

**PERCEIVED QUALITY OF ACCOUNTING
INFORMATION AND PERFORMANCE OF SMALL
AND MEDIUM ENTERPRISES**

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DECLARATION

I certify that the ideas, results, analyses and conclusions reported in this dissertation are entirely my own effort, except where otherwise acknowledged. I also certify that the work is original and has not been previously submitted for any other award, except where otherwise acknowledged.

Signature of Candidate

Date

APPROVAL

This is to certify that this dissertation has been submitted with our approval as university supervisors

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Date

DEDICATION

I dedicate this dissertation to my family.

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ABSTRACT

Quality information is critical to organizations' success 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. Empirical studies found accuracy as a distinct dimension of accounting information quality from reliability. Basing on this background, 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. However, very little empirical investigation has tested the presence of this relationship. This dissertation investigates the correlation between quality of accounting information and performance of small and medium enterprises. 160 participants from different categories of selected small and medium enterprises (SMEs); with 103 (64%) usable responses received.

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

A significant positive linear relationship was found between quality of accounting information and performance of SMEs. The findings on the correlation relationship indicate that quality of accounting information in terms of relevance, accuracy, understandability and reliability enhanced on the performance of small and medium enterprises.

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.

TABLE OF CONTENTS

CHAPTER ONE	1
INTRODUCTION	1
1.1 Background to the study.....	1
1.2 Statement of the problem	3
1.3 Purpose of the study	4
1.4 Objectives of the study.....	4
1.5 Research Questions	4
1.6 Significance of the study	4
1.7 Scope of the study	5
1.8 Conceptual Framework.....	5
CHAPTER TWO	8
LITERATURE REVIEW	8
2.1 Introduction	8
2.2 The Role of Accounting Information in Business Decision making	8
2.3 Qualitative Characteristics of accounting information	10
2.3.1 Relevance	12
2.3.2 Reliability.....	13
2.3.3 Understandability	15
2.3.4 Accuracy	16
2.4 Performance in Small and Medium Size Enterprises	17
2.4.1 Sales	18
2.4.2 Profitability.....	19
2.5 Perceived Quality of Accounting Information and SME Performance	20
2.6 Technical competence and Quality of Accounting Information.....	22
2.7 Definition of Small and Medium Enterprises	23
2.8 Role of Small and Medium Size Enterprises.....	25
CHAPTER THREE	27
RESEARCH METHODOLOGY	27
3.1 Introduction.....	27
3.2 Research design	27
3.3 Study Population	27
3.4 Sampling method and procedure.....	28
3.5 Data Source and Collection Instruments	29
3.6 Data Collection Methods and Procedure	30
3.7 Research Variables and their measurement.....	30

3.8	Validity and Reliability of Instruments	31
3.9	Data Processing and Analysis	32
3.10	Limitations of the Study	32
CHAPTER FOUR		33
DATA ANALYSIS AND DISCUSSION		33
4.1	Introduction	33
4.2.	Background Information	33
4.2.1	Response Analysis	33
4.2.2	Businesses Categories	34
4.2.3	Gender	35
4.2.4	Age groups of respondents	35
4.2.5	Respondents by formal education level	36
4.2.6	Respondents by Job Titles	37
4.2.7	Departments	38
4.2.8	Training in Accounting and Finance	38
4.3	Perceived Quality of Accounting Information	40
4.4	Performance	45
4.5	Perceived Quality of Accounting Information and Performance	47
CHAPTER FIVE		52
CONCLUSION AND RECOMMENDATION		52
5.1	Conclusions	52
5.1.1	Perceived Quality of accounting information	52
5.1.2	Performance	52
5.1.3	Perceived Quality of accounting information and performance	52
5.2	Recommendations	53
5.3	Further Research	55
REFERENCES		56
APPENDIX A : PARTICIPANT LETTER.		67
APPENDIX B: QUESTIONNAIRE		68
APPENDIX C: STATISTICS		73

LIST OF FIGURES

Figure 1.1	Conceptual Framework	6
Figure 2.1	Users of Accounting Information	10
Figure 2.2	Statement of Accounting Concepts – Qualitative Characteristics	11
Figure 4.1	Response rates versus Non Response Rates	33
Figure 4.2	Responses by Business Category	34
Figure 4.3	Responses by Gender	35
Figure 4.4	Age Group Chart	36
Figure 4.5	Job Title Chart	37
Figure 4.6	Department-wise responses	38
Figure 4.7	Level of Education in Accounting and Finance	39

LIST OF TABLES

Table 3.1	Population and Samples	27
Table 3.2	Selected Businesses and their distribution	29
Table 3.3	Reliability and Consistency of Instruments	31
Table 4.1	Responses by formal education level	36
Table 4.2	Rotated Component Matrix for Quality of Accounting Information	40
Table 4.3	Rotated Component Matrix for performance	45
Table 4.4	Correlation Matrix	47
Table 4.5	Regression Model	48
Table 4.6	Regression Model II	51

ACRONYMS / ABBREVIATIONS

FASB	-	Financial Accounting Standards Board
IASB	-	International Accounting Standards Board
IASC	-	International Accounting Standards Committee
ICANZ	-	Institute of Chartered Accountants of New Zealand
MUBS	-	Makerere University Business School
MUK	-	Makerere University Kampala
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 Asia-Pacific
USSIA	-	Uganda Small Scale Industries Association

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

The primary role of accounting is to collect and communicate data that can be used for analysis and decision making (Ettredge, Shane, & Smith, 1995; Hungerford, 1984). 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.

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)

Although, some small and medium enterprises prepare financial reports for statutory purpose, many fail to use these reports (DeThomas & Fredenberger 1985). 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. 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).

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 & Friedlob 1984; 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. 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 perceived 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. Research on small and medium enterprise development shows that lack of reliable accounting information provided by small and medium enterprises is a problem in developed and developing countries (UNCTAD, 2001) and that the rate of failure in developing countries is higher than in the developed world (Arinaitwe, 2002). Research further suggests that poor financial management is a major cause of business failure (Argenti, 1976; Berryman, 1993) and that quality information is critical to organizations' success in today's highly competitive environment (Hongjiang Xu, 2004). According to (Ssejjaka, 1996) and (Wabwire, 1996) there is poor level of record keeping in small and medium enterprises in Uganda. 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 quoted in Siop 1997, Walton 2000, Wichmann, 1983, World Bank 1978). Probably the poor performance exhibited in SMEs in Uganda could be due to shortcomings in the quality of accounting information which influences the decisions made.

1.3 Purpose of the study

The purpose of the study was to establish the relationship between perceived quality of accounting information and performance in SMEs in Uganda. The study subsequently provided recommendations for improving performance in SMEs based on the findings.

1.4 Objectives of the study

1. To examine what determines the perceived quality of accounting information in SMEs
2. To examine the performance of SMEs based on selected indicators.
3. To investigate the relationship between perceived quality of accounting Information and performance of SMEs

1.5 Research Questions

The study seeks to answer the following questions.

1. What determines the perceived quality of accounting information in SMEs?
2. What is the performance of SMEs based on selected indicators?
3. Is there a relationship between perceived quality of accounting information and performance of SMEs?

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.

1.7 Scope of the study

The study covered specific aspects of quality of accounting information which include reliability, relevance, understandability (SAC 3, 1990) and accuracy (Hongjiang Xu, 2004, Kriebel, 1979) and how this quality affects the level of performance in terms of sales and profitability.

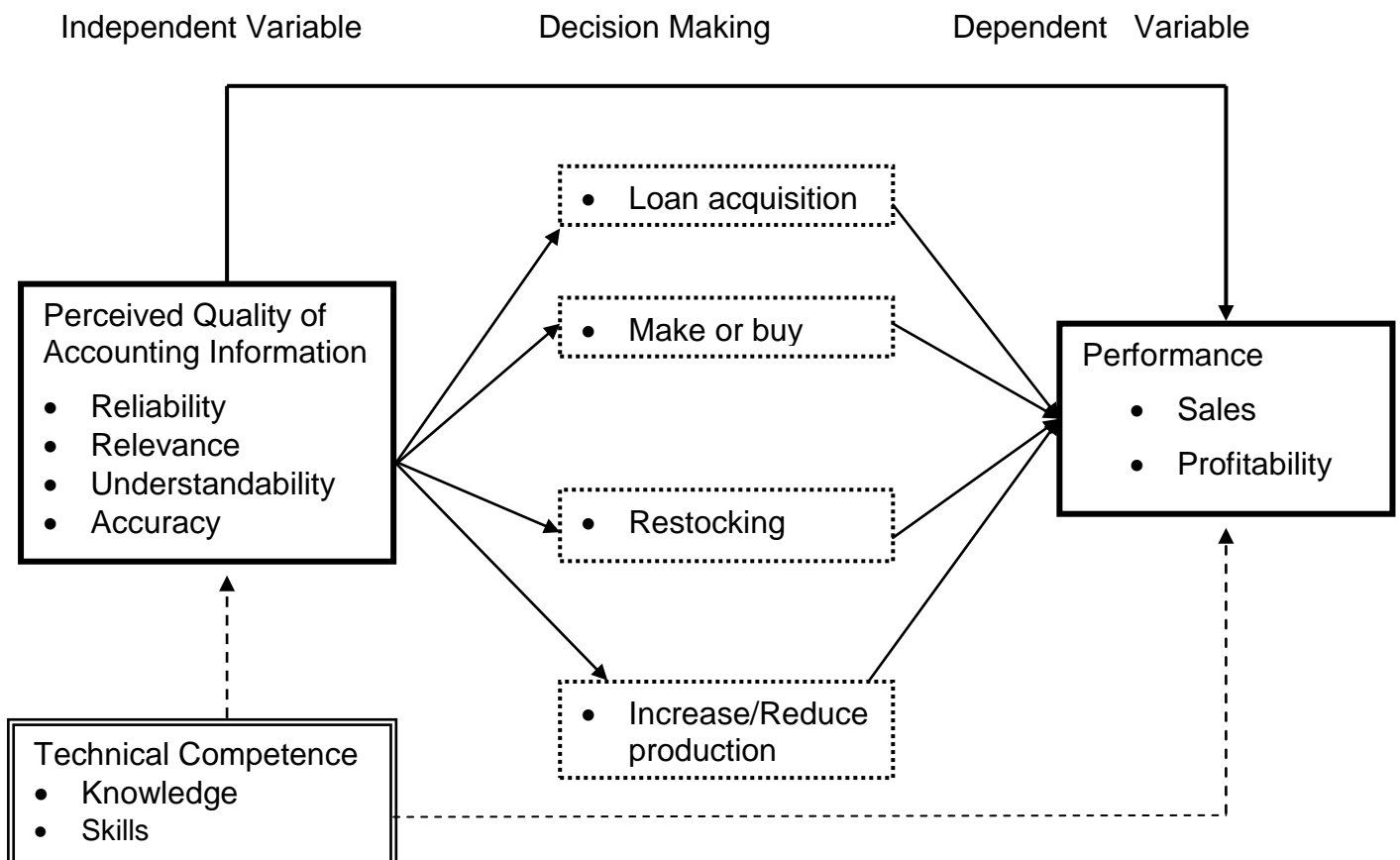
The study was limited to small and medium size enterprises in Kawempe Division, Kampala District with focus on commercial activities of trade and services. Here small and medium size enterprises were defined as enterprises with less than 50 employees.

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

The conceptual dimensions of quality of accounting information are reliability, relevance, understandability and accuracy and those of performance are represented by two measures; business turnover / sales (Kalleberg & Leicht, 1991) and profitability (Lee, 1987). The quality attributes are chosen on the basis of what is provided in the Statement of Accounting Concepts (SAC 3, 1990), Financial Accounting Standards Board (FASB, 1980) and empirical studies (Hongjiang Xu, 2003, Dornado, 1991, Ahituv, 1980, Kriebel, 1979) which present accuracy as a distinct qualitative characteristic from reliability.

Figure 1.1 Conceptual Frame-work



Source: Based Bukenya (2003), Esaete (2005); Barret (1995)

Due to the differences between SMEs in developed and developing countries, in terms of organizational, structural, environmental, and management variables, not to mention the definition of SMEs, accuracy was considered more relevant to the study than comparability. Moreover comparability results when different enterprises apply the same accounting treatment to similar events and comply with international accounting standards, which is not the case with SMEs in the study.

Performance measurements in the conceptual framework concur with (Keegan *et al.*, 1989; Sink and Tuttle, 1989; Jones *et al.*, 1993; Meyer, 1994; Ghalayini *et al.*, 1997) who outlined nine SME financial performance indicators including cash-flow, market share, overhead cost reduction, inventory performance, cost control, sales, profitability, efficiency and product cost reduction. For purposes of this study, the performance measures used were sales and profitability.

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 with the high failure rate and (Wichmann, 1983) who asserts that proper accounting is a key to business success.

CHAPTER TWO

LITERATURE REVIEW

2.1 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, accuracy), performance in medium size enterprises (sales, profitability), technical competence, definition of medium size enterprise and role of medium size enterprises.

2.2 The Role of Accounting Information in Business Decision making

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 stakeholders 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.

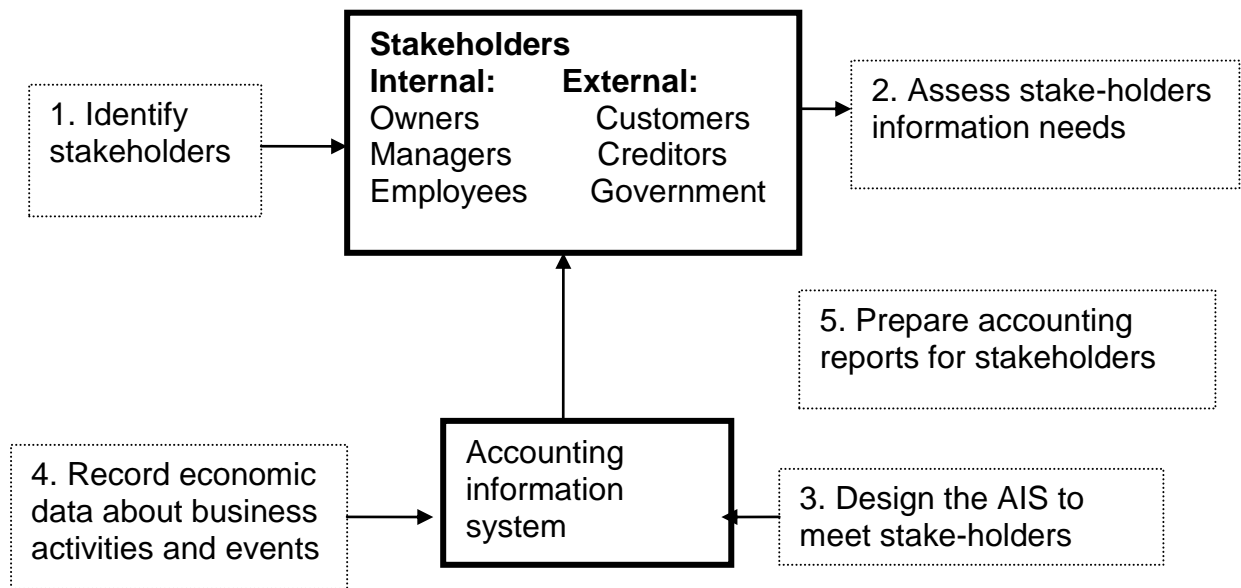
Accounting information signals that decisions are needed, and provides information useful to making decisions (Gibson 1963 quoted in Thomas & Evanson 1987).

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 a 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, Pg 823)

Figure 2.1 above identifies the various users of accounting information.

2.3 Qualitative Characteristics of accounting information

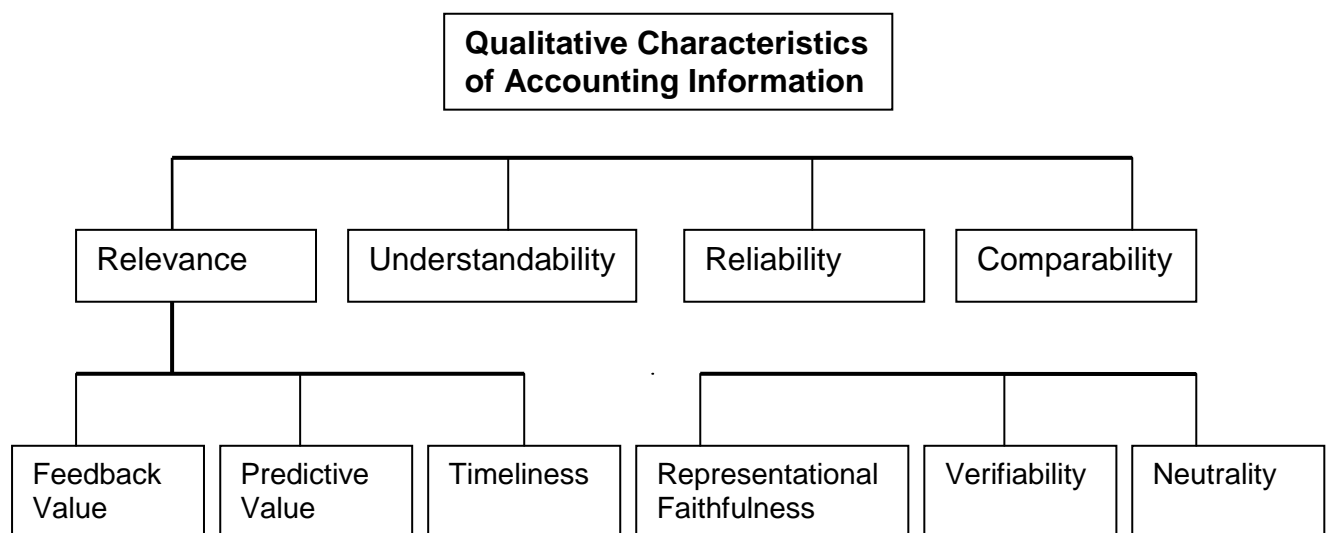
The primary objective of financial reporting is to provide useful information to interested parties. This information should have qualitative characteristics to be useful for decision making. According to (Weygandt & Kieso, 2005) qualitative characteristics of accounting information include relevance (information makes a 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.

Figure 2.2 Statement of Concepts’ Qualitative Characteristics ICANZ, 2001



2.3.1 Relevance

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 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. Outdated information is irrelevant and could lead to incorrect decisions. Figure 2.2 above gives an outline of the different attributes of relevance.

2.3.2 Reliability

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 verifiability, 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.

2.3.3 Understandability

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.

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.

2.3.4 Accuracy

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 (Hongjiang Xu, 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-stock conditions (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).

2.4 Performance in Small and Medium Size Enterprises

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).

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 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.

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 owners-managers to 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.

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 Reichel 2005).

2.4.1 Sales

Accounting information furnish 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

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, while rendering of services typically involves the performance by the enterprise of a contractually agreed task over an agreed period of time.

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)

2.4.2 Profitability

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 buy capital 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 success (Haber and Reichel 2005; 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.

For purposes of this study, sales and profitability were used as the measures of performance of SMEs.

2.5 Perceived Quality of Accounting Information and SME Performance

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 success (Wichmann, 1983).

Given the “sharp rise in numbers of new entrepreneurs accompanied by the urgent need to become financially literate: the most common cause of business failure is poor financial control stemming from an ignorance of the basics of business finance” (Colin Barrow, 2006).

(McCannon, 2002) argued that many businesses fail because managers did not keep adequate records and could not make timely and important management decisions. 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 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.

(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.

2.6 Technical competence and Quality of Accounting Information

Lack of management experience is also a major cause of small and medium business failure. Owners tend to manage businesses themselves as a way of reducing operational costs. (Okpara, John O., Wynn, Pamela, 2007). Researchers also identified inexperience in the field of business, particularly lack of technical knowledge, plus inadequate managerial skills, lack of planning, and lack of market

research (Lussier, 1996; Mahadea, 1996; Murphy, 1996) as major causes of poor performance.

Factors that discourage banks from lending SMEs include poorly compiled records and accounts and low levels of technical and management skills. Most of them cannot meet the requirements for commercial loans, and those who do, find such loans expensive (Gray, Cooley, and Lutabingwa, 1997; Kiggundu, 1988; Trulsson, 1997; Van Dijk, 1995).

A study of retail and service firms (Brush and Chaganti, 1998) found that both education and industry experience had an impact on firm performance as measured by net cash flow and employment. Prior research suggests that more highly educated firm owners tend to operate more successful firms (Kangasharju and Pekkala 2002; Pena 2002; Schiller and Crewson 1997). Prior research has also revealed a link between educational level and income, so more highly educated firm owners may have had greater opportunities to earn and save more over the course of their working years (Kim 2003; Diaz-Gimenez, Quadrini, and Rios-Rull 1997; Weicher 1997).

2.7 Definition of Small and Medium Enterprises

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.

(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.

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.

In Thailand, a medium size enterprise in the production and service sectors is one that does not exceed A\$ 7.4 million in terms of fixed assets and not more than 200 persons. In the wholesale trading sector, a medium size enterprise does not exceed A\$ 3.7 million in fixed assets and not more than 50 persons. For a retail trading sector a medium size enterprise does not exceed A\$ 2.22 million in fixed assets and not more than 30 persons. On the other hand a small size production and service sectors is one that does not exceed A\$ 1.85 million in terms of fixed assets and not more than 50 persons. In the wholesale trading sector, a medium size enterprise does not exceed A\$ 1.85 million in fixed assets and not more than 25 persons. For a retail trading sector a medium size enterprise does not exceed A\$ 1.11 million in fixed assets and not more than 15 persons.

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)..

For purposes of this study a small and medium size enterprise (SME) is considered to have less or equal to 50 permanent employees.

2.8 Role of Small and Medium Size Enterprises

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.

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).

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).

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.

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' development and economic growth in developed countries (Harris and Gibson, 2006; Monk, 2000; Sauser, 2005; Birch, 1987; Birch, 1981). However, far less research has been conducted on this relationship in developing countries.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 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.

3.2 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 perceived quality of accounting information and the level of performance in SMEs.

3.3 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 300 SMEs in Kawempe Division, on Kampala City Council's Trading License register. Four zones in Kawempe Division were covered from which a sample of one hundred sixty (160) SMEs were selected as shown in table 3.1 below

Table 3.1: Population and Samples

Zone	Population	Sample
Kawempe	60	25
Kyebando	80	35
Wandegeya	120	80
Mulago	40	20
	300	160

Source: *Primary Data*

3.4 Sampling method and procedure

The study used purposive sampling technique. Samples were selected in such a way that a zone with the highest population also had the highest sample. This is in line with Patton's suggestion that the overall aim of purposive sampling is to include 'information-rich cases for study in depth' (Patton, 2002). In the study, since the data in the sampling frame are considered comprehensive and can be easily divided into strata based on the business sector and zones, 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 Selected Businesses and their distribution

Type	No of SMEs
Retail	50
Cosmetics and Beauty	35
Supermarkets	10
Chemicals and Pharmaceuticals	15
Foods and beverage processing	10
Educational Services	15
Information Technology	25
Total	160

Source: Primary Data

Sample units were purposively selected from the four strata with focus on units deemed most appropriate for meaningful results. The field work sample comprised one hundred and sixty (160) 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.

3.5 Data Source and Collection Instruments

Primary data was collected using a questionnaire to obtain perceptions of respondents. Literature was reviewed using secondary data sources which included MUBS and MUK libraries, websites of UIA and PSF, World Bank journals, publications and research journals.

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 study variables in the model; perceived quality of accounting information and performance.

The questionnaire was pre-tested, which resulted in minor revisions of the questionnaire to improve its validity and reliability. A research assistant was hired and guided to ease the data collection process. Secondary data was personally collected by the researcher from the library and research journals on the internet.

3.7 Research Variables and their measurement

The independent variable was perceived quality of accounting information for purposes of this research. A five-point Likert scale was used to determine the degree of agreement or disagreement with the statements that define the measures of perceived quality of accounting information.

The question scales were developed basing on the literature definitions of the qualitative characteristics attributes (ASB 2000 & SAP, 3, 1990).

The dependent variable was performance of SMEs and includes sales and profitability. A 5-point Likert scale was employed to measure performance since it was perceived rather than actual, as a result of the difficulty of obtaining actual performance levels from SMEs.

3.8 Validity and Reliability of Instruments

To ascertain validity and reliability, the questions were pre-tested using a selected sample to eliminate questions that were vague. The research instrument was tested using the content validity index (CVI) and Cronbach Alpha coefficients. A CVI of greater or equal to 0.50 confirms that the questions were taken to be relevant to the study variable. The validity was determined at 0.843. The reliability of instruments was determined using Cronbach's Alpha and results were as in the table 3.3 below.

Table 3.3 Reliability and Consistency of Instruments

VARIABLE	CRONBACH ALPHA
Accounting Information Quality	0.6856
Reliability	0.8906
Relevance	0.8620
Accuracy	0.9575
Understandability	0.8375
Performance	0.8869
Sales	0.8975
Profitability	0.9128

From the table above, the Cronbach Alpha coefficients were all above 0.50 (Sekaran, 2000) which implies that the scales used were consistent and therefore the instrument was reliable

3.9 Data Processing and Analysis

The data collected was edited, coded and analyzed using computerized analysis. The statistical package for the social sciences research (SPSS) is the computer programme that was utilized to code and analyze data. Using SPSS software version 17, all questions for relevance, accuracy, understandability and reliability were added together and their mean scores obtained to get the quality of accounting information variable.

Regression and correlation analyses were conducted to determine the nature and degree of relationship between the independent (perceived quality of accounting information) and dependent variable (performance).

3.10 Limitations of the Study

Limitations of the study may be attributed to the following

- Lack of financial records in SMEs in Uganda and ambiguity surrounding quality measurement. Consequently performance measurement was restricted to the use of performance indicators.
- Respondents' unwillingness to disclose information concerning their businesses and suspicion could create data collection problems which might affect the reliability of findings. This was overcome by convincing people that information was specifically meant for academic purposes and would be handled with confidentiality. Also Likert Scales were used for measurement in order to rule out the effect on reliability of findings.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1 Introduction

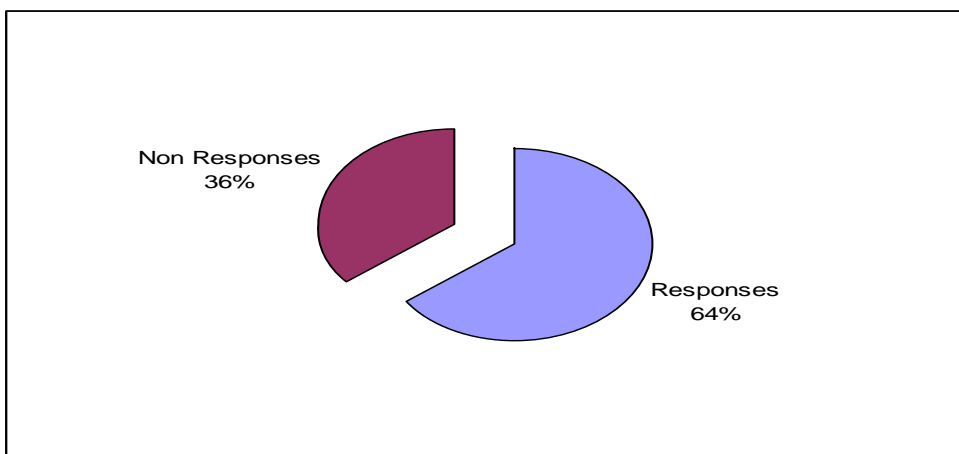
This chapter presents the data collected from primary sources as well as the analysis, interpretation and discussion of findings, with reference to study objectives and related literature.

4.2. Background Information

4.2.1 Response Analysis

Of the 160 questionnaires that were distributed, 103 were returned. This corresponds to an overall response rate of 64% and these were the ones used in the analysis of this research. Figure 4.1 compares the number of questionnaires that were received (64%) to those that were not returned (36%).

Figure 4.1 Response rates versus Non Response Rates

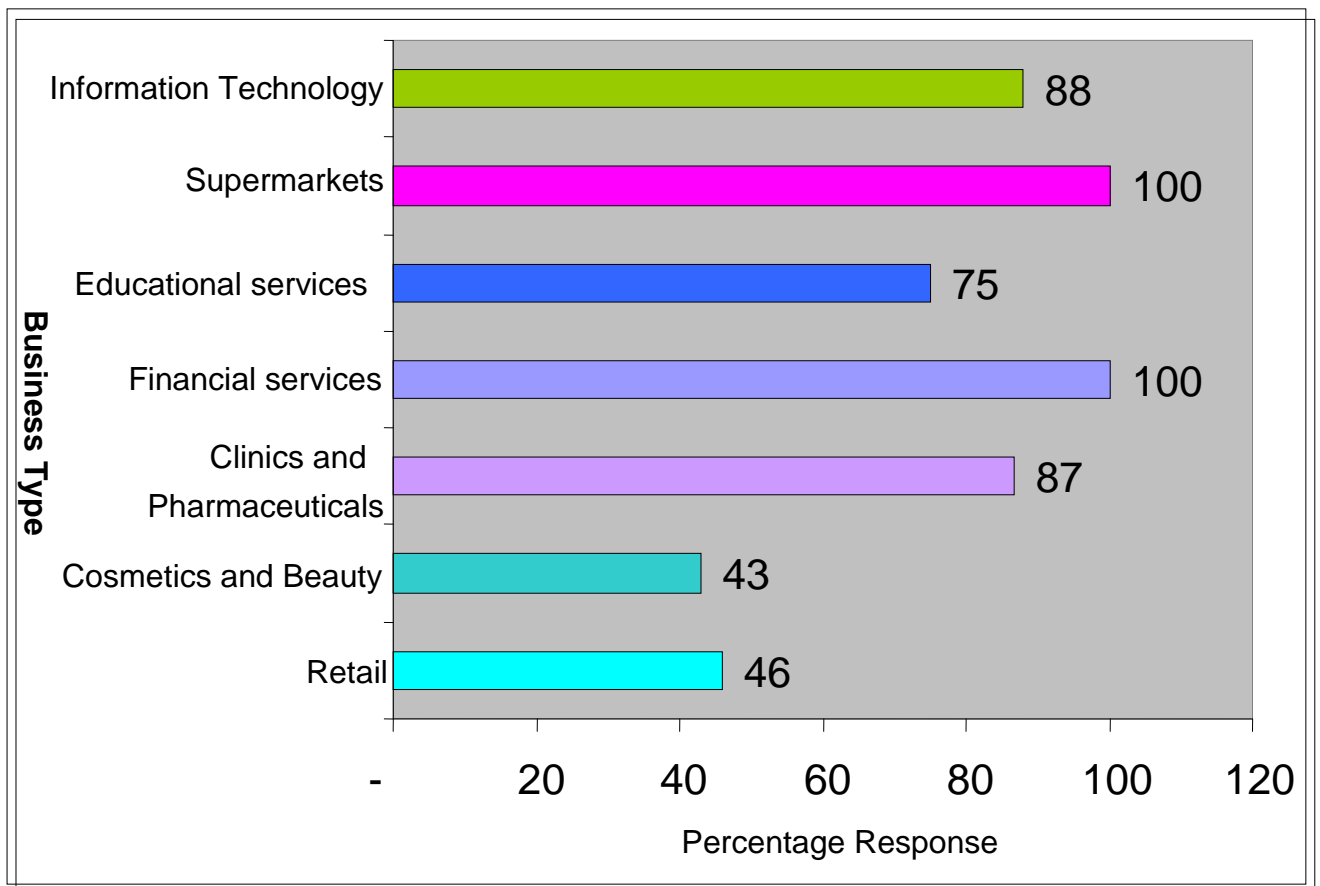


Source: Primary Data

4.2.2 Businesses Categories

Businesses were categorized as retail, cosmetics and beauty, educational services, clinics and pharmaceuticals, supermarkets and information technology. This area of research design was also deemed important in order to respond to the limitation stated by (Stanga, 1980) in relation to a low response rate received.

Figure 4.2 Responses by Business Category



Source: Primary Data

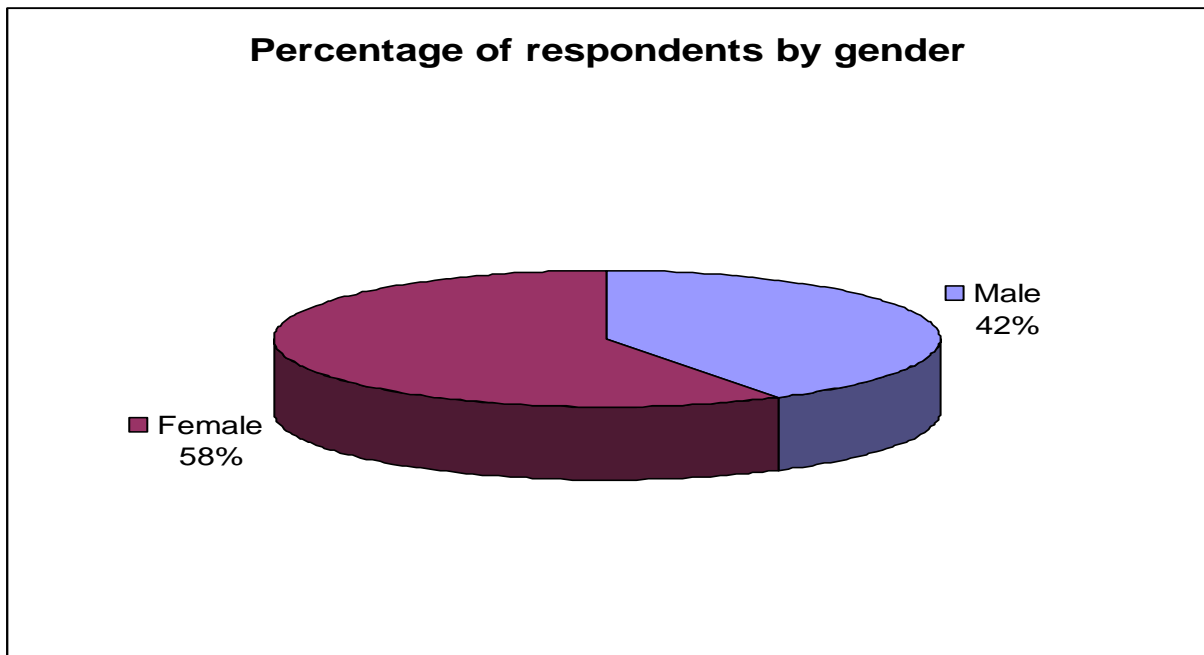
Figure 4.2 gives the response rates by business type. Out of the questionnaires that were administered to each of the categories of retail, cosmetics and beauty, educational services, clinical and pharmaceuticals and information technology, 43%, 46%, 75%, 87% and 88% respectively, were returned. All questionnaires that were issued to supermarkets and financial services were returned. One can conclude that

findings from the study of SMEs are partly dependant on the category of businesses studied.

4.2.3 Gender

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

Figure 4.3 Respondents by gender



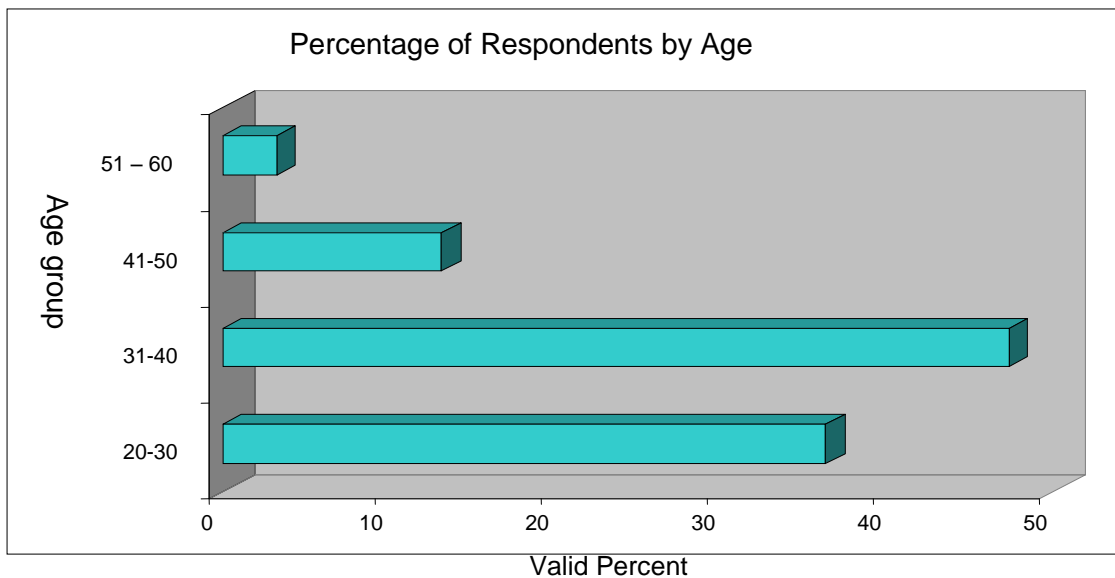
Source: Primary Data

As illustrated in figure 4.3 above, 58.5% of the respondents were female while 41.5% were male. The majority of SMEs (58.5%) in the area of study were managed by women, which is contrary to (Esaete, 2005) who had 67% men and 33% women.

4.2.4 Age groups of respondents

Respondents were also grouped according to their age as shown in the figure below.

Figure 4.4 Respondents by Age Group



Source: Primary Data

Figure 4.4 above indicates that most respondents (47.3%) were within the age group of 31-40, followed by 20-30 (36.3%), 41-50 (13.2%) and 51-60 (3.3%) respectively. One can say that the majority respondents were mature enough to give reliable responses.

4.2.5 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	17	17.3
A – Level	18	18.4
Diploma	37	37.8
Degree	25	25.5
Other	1.0	1.0
Total	98	100.0

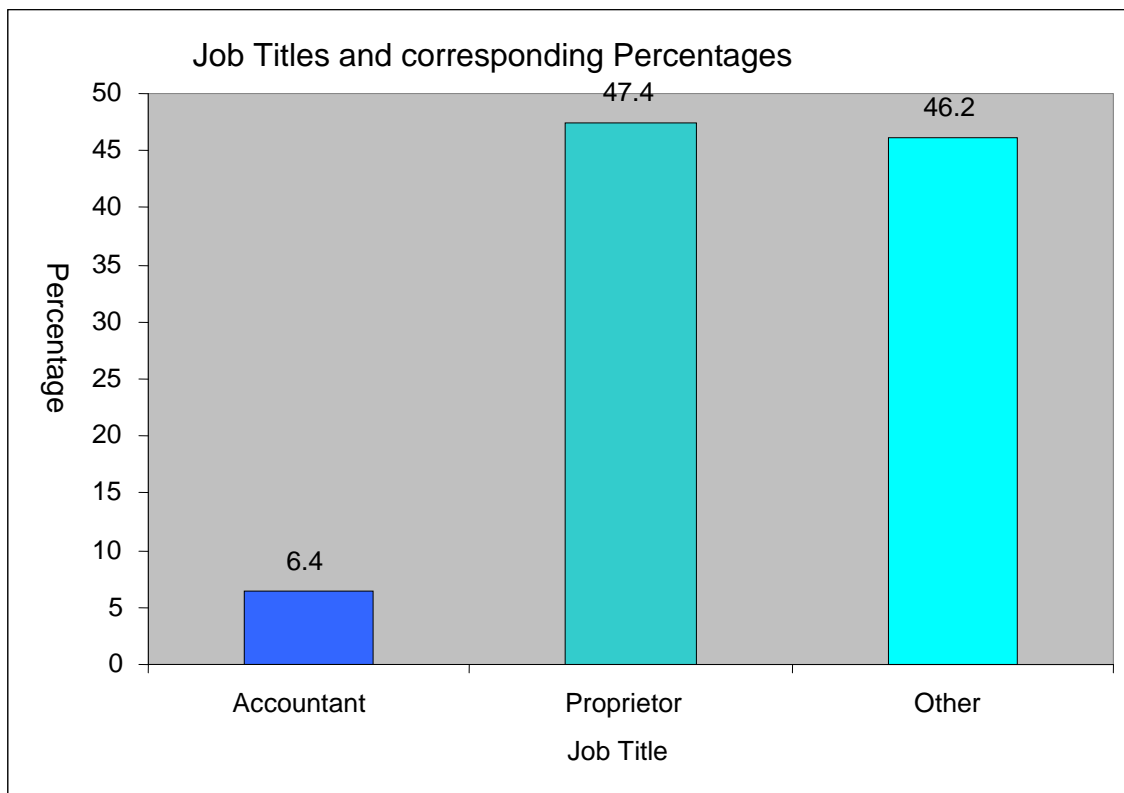
Source: Primary Data

Table 4.1 above indicates that the majority of respondents (37.8%) have diplomas, followed by those with degrees (25.5%), A-Level (18.4%), O-Level (17.3%) and other (1%). These results indicate that 99% of the respondents were able to read, understand and write. So the responses were reliable.

4.2.6 Respondents by Job Titles

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

Figure 4.5 Job Titles



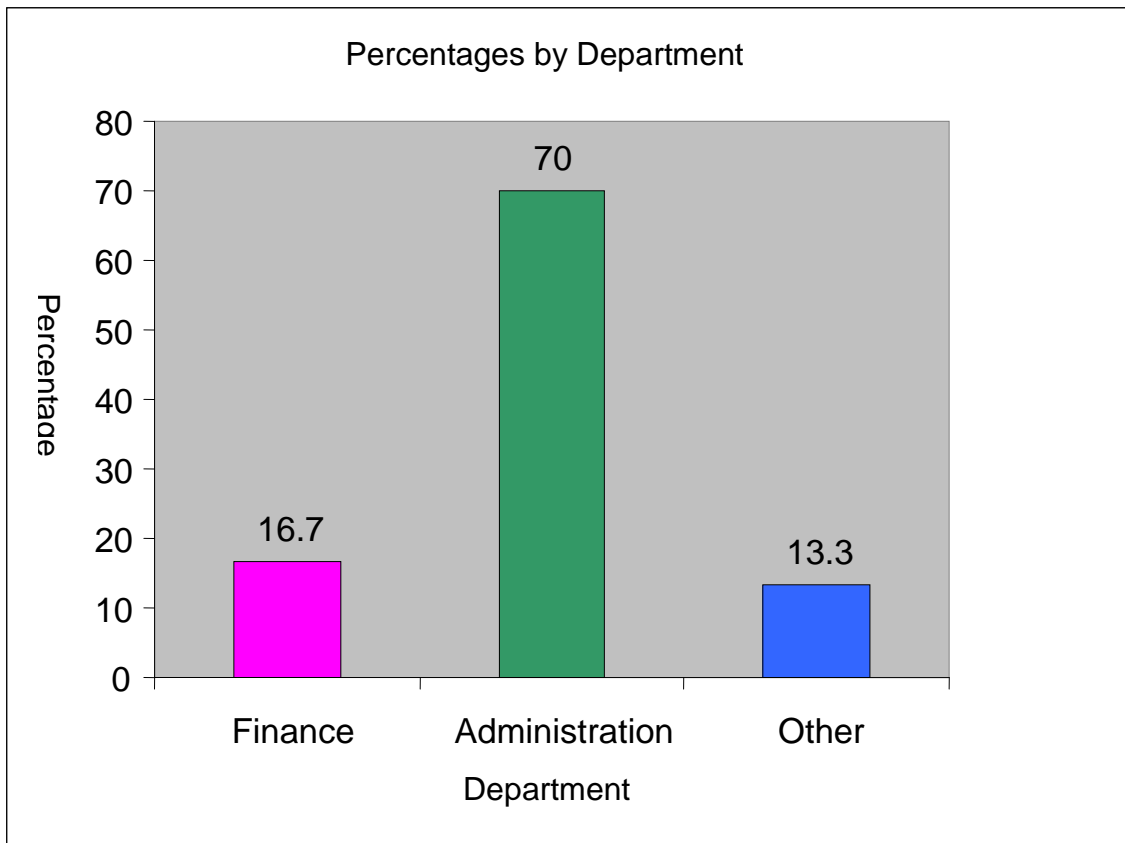
Source: Primary Data

Figure 4.5 illustrates that SMEs are characterized by a very small percentage (6.4%) of technical people in accounting and finance. In ascending order, the percentage of accountants is (6.4%) followed by proprietors (47.4%) and others (46.2%).

4.2.7 Departments

Departments were categorized as in the figure below.

Figure 4.6 Departments



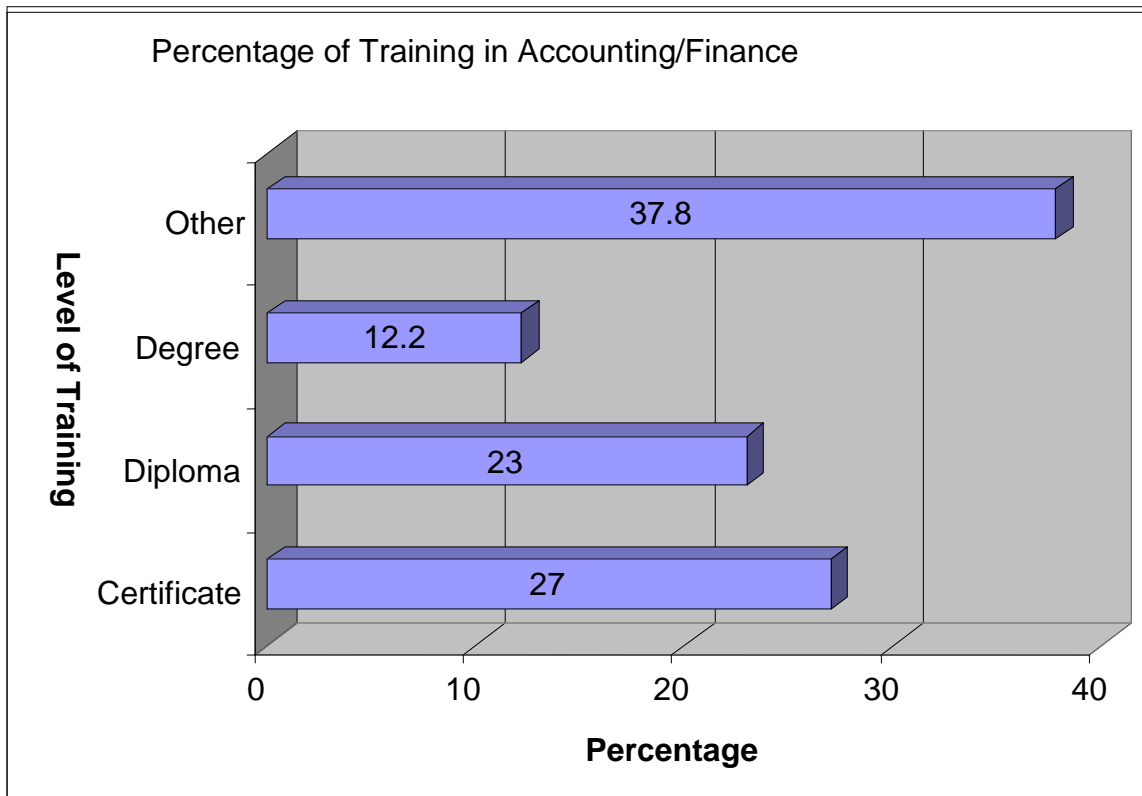
Source: Primary Data

Figures 4.5 and 4.6 above show that the finance department is almost non-existent although most of respondents (62.2%) have some knowledge in accounting and finance as portrayed in figure 4.7. This conforms to (Kingkaew & Limpaphayom, 2001) that part of the main problems of SMEs in developing countries are a result of the low quality and reliability of financial data.

4.2.8 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



Source: Primary Data

There majority of the respondents (62.2%) in figure 4.7 have at least some knowledge in accounting and finance of which 12.2% 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 (37.8%).

4.3 Perceived Quality of Accounting Information

In an attempt to examine the determinants of perceived quality of accounting information, factor analysis was used to extract the most important factors/components that measured the study variables. This was done using Principal Component Analysis as the extraction method and Varimax Rotation Method. Factors with Eigen Values of greater or equal to 1 were extracted and items with factor loadings of less than ± 0.30 were deleted from the matrix because loadings below 0.3 were considered to be weak.

Table 4.2 Rotated Component Matrix for Quality of Accounting Information

	Component			
	1	2	3	4
Information presented assists in decision making on allocation of resources	.832			
Information assists you in decision making about raising capital	.753			
Information is presented in a readily understandable manner	.724			
Information helps to predict and confirm expenditure levels	.711			
Contents of financial reports affect economic decisions	.707			
Sources and level of expenditure can easily be understood	.669			
Contents of financial reports affect your opinion of the state of affairs of the business	.655			
Information helps to confirm the outcome of the planned activities	.649			
Expenditure items and levels can easily be understood	.600			

Source: Primary Data

1- Relevance 2 -Accuracy 3 – Understandability 4 – Reliability

Table 4.2 Rotated Component Matrix for Quality of Accounting Information Cont'd

Business decisions are based on the financial reports	.569			
Information helps to predict and confirm Sales revenue levels	.564			
Information helps to predict the outcome of the planned activities	.554			
There are no cases of unauthorized Expenditures		.797		
No items of expenditure are overstated		.786		
No items of income are overstated or Understated		.759		
The information is free from error		.682		
Information is not fraudulent		.653		
No business assets are undervalued		.624		
There are no cases of diversion of business funds for personal benefits		.565		
No business liabilities are overstated		.515		
Information is free from bias		.509		
There is no bias in the presentation of items in the financial statements		.415		
No undue delays in the presentation of financial reports			.733	
Business assets are easy to know in terms of value and nature			.632	
Financial reports are presented annually as required by regulatory bodies of accounting			.608	
Information is a good representation of of the business assets			.595	
Information is a good representation of the business liabilities.			.578	

Source: Primary Data

1- Relevance 2 -Accuracy 3 – Understandability 4 – Reliability

Table 4.2 Rotated Component Matrix for Quality of Accounting Information Contnd.

Business liabilities are easy to know in terms of value and nature			.560	
There are no errors in the presentation of items in financial statements			.542	
Information is normally complete			.532	
Business cash-flows are easy to understand			.446	
Information is generally a good representation of sales revenue				.737
Information helps you to confirm inflows and outflows of a business				.692
Information is generally a good representation of expenditure facts				.585
Information is a good representation of the business cash inflows and outflows				.521
Revenue/Expenditure information is collected regularly				.519
Information helps you to confirm the indebtedness of a business				.503
Eigen Value	6.487	5.866	3.942	3.668
% of variance	17.070	15.437	10.375	9.653

Source: Primary Data

1- Relevance 2 - Accuracy 3 – Understandability 4 - Reliability

Source: Primary Data Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization. A Rotation converged in 6 iterations.

The software (SPSS) grouped all important questions under the four sub-headings representing perceived quality of accounting information (relevance, accuracy,

understandability, reliability). Factor analysis determined which questions have very high loading (correlation) with a particular component/factor (1, 2, 3, 4). Table 4.3 above shows that the components in the matrix were represented as 1- Relevance (17.1%), 2-Accuracy (15.4%), 3- Understandability (10.4%) and 4- Reliability 9.6%). In total all of them contribute 53% of perceived quality of accounting information. This implied that relevance, accuracy, understandability and reliability are true measures of perceived quality of accounting information in that order.

Relevance of information in terms of using information for decision making about allocation of resources and raising capital, predicting and confirming sales revenue, expenditure levels, outcome of planned activities, profitability levels, indebtedness, inflows and outflows, in terms of affecting economic decisions and opinion of state of affairs of the business and in terms of undue delays in presentation of financial report and annual presentation as required by regulatory bodies explained 17.1% of perceived quality of accounting information. This is consistent with (Abu-Nassar and Rutherford, 1996) who also found relevance in terms of timeliness to be one of the most important criteria to affect users' perceptions regarding the quality of financial information. It is also consistent with (Kamar Nasser, Rana Nuseibeh and Ahmad A-Hussaini, 2003) who assert that the longer the period between the end of accounting period and the date of publication of the annual report, the less relevant the information.

The accuracy of accounting information in terms of no items of income and expenditure are over-stated/understated, no business assets and liabilities are undervalued and overstated respectively, and no bias in the presentation of items in

the financial statements explained 15.4% of perceived quality of accounting information. This is in harmony with (Stoner et al, 1995) who asserted that the more accurate the information is the higher the quality and the more securely managers can rely on it in making decisions.

Understandability of accounting information in terms of presenting information in a readily understandable manner, easily understanding cash-flows, sources and levels of income, items and levels of expenditure and easily knowing the value and nature of business assets and liabilities explained 10.4% of the quality of accounting information. This is in harmony with (Buzby,1974), who emphasized 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.

Reliability of accounting information in terms of being a good representation of sales revenue, expenditure, business assets, liabilities, cash inflows and outflows, in terms of regularly collecting revenue and expenditure information, no cases of diversion of business funds and unauthorized expenditures, information being normally complete, free from error, bias and not being fraudulent explained 9.7% of the quality of accounting information. This is in harmony with (Kieso, Waygant &Warfield, 2005, p.31) who asserted that reliability and relevance make the accounting information useful for decision making and that if either is missing completely from a piece of information, the information will not be useful.

The level of perceived quality of accounting information is 53% indicating that SMEs averagely apply the qualities of accounting information.

4.4 Performance

In an attempt to examine the performance of small and medium size enterprises the findings in table 4.3 below were obtained.

Table 4.3 : Rotated Component Matrix for performance

	Component	
	Sales	Profitability
There have been no instances of spending too much and no income attained	.830	
There have been no cases of spending too much money and little output attained	.791	
Resources have been effectively spent and objectives achieved	.790	
The business has a large capital base to act as security for long term loans	.554	
The business proportion of profit to capital invested is encouraging		.831
The business has been able to realize high returns on investment		.794
The business has realized a better return on assets than its competitors		.598
The profitability levels of the business are very Encouraging		.541
Eigen Value	2.567	2.267
% of variance	32.089	28.343

Source: Primary Data

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 3 iterations.

From table 4.3 above, components that measure performance were extracted. The extracted components are used in subsequent tests i.e. correlation and regression.

In table 4.3 above 60 percent of performance is measured by sales and profitability, with sales explaining 32% and profitability 28%.

The performance of SMEs in terms of, no cases of spending too much money and little output attained, spending resources effectively and objectives achieved, no instances of spending too much and no income attained and the business having a large capital base to act as security for long term loans explained 32% of the performance of SMEs. This is in harmony with (Haber & Reichel, 2005) who cited firm sales as one of the key measures of performance.

The performance of SMEs in terms of proportion of profit to capital invested being encouraging, the business realizing high returns on investment, realizing a better return of assets than competitors and very encouraging profitability levels explained 28% of the performance of SMEs. This is in harmony with (Phillips, 1999) who argued that profitability in the short run is an important factor in the organization's ability to achieve long-term goals such as increased performance.

The performance of SMEs is 60% which is slightly above average .

4.5 Perceived Quality of Accounting Information and Performance

Quality of accounting information influences the decisions made by SME owner-managers and this leads to the performance in this study. In order to establish the relationship between quality of accounting information and performance of SMEs, the findings are given in table 4.4 below.

Table 4.4 below presents the correlation between perceived quality of accounting information and performance.

Table 4.4 Correlations Matrix

	1	2	3	4	5
Relevance (1)	1.000				
Accuracy (2)	.099	1.000			
Understandability (3)	-.050	.024	1.000		
Reliability (4)	-.013	-.043	-.006	1.000	
Performance (5)	.432**	.310**	.207*	.013	1.000

** Means that correlation is significant at the .01 level (2-tailed).

* Means that correlation is significant at the .05 level (2-tailed).

Results in the above table indicate that perceived quality of accounting information in terms of relevance, accuracy and understandability has a significant positive relationship with performance of SMEs ($r = 0.432$, P-Value <0.01 ; $r = 0.310$, P-Value <0.01 and $r = 0.207$, P-Value <0.05 respectively). This implies that as perceived quality of accounting information improves, performance of SMEs also improves since the coefficients of the constructs of perceived quality of accounting information are positive. This implies that relevance, accuracy and understandability enhance

the performance of SMEs. Table 4.5 below also presents the relationship between quality of accounting information (relevance, accuracy, understandability, reliability) and perceived performance using the regression model.

Table 4.5 Regression Model

	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	4.629E-17			.000	1.000
Relevancy	.303	0.0552	.429	5.483	.000
Accuracy	.282	0.0553	.399	5.100	.000
Understan dability	.162	0.0552	.229	2.933	.004
Reliability	5.419E-02	0.0552	.077	.980	.329
R-Square = 0.410 Adj R-Square = 0.377 F = 16.410					Sig= 0.000

Dependent Variable: Performance

$$Performance = 4.63E-17 + 0.303R + 0.282A + 0.162U$$

From the model, R, A and U represent reliability, accuracy and understandability respectively. The model shows that an improvement in relevance improves performance by 0.303, an improvement in accuracy improves performance by 0.282 and an improvement in understandability improves performance by 0.162.

In table 4.5 above, relevance, accuracy and understandability explained 37.7% of SMEs performance with relevance explaining more (Beta = 0.429) followed by accuracy (Beta = 0.399) and understandability (Beta = 0.229)

An improvement of the relevance of information will lead to a 0.429 improvement in performance. An improvement in accuracy will lead to a 0.399 improvement in performance. An improvement in understandability will lead to an improvement of 0.229 in performance.

The results of the regression model are in line with correlation results. One can therefore say that the relationship between perceived quality of accounting information (relevance, accuracy, understandability) and performance of SMEs is explained by 37.7%.

The findings on the correlation relationship indicate that perceived quality of accounting information in terms of relevance, accuracy, understandability and reliability enhanced performance of SMEs.

Relevance of information in terms of using information for decision making about allocation of resources and raising capital, predicting and confirming sales revenue, expenditure levels, outcome of planned activities, profitability levels, indebtedness, inflows and outflows, in terms of affecting economic decisions and opinion of state of affairs of the business and in terms of undue delays in presentation of financial report and annual presentation as required by regulatory bodies improved the quality of accounting information that led to improved performance. This is consistent with the Trueblood committee (cited in Sorter, 1973) which found that predictions are required for decision-making and that reliable information is important for making predictions, hence improving performance.

The accuracy of accounting information in terms of no items of income and expenditure are over-stated/understated, no business assets and liabilities are undervalued and overstated respectively, and no bias in the presentation of items in the financial statements improved the quality of accounting information which led to improved performance. This is in harmony with (Stoner et al, 1995) who asserted that the more accurate the information is the higher the quality and the more securely managers can rely on it in making decisions. This is also consistent with (Byron & Friedlob 1984; DiPietro & Sawhney 1977; Fredland & Morris 1976) who assert that 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.

Understandability of accounting information in terms of presenting information in a readily understandable manner, easily understanding cash-flows, sources and levels of income, items and levels of expenditure and easily knowing the value and nature of business assets and liabilities improved the quality of accounting information which led to improved performance. This is in harmony with (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.

Reliability of accounting information in terms of being a good representation of sales revenue, expenditure, business assets, liabilities, cash inflows and outflows, in terms of regularly collecting revenue and expenditure information, no cases of diversion of business funds and unauthorized expenditures, information being

normally complete, free from error, bias and not being fraudulent improved the quality of accounting information which led to improved performance. This is in harmony with (Wichmann, 1983) who asserts that proper accounting is a key to small business success and consistent with (Cordano,1991) who asserts that good record-keeping systems can increase the chances of staying in business and 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 a business.

Table 4.6: Regression Model II

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	3.124E-17	.058		.000	1.000
Quality of Accounting Information	.801	.116	.567	6.911	.000
R-Square = .321, Adj R-Square = .314, F = 47.763, Sig = .000					

Dependent Variable: Performance

From table 4.6 above there is a significant linear relationship between perceived quality of accounting information and performance of SMEs (F=47.763, Sig.000)

Also from table 4.6, perceived quality of accounting information explained 31.4% of SMEs' performance (Beta = 0.567). An improvement in the perceived quality of accounting information will improve performance of SMEs by 0.567.

The findings indicate that perceived quality of accounting information enhance the performance of SMEs.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Conclusions

Conclusions on the study objectives which are in harmony with study findings are presented in sections 5.1.1 to 5.1.3

5.1.1 Perceived Quality of accounting information

The quality of accounting information in SMEs is average, explained significantly by relevance, accuracy and understandability as the most important components or factors of quality of accounting information of SMEs. The determinants of the quality of accounting information in their order of importance are relevance, accuracy, understandability and reliability.

5.1.2 Performance

Performance of SMEs fairly depends on sales and profitability 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.

5.1.3 Perceived Quality of accounting information and performance

Quality of 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.

Quality of accounting information is a determinant of the performance of SMEs.

5.2 Recommendations

Small and medium size enterprises owner-managers should develop competencies in order to ensure quality of 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 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.

In terms of accuracy, 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.

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.

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.

5.3 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.

Thirdly, a longitudinal experiment may be useful to further test the theory built in this study. This would be to investigate whether continuous improvement effort on data quality management can lead to better business performance.

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APPENDIX A : PARTICIPANT' LETTER

MAKERERE UNIVERSITY

MAKERERE UNIVERSITY BUSINESS SCHOOL

Questionnaire on

Perceived Quality of Accounting Information and Performance of Small and Medium Enterprises

Dear Respondent,

This questionnaire is part of the research work I am carrying out under the supervision of Makerere University. The purpose of this questionnaire is to help us better understand accounting information quality and performance of small business enterprises.

Please spare a few minutes and help complete the questionnaire on the relevance of the questions to the study variables.

All information gathered is confidential and shall be used for academic purposes only.

Thank you.

APPENDIX B: QUESTIONNAIRE

Please tick the box that best represents your response or clearly write your response in the space provided.						
Background information						
1	Sex	Male	Female			
2	Age group	20-30	31-40	41-50	51 - 60	61 and above
3	Highest level of formal education	O - Level	A - Level	Diploma	Degree	Other
If other , please specify						
4	Job Title:	Accountant	Auditor	Proprietor	Other	
If other, please specify:						
5	Department:	Finance	Internal Audit	Administration	Other	
6	Work experience in accounting/finance	<1year	1-3 years	4-7 years	7-10 years	Above 10 years
7	Qualification in accounting/finance	Certificate	Diploma	Degree	Professional	Other
If other , please specify						
SECTION A						
ACCOUNTING INFORMATION QUALITY		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
8	The business have well laid down accounting procedures/principles					
9	There is a finance/accounting department section					
10	Quality accounting information is part of the business mission					
11	Management is aware that they are responsible for ensuring quality of records					
12	Management ensures that periodical reports are prepared					

Questionnaire Contnd:

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
13	Management ensures that exhaustive accounting reports are prepared					
14	Irregularities in accounting information are promptly reported and addressed					
15	The business has an internal audit department to ensure quality of records					
16	All transactions are verified and reviewed by internal auditors					
17	Auditors handle their work with professional care					
18	Auditors have advised us to hire a trained bookkeeper/accountant					
19	Management always takes into account recommendations of auditors					
	RELIABILITY					
20	Revenue/Expenditure information is collected regularly					
21	Information is free from bias					
22	The information is free from error					
23	Information is not fraudulent					
24	Information is normally complete					
25	Information is generally a good representation of sales revenue					
26	Information is generally a good representation of expenditure facts					
27	Information is a good representation of the of the business assets					

Questionnaire Contnd:

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
28	Information is a good representation of the business liabilities of the business					
29	Information is a good representation of the business cash inflows and outflows					
30	There are no cases of diversion of business funds for personal benefits					
31	There are no cases of unauthorised expenditures					
	RELEVANCE					
32	Business decisions are based on the financial reports					
33	Contents of financial reports affect your opinion of the state of affairs of the business					
34	Contents of financial reports affect economic decisions					
35	Information helps to predict and confirm sales revenue levels					
36	Information helps to predict and confirm expenditure levels					
37	Information presented assists in decision making on allocation of resources					
38	Information assists you in decision making about raising capital					
39	Information helps to confirm the outcome of the planned activities					
40	Information helps to predict the outcome of the planned activities					
41	Information helps you confirm profitability levels of the business					
42	Information helps you to confirm the indebtedness of a business					
43	Information helps you to confirm inflows and outflows of a business					

Questionnaire Contnd:

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
44	No undue delays in the presentation of financial reports					
45	Financial reports are presented annually as required by regulatory bodies of accounting					
	ACCURACY					
46	No items of income are overstated or understated					
47	No items of expenditure are overstated					
48	No business assets are undervalued					
49	No business liabilities are overstated					
50	There are no errors in the presentation of items in financial statements					
51	There is no bias in the presentation of items in the financial statements					
	UNDERSTANDABILITY					
52	Information is presented in a readily understandable manner					
53	Sources and level of expenditure can easily be understood					
54	Expenditure items and levels can easily be understood					
55	Business assets are easy to know in terms of value and nature					
56	Business liabilities are easy to know in terms of value and nature					
57	Business cashflows are easy to understand					

Questionnaire Contnd:

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
	SECTION B					
	Level of Profitability/Sales Performance					
58	The business has been able to realise high returns on investment					
59	The business proportion of profit to capital invested is encouraging					
60	The business has realised a better return on assets than its competitors					
61	The profitability levels of the business are very encouraging					
62	There have been no instances of spending more than the income attained					
63	The business has a large capital base to act as security for long term loans					
64	There have been no cases of spending too much money and little output attained					
65	Resources have been effectively spent and objectives achieved					

THANK YOU

APPENDIX C: STATISTICS

Statistics

	Sex	Age group	Highest level of formal education	Job Title:	Department:	Experience	Qualification
Mean	1.5851	1.8352	2.7449	3.3404	2.8000	2.0526	2.9865
Std. Deviation	.4953	.7784	1.0582	.7836	.8767	.8625	1.6920

Sex

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	39	37.9	41.5	41.5
	Female	55	53.4	58.5	100.0
	Total	94	91.3	100.0	
Missing	System	9	8.7		
Total		103	100.0		

Age group

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30	33	32.0	36.3	36.3
	31-40	43	41.7	47.3	83.5
	41-50	12	11.7	13.2	96.7
	51 - 60	3	2.9	3.3	100.0
	Total	91	88.3	100.0	
Missing	System	12	11.7		
Total		103	100.0		

Highest level of formal education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	O - Level	17	16.5	17.3	17.3
	A - Level	18	17.5	18.4	35.7
	Diploma	37	35.9	37.8	73.5
	Degree	25	24.3	25.5	99.0
	Other	1	1.0	1.0	100.0
	Total	98	95.1	100.0	
Missing	System	5	4.9		
Total		103	100.0		

If other , please specify

	Frequency	Percent	Valid Percent	Cumulativ e Percent
Valid	103	100.0	100.0	100.0

Job Title:

		Frequency	Percent	Valid Percent	Cumulativ e Percent
Valid	Accountant	6	5.8	6.4	6.4
	Proprietor	44	42.7	46.8	53.2
	Other	44	42.7	46.8	100.0
	Total	94	91.3	100.0	
Missing	Sy stem	9	8.7		
Total		103	100.0		

Job Title:

		Frequency	Percent	Valid Percent	Cumulativ e Percent
Valid	.	61	59.2	59.2	59.2
	.	1	1.0	1.0	60.2
	accounts assistant	1	1.0	1.0	61.2
	Accounts Assistant	2	1.9	1.9	63.1
	Accounts Of ficer	1	1.0	1.0	64.1
	Administrative Assistant	1	1.0	1.0	65.0
	Administrator	1	1.0	1.0	66.0
	assistant barber	1	1.0	1.0	67.0
	assistant cashier	1	1.0	1.0	68.0
	Assistant Manager	2	1.9	1.9	69.9
	Attendant	2	1.9	1.9	71.8
	barber saloon owner	1	1.0	1.0	72.8
	Both pro	1	1.0	1.0	73.8
	Bursar	7	6.8	6.8	80.6
	cashier	1	1.0	1.0	81.6
	Cashier	4	3.9	3.9	85.4
	Cashier/ Caf e Assistant	1	1.0	1.0	86.4
	Cashier/Network Administrator	1	1.0	1.0	87.4
	kinyoozi	1	1.0	1.0	88.3
	Owner	1	1.0	1.0	89.3
	sales assistant	3	2.9	2.9	92.2
	Sales Assistant	1	1.0	1.0	93.2
	sales cashier	1	1.0	1.0	94.2
	saloon owner	2	1.9	1.9	96.1
	Secretary	1	1.0	1.0	97.1
	Secretary/Cashier	1	1.0	1.0	98.1
	stores keeper	1	1.0	1.0	99.0
	student accountant	1	1.0	1.0	100.0
Total		103	100.0	100.0	

Department:

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Finance	15	14.6	16.7	16.7
	Admini-stration	63	61.2	70.0	86.7
	Other	12	11.7	13.3	100.0
	Total	90	87.4	100.0	
Missing	Sy stem	13	12.6		
Total		103	100.0		

If other, please specify:

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<1year	24	23.3	31.6	31.6
	1-3 years	26	25.2	34.2	65.8
	4-7 years	24	23.3	31.6	97.4
	8-10 years	2	1.9	2.6	100.0
	Total	76	73.8	100.0	
Missing	Sy stem	27	26.2		
Total		103	100.0		

Highest level of formal education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate	20	19.4	27.0	27.0
	Diploma	17	16.5	23.0	50.0
	Degree	9	8.7	12.2	62.2
	Other	28	27.2	37.8	100.0
	Total	74	71.8	100.0	
Missing	Sy stem	29	28.2		
Total		103	100.0		

If other, please specify:

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		97	94.2	94.2	94.2
	ACCA level 1	1	1.0	1.0	95.1
	Certificate in Counselling	1	1.0	1.0	96.1
	Certificate in secretarial	1	1.0	1.0	97.1
	Dip in Secretarial	1	1.0	1.0	98.1
	Primary	1	1.0	1.0	99.0
	short course	1	1.0	1.0	100.0
	Total	103	100.0	100.0	

