cash management reports.
- (iv) **Payroll:-** Records employee work and compensation data and produce pay checks and other payroll documents and reports.
- (v) **General ledger:-** Consolidates data from other systems and produces the periodic financial statements and reports of the business.

#### 2.3 Entrepreneurs:

Garreth R. Jones, Jennifer M. George, Charles W L Hill (2000), defines entrepreneurs as, individuals who notice opportunities and take responsibility for mobilization resources necessary to produce new and improved goods and services.

Entrepreneurs start new business ventures and do all the planning, organizing, leading and controlling necessary to meet organizational goals. Most entrepreneurs assume all the risk and receive all the returns associated with new business venture.

Gomez-Mejia, Balkin (2002), defines an entrepreneur, as an individual who creates an enterprise that becomes a new entry to a market. Entrepreneurship is a process of creating a business enterprise capable of entering new or established markets. Entrepreneurship is creative in that it involves deploying resources and people in a unique way to develop a new organisation.

## **2.4 Small businesses:**

There is no clear definition of small business in Uganda today. However, some authors have tried to come up with some as below;

Byabashija (1997), defines a small business as an undertaking by small capital and operations managed by small number of people.

In Uganda, small businesses are defined according to the number of people, UIA (1996). However, this is not a good indicator in labor intensive industry hence a call for a definition based on capital employed which should range from 863,500-8,625,000 Uganda shillings.

Another criteria used in Uganda to define a small business was based on sales turnover, on an attempt to define who was eligible to participate in the VAT administrative structure and the figure is between 5 million to 50 million Uganda shillings (URA 1996).

Financial reporting standards provides a standard quota from sec 247-249 of the Companies Act 1985 in defining a small business as one that does not exceed 2 or more of the following criteria.



Turnover	2.8 million
Balance sheet	1.4 million
Average number of employees	50

## 2.5 **Financial Reporting:**

According to Bendry (1996), financial report is a statement that provides information about financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.

According to J Wild (1999), financial information involves communication of relevant financial information to decision maker. It includes information from relevant sources or other filings with the Securities and Exchange Commission new releases. Shareholders, meetings, forecasts, management letter, auditor's report and analysis published in annual reports.

It provides information useful for decision makers in making investment, credit and other decisions. It should help users assess the amount, timing and uncertainty of future cash flows and outflows.

**Balance sheet:-** Reports the financial position of a company at a point of time, usually at the end of the month or year because of its emphasis on financial position.

**Statement of change of owner's equity:-** Reports on changes in equity over the reporting period. It starts with beginning equity and adjusts it for events that:- increase it, investments by the owner and net income and decreases it- net loss and owners withdraws.

**Statement of cash flows:-** Describes the sources of inflows and uses (outflows) of cash for reporting period. It reports the amount of cash at both the beginning and end of the period. The statement of cash flows is organized by a company's major activities, operating inventory and financing. So cash flow information is very important if a company is to survive and prosper.

Financial statements provide information to many users who include investors, suppliers and employees, lenders and advisors.

**Objectives of financial reporting:**

- (i) Financial reporting should provide information useful for a national investment and credit decisions. This aims at investors and creditors and should be tailored to be useful to their individual in decision making.
- (ii) Financial report should provide information concerning economic resources of a firm and the claims on those resources.
- (iii) Financial reports should provide information about the means through which a firm obtains and uses its cash.
- (iv) Financial reporting should provide information about firms operating performances during the financial period.

**2.5.1 Types of financial report:**

Financial reports, which are always prepared, are known as financial statements. The maintenance of books of accounts is compulsory to a company. According to Uthman (2004) small businesses like sole proprietary (entrepreneurs) and partnership, it is desirable, but not compulsory. Financial statements include the following:

**Balance sheet:**

According to Omunuk (1999), it's a financial statement, which shows the financial position of an organisation at a particular date with regards to its assets, liabilities and owners equity.

According to Gitman (1990) the balance sheet represents a person at a given point of time.

**Trading profit and loss account (income statement)**

It is financial statement, which discloses the operating results of a business during a given period i.e. whether operation resulted into profits or loss.



The purpose of this account is to plan ahead, obtaining loans from banks and other business or from private individuals.

**Cash flow statements:**

Schmitz (1990), it is a statement that shows the amount of money coming in and going out of the firm on a monthly basis. It summarizes cash receipts and cash payments of a business entity for a specific period of time.

**Statement of changes in equity:**

Is a statement showing either all changes in equity or changes in equity other than those arising from capital transactions with owners and distribution owners.

**Accounting standards:**

According to S. Chard (2002) accounting standards codify the generally accepted accounting principles. They lay down the norms of accounting policies and practices by many of codes to direct as to how item appearing in the financial statement should be dealt with in the books of accounts and shown in the financial statement.

Financial reporting was laid and issued in 1997 provides guidelines and rules on how accounts must be prepared and presented, in that financial statements must be prepared in conformity with GAAP and consider the following concept as fundamental and must be observed in preparation and presentation of financial statements i.e. going concern concept, accrual and consistency concepts.

### **2.5.2 Regulatory framework of accounting:**

Certain principles and guidelines are followed to produce statements that provide information, which is useful to the stakeholders, such statements prepared in line with these guidelines are said to be giving a true and fair view (ACCA (2004).

Though these principles are a must to incorporated companies, small businesses should also follow them if they are to produce reliable reports.

The regulatory framework of accounting includes the national/local legislation accounting standards and international influences. The regulatory framework

considers the information provided by financial statements to be useful to others if it has qualitative characteristics.

Qualitative characteristics include;

**Materiality:** It maintains that the information is material if its omission or misstatement could influence the economic decision of users taken on the basis of financial statements.

**Relevance:** To be useful information, it must be relevant to the decision, making needs of users. Information has the quality if it influences the economic decisions of users by helping them evaluate, post present future events or by confirming or correcting their post evaluation. Lewis and Pendrill (1992) argues that information is relevant if it helps the users to form an expectation (predictive value), to confirm an expectation (confirmatory value) and to revise expectation (corrective values).

**Reliability:** In that information has this quality if it's free from material error and bias and can be depended upon by users to represent faithfully what it could reasonably be expected to present.

**Comparability,** its true in that user must be able to compare the financial statements of an enterprise overtime to identify trends in the financial positions and performance. Uthman (2004), argues that the financial reports should help a business owner to enable to compare a firm's results both with results achieved by the firm in previous periods and which results achieved by other firms.

**Understandability:** in a way users should present that the information provided by financial statements in such a way that it is readily understandable. Users are assumed to have knowledge of business and economic activities and willingness to study information with reliable diligence.

### **2.5.3 Financial Reporting and small business:**

Most small businesses record their transactions not necessarily in a professional written cashbook. They simply list their debtors and creditors and thus figures necessary for penetration of financial statements are always missing and this one always missing and this makes preparation of financial reports almost impossible.

Omunuk (1991), attributes the failure of maintaining standard accounting records in small business to lack of technical know-how. He maintains that some businesses, volume of transactions does not require elaborate accounting system.

Banya (2003), argues that small businesses do not keep proper records because they underestimate or ignore the importance of this aspect in running business. He further maintains that entrepreneurs or small business owners need to have good understanding of the best and worst case scenarios of an enterprise and how best to manage the cash flow efficiency which is best done through preparing and analyzing cash flow statements.

### **2.5.4 Financial management:**

All small business need a sound financial management and small firm no exception to that rule. Proper management accounts with proforma cash flows, profit and loss accounts and balance sheets are essential if a firm is to survive and prosper.

### **2.5.5 Financial analysis**

According to [www.odi.org.uk](http://www.odi.org.uk), financial analysis is the application of analytical tools to generate purpose of financial statement and related data for making business decisions. It involves transforming data into useful information.

It reduces our uncertainty in decision making. But doesn't lessen the need for expert judgment but it provides with managerial and effective and systematic basis for business decisions.



Financial analysis helps users to make better business decisions i.e. internal and external users.

Financial statement analysis is used by shareholders and creditors to assess future company prospects for investing and lending decisions, suppliers use financial statements in establishing credit terms and customers analyze financial statements in deciding whether to establish supply relationship.

#### **2.5.6 Business performance:**

According to John and Davis (2002) this is the attainment of the set objectives through carry out the planned utilities. The financial reports portray the position of business as a whole. The financial statements like balance sheet reports on overall performance or status of a business.

This information above performance is primarily provided in an income statement and a statement of changes in equity. However, the component parts of financial statements *interrelate* because each statement reflects different aspects of the same transactions or other events.

Gritman (1990) maintains that some non-accounting information is also useful towards the performance of a business. The extent to which financial information affects performance therefore remains unclear to the researcher.

Maheshwari (1996) however, maintains that, the financial information provides a major dependable database from which performance is measured.

Grafiths (2003) observed that the performance of small businesses in Uganda was not good. According to him, first generation of small business fail at the rate of 90% after getting the loans and only 10% succeed. He recommended that small businesses should be trained on how to properly handle their company records, cash flow management and business networking.

Banya (2003) asserts that sound financial management requires preparation and interpretation of cash flow statement, cash budgeting and management. The author emphasizes the cash flow statement and cash budget in financial planning. Banya states that most small businesses in Uganda have no performance evaluation systems. They may not be aware that they are not doing well everything is out of control. He recommended that small businesses should develop performance evaluation programmes.

## CHAPTER THREE

### 3.0 **METHODOLOGY**

#### 3.1 **Introduction**

This chapter shows how the researcher I chose the study population and sample and the methods of collecting and interpreting data used. So it's a structure and strategy used to obtain answers to the research questions.

#### 3.2 **Research Design**

The study covered businesses/small scale entrepreneurs along Kikuubo trading centre Kampala District and the Research I looked on small-scale entrepreneurs with emphasis on the firms with some accounting systems.

#### 3.3 **Sample Size**

A target of 30 respondents was chosen purposively due to time constraints, the researcher however considered the number to be a representative of all small scale entrepreneurs along Kikuubo trading centre.

#### 3.4 **Data Source**

The researcher used primary data source and secondary sources. Primary source is described as the data that have been observed and recorded by the researcher for the first time to their knowledge and data was collected by using interviews, surveys and observation methods.

#### 3.5 **Data collection methods and instruments/tools**

To collect data from the field, sampling was the main method used and the following tools were used, self-administered questionnaires, personal interviews and documentary review.

##### 3.5.1 **Questionnaire**

These are structured questions, which comprise of self-administered questionnaire, which is standardized form of recording answers on the basis of set questions. The respondents record the answers without the assistance of the



interviewer. Questionnaire is helpful in obtaining specified quantitative and qualitative information with accuracy and completeness.

### **3.5.2 Interviews**

This method was used to collect data from the respondents through physical engagement of the researcher. The respondents were interviewed on how Accounting Information System affects the performance of small-scale businesses or small-scale entrepreneurs and how they prepare their financial reports. To obtain the data quickly, the interviews were structured in order to save time.

### **3.5.3 Documentary Review**

This method involved reading documents related to the performance of small-scale entrepreneurs in Uganda. This provided valuable information about advantages and disadvantages of preparing financial reports, Accounting Information Systems and how Accounting Information System affects the performance of small businesses.

### **3.5.4 Sampling**

This involved choosing the sample size and selection methods. Kikuubo lane was taken as a representation of sample population of small-scale entrepreneurs in Uganda by random sampling. Also random sampling was used to select the respondent business firms along Kikuubo lane and the selected sample gave a fair representation.

## **3.6 Time frame**

To carryout this research satisfactorily, the following time was covered

<b>Activity</b>	<b>Period</b>
Data collection	12 days
Data analysis	10 days
Research book information	12 days

### **3.7 Limitations of the study**

- Limited time to carryout the study
- Language barrier
- Limited resources to motivate respondents to avail the researcher with relevant information
- Changes in weather in that during rainy days, the movements along Kikuubo lane are hampered.

## **CHAPTER FOUR**

### **PRESENTATION AND ANALYSIS OF FINDINGS**

#### **4.0 Introduction**

This chapter discusses the analysis and presentation of findings to achieve the overall objectives of the research study. The objectives were mainly under the Accounting Information System and performance of small-scale entrepreneurs, the extent of accounting information system, the nature of financial reports prepared by small scale entrepreneurs how financial reports affect the performance and to suggest the ways through which Accounting Information System can be improved in small business.

#### **4.1 *Background characteristics of the respondents (Demographic responses)***

Background characteristics of the respondents were considered in this analysis, because they directly affect the willingness to use Accounting Information system. Such background Information consisted gender, age, and level of education.

##### **(a) Gender / sex**

**Table 1 A table showing the sex of respondents**

	<b>Frequency</b>	<b>Percentage</b>
Male	21	70%
Female	9	30%
<b>Total</b>	30	100%

The findings indicate that the majority of the respondents were male (70%), and female constituted 30%. This shows that there were more men in business than women.

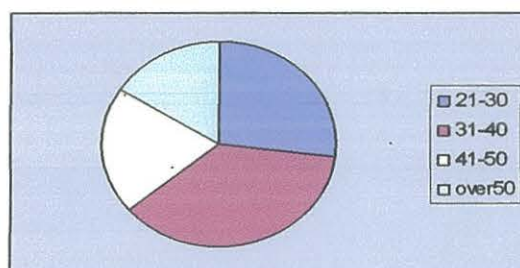
### (b) Age Bracket

**Table 2 : Age bracket of different respondents interviewed**

Age Bracket	Frequency	Percentage
21-30	8	27%
31-40	11	37%
41-50	6	20%
Above-50	5	16%
	<b>30</b>	<b>100%</b>

**Fig 1.**

**A pie chart showing the age brackets of respondents**



Source: Primary source

The findings indicate that the majority of the respondents were in the age bracket of 31-40 years

### (C) Level Education:

**Table 3: Showing categories of respondents**

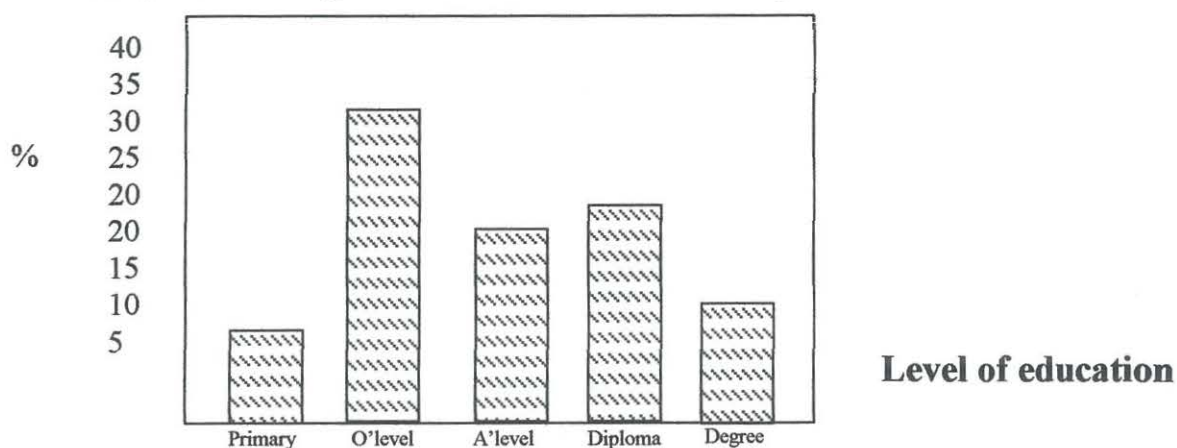
Interviewed according to the level of education

Qualification	Number	Percentage
Degree	4	13.3
Diploma	8	26.7
A-level	6	20
O-level	10	33.3
Primary	2	6.7
<b>Total</b>	<b>30</b>	<b>100%</b>

Source primary data

**fig. 2**

**Graph 1: Showing the level of education of the respondents**



The findings indicates that majority of the respondents were literate. The purpose of cooking the respondent's qualifications was to determine weather they would give the required information about the performance of their business based on the financial statement prepared and reported due to Accounting Information System.

#### **(d) Entrepreneurial business**

**Table 4. Showing categories of small scale entrepreneurial firms / business visited according to their nature**

Nature	Frequency	Percentage
Whole sale	16	53.3
Retail	13	43.3
Others	1	3.3
Total	30	100%

Source: Primary Data

The Findings indicated that the majority of the small scale firms / entrepreneurs were whole sellers through sometimes they sell on retail basis.



## 4.2 The level and value of Accounting Information system.

### 4.2.1 Use of Accounting Information System

*Table 5: Using Accounting Information System or Not*

Response	Number	Percentage
Yes	11	37
No	19	63
<b>Total</b>	<b>30</b>	<b>100%</b>

Source: Primary data

Of the people interviewed, 37% use Accounting Information system in the operation of the Business and 63% did not hence Accounting Information System has not been given the first priority in the performance of small scale entrepreneurs.

## 4.3 Extent of Accounting Information System on performance and business operations.

**Table 6 Showing the extent of Accounting information System**

	Excellent	V. Good	Good	Poor	V.poor	Total
Financial analysis	15.4	26.9	42.	11.5	3.8	100%
Business performance	11.5	34.6	46.2	7.7	0	100%
Financial Management	7.7	34.6	53.8	3.8	0	100%
Financial Accounting	11.5	50	30.8	3.8	3.8	100%
Business profitability	15.4	34.6	38.6	11.5		

Source: primary data



From the above table, it's shown that on average entrepreneurs attribute their improvement to Accounting Information System.

Seen that approximately 60% of the improvement as "good" response.

#### **4.4 Types of financial reports prepared.**

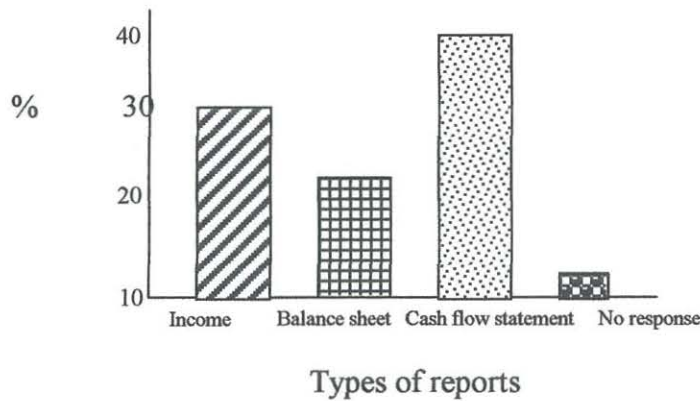
The findings indicated that small number of small scale firms prepared financial reports. Some that prepared report like Balance sheet, income statements, did it for functional purpose like taxation.

**Table 7: showing types of reports prepared by small-scale entrepreneur**

<b>Type of report</b>	<b>Number</b>	<b>Percentage</b>
Income statement	8	26.7
Balance sheet	6	20
Cash flow statement	12	40
No response	4	13.3
<b>Total</b>	<b>30</b>	<b>100%</b>

**Source: Primary data**

**Fig 4: Bar graph showing types of reports prepared using Accounting Information System**



Source; Primary data

The figures above show that most small-scale entrepreneurs prepared cash flow statements. However, 40% is small percentage, which indicated that the majority of firms do not prepare financial reports.

The figures also indicate that firms which prepared balance sheet were few in that financial position of the entities will not be easily determined as regards to assets, liabilities and owners equity.

Also since 26.7% of the firms prepared income statement, then it means that almost all the firms do not fit to disclose their operating results in whether the operation resulted into loss or profit.

In order to establish the reliability and validity of Accounting Information System, the respondents were asked the accounting information systems they use in keeping records of their transactions.

*Table 8: Accounting Information system used in recording transactions*

	Yes	No	Total	%number
Accounts receivable	8	3	72.7	27.3
Accounts payable	8	3	72.7	27.3
Inventory cash	5	6	45.4	54.6
General ledger	7	4	63.6	36.4
Cost accounting	11	0	100	-
Sales analysis	10	1	90	10

Source: Primary Data.

The findings indicate that most small scale entrepreneurs used Accounting System in the cost control and forecast and others, the records were dominated by mainly transaction of purpose and sales i.e. sales analysis.

#### **4.4.1 Analysis of the quality of financial reports and clarity of reports**

The reports of some firms were scrutinized to established their quality and clarity.

The findings are summarized in the table below.

*Table 9: showing the quality of financial reports*

Report	Excellent	Good	Satisfaction	Poor	V. poor	Ideal
Quality	-	3	6	10	7	26
Clarity	-	4	3	4	5	26

Most of the reports quality was poor. This is because most reports preparation involved much subjectivity and did not follow only standard eg. Some balance sheets did not have “financed by”. Some reports were not clear especially the arrangement of items.

#### **4.5 Impact of Accounting Information System and financial reports on performance.**

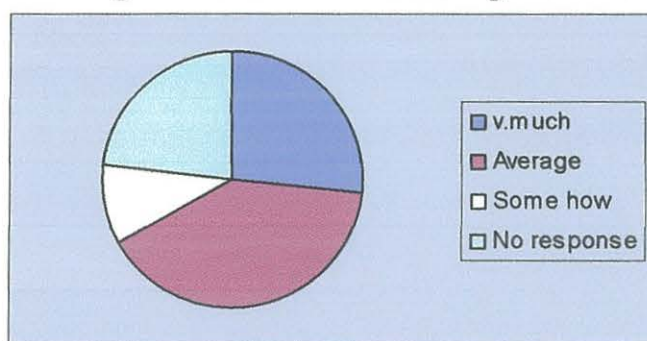
To establish whether the reports have effect on performance of small businesses / entrepreneurs, respondents were asked whether reports contributed to it. Performance was measured using profitability and liability position of the accounting System.

*Table 10: showing firms response on the contribution of reports on performance*

Contribution	Number of firms	Percentage
Very much	8	26.7
Average	12	40
Some how	3	10
No response	7	23.3
Total	30	100

Source: Primary data

**Figure 5: A Pie chart showing the firm's response on the contribution**



#### **4.5.1 Impact on planning business operations.**

It was found out that most firms which prepared reports, used them in planning their operations. This was established by asking the respondents how they planned their operations. The most used system was cash flow statement which they used in cost control and forecasting cash needs.



**Table 11: showing business which use reports in planning operations.**

Reports	Business work	Budgets	Profit determination	Total
Income	3	-	7	10
Statement	5	1	3	9
Balance sheet	-	8	1	9
Cash flow	-			
Total	8	9	11	28

Source: primary data

#### **4.5.2 Measure of performance**

Performance was measured using profitability and liquidity position. Profitability as a measure of performance was established that most of the firms which used accounting information system in reports reported high profits, which reflect that reports hence is an indicator of good performance.

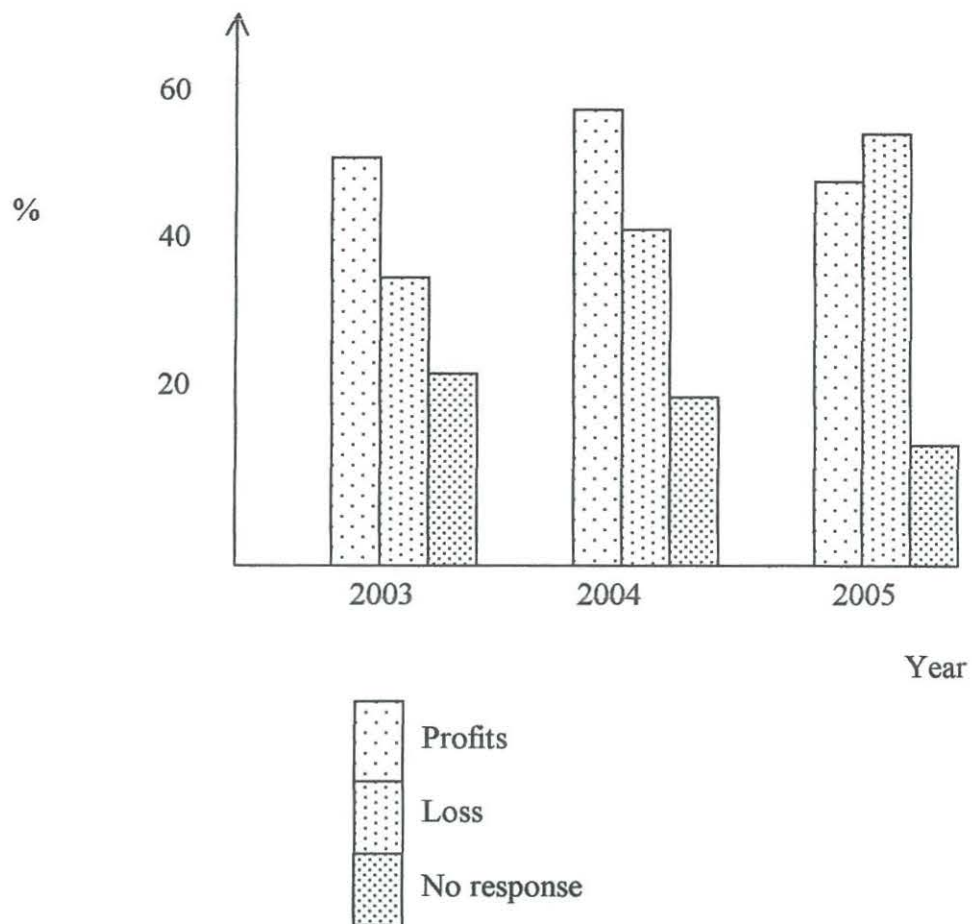
The researcher found out that there was much subjectivity some of the reports were not extracted from visible records.

**Table 12: showing firms which report profits.**

Year	2003	%	2004	%	2005	%
Profit	14	46.7%	15	50	12	40
Loss	10	33.3%	11	36.7	15	50
No response	6	20	4	13.3	3	10
Total	30	100	30	100	30	100

Source: primary data

**Figure 6:**



Source: Primary data

#### **4.6 Suggestions on how to improve accounting information system in small**

##### **Scale entrepreneur.**

Respondents suggested that owners of the business should hire experts to install accounting information systems and hire accountants to prepare financial reports.

However, some respondents complained that experts charge fees that's why 20% suggested that government should support in hiring experts since small scale businesses pay much in tax.

Some respondents also suggested that entrepreneurs should acquire accounting packages i.e. computerized accounting that help in the preparation of financial statements for example Peachtree that concerns inventory control, sales and purchases ledgers etc.

**Table 12: showing response on the suggestions on how to improve Accounting Information System.**

Hiring experts	Yes	%	No	%
Introduce computerized accounting system	18	60	12	40
Training on how to improve	24	80	6	20
Financial statement prepared in accordance to regulatory framework	28	90	2	10
	11	30	19	70

Source: Primary data

The table shows that the majority of the respondents suggested that accounting information system should be improved by introducing computerized accounting system. They argued that this would be in line with growing computer systems in business.

Some respondents also suggested that they should be trained through seminars and workshops. So that it would enable them more important decisions basing on the same other than being subjective.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS:**

#### **5.0 Introduction.**

This chapter discusses, the summary of main findings in line with the study, objectives which are, the extent of Accounting Information System and performance, Nature of accounting of information system and financial reports and to establish ways how Accounting Information System can be improved.

#### **5.1 Summary**

It was noted that few firms/entrepreneurs prepare the whole set of financial statements taking into account the Accounting Information System i.e. Balance sheet, income statements and statements of changes in equity using accounts receivable, accounts payable, general ledger and other systems. And firms which prepare reports do it mostly for functional purposes like taxation.

The quality of the reports and accounting information system were poor and reports were not prepared in accordance with accounting standards for example international accounting standards. Entrepreneurs that prepared the reports mainly cash flow statements as the report was extracted mainly from partial records mostly sales and purchases records.

This implies that most financial reports do not met financial reporting standards. It was also observed that Accounting Information Systems have importance on performance as observed from the firms which used them. The profitability of most firms that use Accounting Information Systems reported high profits which reflect an effect on profitability. As we all know that profitability is an indicator of good performance.

The study also disclosed that majority of the small scale entrepreneurs prepare standard balance sheets that do not disclose the financial position of the firm



and operating result and this is due to the fact that the preparation of reports of small firms usually involve subjectivity and do not follow any standard to record their transactions in a professional cash book, they simply list their debtors and creditors and the figures for preparation of financial statements are always missing and this makes preparation of financial reports almost impossible.

As regards to the improvement of Accounting Information System, the respondents suggested enhancing the knowledge of Entrepreneurs on Accounting Information System and financial reporting through workshops, seminars and training. And they recommended government support in hiring experts and introducing computerized accounting system with some accounting software i.e. Peachtree.

## **5.2 Conclusion**

As per the research carried out about Accounting Information System and performance of small scale entrepreneurs in Uganda and data collected, small scale businesses/entrepreneurs in Uganda are poorly performing because of lack of financial information that provide a major dependable data base from which performance is measured. For that matter, small-scale entrepreneurs need sound financial management and Accounting Information System and small firms are no exception to this rule.

Proper management accounts with proforma cash flows, profit and loss accounts and balance sheets are essential if a firm is to survive and prosper as it compares what was planned with what actually occurred.

All in all, Accounting Information System has a great impact on the performance of businesses, in that it provides ways on how to prepare reports that provide information about the means through which a firm obtains and uses its cash, provides explanations and interpretation to users in understanding the financial statement.

### **5.3 Recommendations.**

All business firms should be sensitized about the importance of preparing financial report and use of Accounting Information Systems and how they affect the performance and how reports should be prepared in conformity with the legal framework and accounting standards issued by Institute of Certified Public Accountancy Uganda

Accounting Information Systems should be designed by providing a framework of the system basing on the purpose, environment, structure, performance and quality of Accounting Information System as it must be able to motivate its internal users towards goal achievement.

Assertions regarding financial statements preparation should be put in practice i.e. completeness where all transactions which are to be included in the financial information is included.

Small scale entrepreneurs should switch to the use of computers to handle their accounting data because when businesses switch to computerized accounting they discover that book keeping and accounting skills are more important than computing ones. This is because computerized accounting system performs the processing stage electronically, much more quickly, consistently and accurately than if it were done manually.

All in all, small-scale entrepreneurs in Uganda need sound financial management and sound/strong accounting information system if a firm/business is to survive and prosper.

#### **5.4 Areas for further research.**

- How computers can be used for imputing and processing data to produce outputs from accounting system for decision making.
- Accounting software and performance of small business in Uganda.

## TERMINOLOGIES

<b>Accounting</b>	Is defined, as a language of businesses like all languages, accounting is a man made means of communicating certain information to People in the business world such as shareholders, managers, investors, bankers etc.
<b>Financial report</b>	Is a statement that provides information about financial positions
<b>Balance sheet</b>	financial statements that show the financial position of an organisation
<b>Regulatory</b>	Framework of acting principles and guidelines followed to produce financial statements.
<b>Analysis</b>	This is the application of analytical tools to generate purpose of financial statements and related data for making business decisions.
<b>Methodology</b>	It's a structure and strategy used to obtain answers to the research questions.
<b>Questionnaires</b>	These are structured questions, which comprise of self-administered questionnaire, which is a standardized form of recording answer on the basis of set questions.



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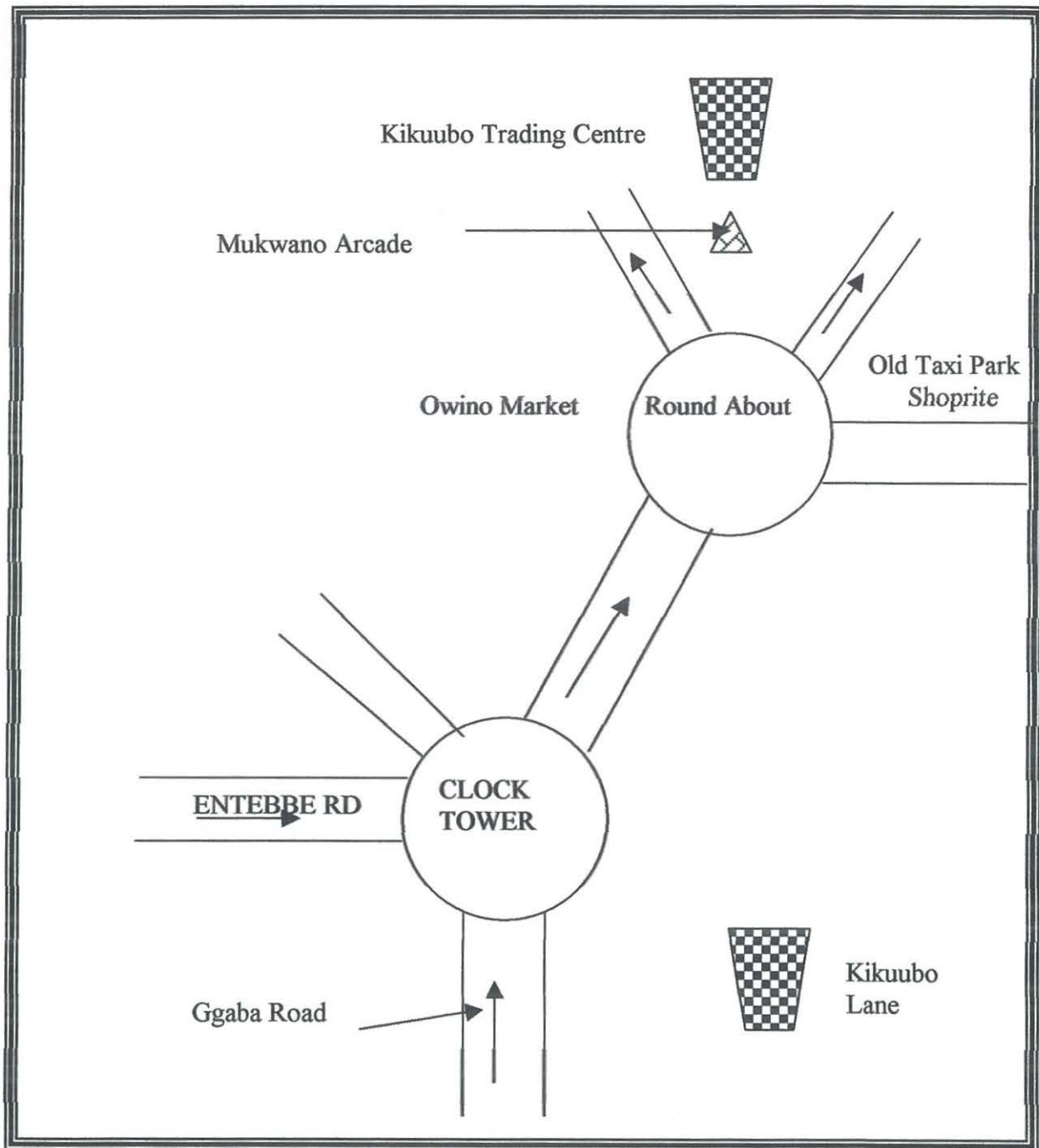
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[www.adf.gov](http://www.adf.gov)

[www.odi.org.uk](http://www.odi.org.uk)

## APPENDIX 1.

### Location/site of the case study



## APPENDIX II

### QUESTIONNAIRE:

Dear respondent,

I am glad to inform you that you have been selected as one of the respondents in the research study about the impact of Accounting Information System on the performance of small scale entrepreneurs in Kikuubo. The findings and recommendations will help small business/small scale entrepreneurs and other stakeholders as regards to financial reporting, analysis and decision making. The information given in answering this questionnaire is to be used purely for academic purposes and treated with confidentiality.

You are requested to tick or fill the appropriate answers.

Thank you in advance.

#### 1. Demographic details

##### Demographic details

(i)

Male	<input type="checkbox"/>
Female	<input type="checkbox"/>

(ii) Age bracket

20-30	<input type="checkbox"/>
31-40	<input type="checkbox"/>
41-50	<input type="checkbox"/>
Above 50	<input type="checkbox"/>

(iii) Level of education

Primary	<input type="checkbox"/>
Secondary	<input type="checkbox"/>
Certificate	<input type="checkbox"/>
Diploma	<input type="checkbox"/>
Degree	<input type="checkbox"/>

2. What is the nature of your business?
- (a) Retail ☐
- (b) Whole Sale ☐
- (c) Any other specify .....
3. For how long have you been in business?
- (a) Less than 2 years ☐
- (b) Between 2-6 years ☐
- (c) More than 6 years ☐
4. What is the nature of your accounting system?
- (a) Less than 2 years ☐
- (b) Between 2-6 years ☐
- (c) More than 6 years ☐
5. Do you have any knowledge of Accounting Information System
- (a) Yes ☐
- (b) No ☐
6. If yes in 4 a above, do you use any of the following Accounting Information Systems?
- (a) Ordering processing ☐
- (b) General Ledger ☐
- (c) Payroll ☐
- (d) Accounts payable ☐
- (e) Accounts receivable ☐
7. Do you keep records of your transactions?
- (a) Yes ☐
- (b) No ☐



8. If (a) in 7, do you prepare any of the following reports?

- (a) Balance sheet ☐
- (b) Cash flow statement ☐
- (c) Income Statement ☐

If (b) in 7 How then do you keep your records?

.....

9. Do you use accounting reports in making business decisions?

- (a) Use all of them ☐
- (b) Use some of them ☐
- (c) Don't use any ☐

10. Do you find any problems in using Accounting Information System?

- (a) Yes ☐
- (b) No ☐

11. If (a) in 10 above then mention them

- (i) .....
- (ii) .....
- (iii) .....

12. Do you find any problem in preparing financial reports?

- (a) Yes ☐
- (b) No ☐

13. If (a) in 12 above mention them

- (i) .....
- (ii) .....
- (iii) .....

14. How can Accounting Information Systems be improved?

- (i) .....
- (ii) .....

15. How can financial reporting and book keeping be improved?

(a) Increase the notes to financial statements

☐

(b) Financial reports prepared according to regulatory framework

☐

(c) Reporting done regularly

☐

16. How often should the report be prepared?

(a) Quarterly

☐

(b) Semi-annually

☐

(c) Annually

☐

(d) More than one year specify

.....

## INTERVIEW GUIDE

- i. What type of business are you dealing in?  
.....
- ii. What is your age?  
.....
- iii. For how long have you been in this type of business?  
.....
- iv. What is your level of education?  
.....
  
1. How do you plan your operations?  
.....
2. How do you know that you have performed well or badly?  
.....
3. How do you know that you have made profits or losses?  
.....
4. How has the Accounting Information System helped you in the preparation of financial reports?  
.....
5. How can financial reporting be improved?  
.....
6. How can Accounting Information System be improved?  
.....
7. Has the Accounting Information System helped you to improve on the performance of your business?  
.....
8. Do you sell or buy on credit?  
.....
9. If yes what are the terms and conditions for (8) above?  
.....

Thanks for your cooperation.