



MAKERERE

UNIVERSITY

**QUALITY OF FINANCIAL STATEMENTS, INFORMATION ASYMMETRY
PERCEIVED RISK, AND ACCESS TO FINANCE: A STUDY OF SMALL AND
MEDIUM ENTERPRISES IN KAMPALA DISTRICT**

BY

**MARY NANYONDO
2009/HD10/17298U
BBA (UCU)**

**A DISSERTATION SUBMITTED TO THE GRADUATE SCHOOL OF MAKERERE
UNIVERSITY BUSINESS SCHOOL IN PARTIAL FULFILMENT FOR THE AWARD
OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE DEGREE OF
MAKERERE UNIVERSITY**

JUNE, 2013

DECLARATION

I, Nanyondo Mary declare that this dissertation is my own original work, and has never been presented to any university or institution for the award of any academic qualification. I hereby declare that this dissertation is a result of my own findings and where it is indebted to the work of others, due acknowledgement has been made.

Signature..... Date.....

NANYONDO MARY

2009/HD10/17298U

APPROVAL

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

Signature: ----- Date: -----

Dr. Kamukama Nixon

Supervisor

Signature: ----- Date: -----

Dr. Nkundabanyanga Stephen

Supervisor

DEDICATION

This piece of work is dedicated to my beloved daughter Blessed Priscillah Enyang, My brothers Robert, Tony and Ronald, My sisters Monica, Cathy, and Julian especially Mr. Timothy Byaruhanga Ssekandi for all the encouragement in tough times may God bless you.

ACKNOWLEDGEMENT

Great thanks are directed to the almighty God through our Lord Jesus Christ for providing me with wisdom and knowledge, sincerely I give it up to God it has not been easy, but with Him all has been possible.

My sincere and heartfelt thanks go to my supervisors Dr.Nixon Kamukama and Dr. Stephen Nkundabanyanga.

I am also grateful to the management and staff of registered SMEs in Kampala for availing me with the data, I know without them this dissertation would have been a nightmare.

APPENDICES

Appendix I Questionnaire for registered SMEs' in Kampala

Appendix II Financial budget

Appendix III Dissertation work plan

Appendix IV Letter of introduction to registered SMEs

LIST OF TABLES

Table 3.1: Sample characteristics.....	14
Table 3.2: Factor structure of quality of financial statements.....	16
Table 3.3: Factor structure of Information asymmetry.....	18
Table 3.4: Factor structure of perceived risk.....	19
Table 3.5: Validity and reliability.....	20
Table 4.1: Correlation analysis.....	23
Table 4.2: Regression analysis.....	24
Table 4.3: Sensitivity analysis.....	25

LIST OF FIGURES

Figure 1: Conceptual framework	5
--------------------------------------	---

LIST OF ACRONYMS

SMEs:	Small and Medium Enterprises
BOU:	Bank of Uganda
IFRS:	International Accounting Standards
AFDB:	African development bank
EAC:	East African Community
CBR:	Central Bank Rate
UGShs:	Uganda Shillings
UIA	Uganda Investment Authority
UMA	Uganda Manufacturers Association
USSIA	Uganda Small Scale Industries Association

TABLE OF CONTENTS

Title	Page
DECLARATION.....	ii
APPROVAL	iii
DEDICATION.....	iv
ACKNOWLEDGEMENT	v
APPENDICES	vi
LIST OF TABLES.....	vii
LIST OF FIGURES	viii
LIST OF ACRONYMS	ix
TABLE OF CONTENTS.....	x
ABSTRACT.....	xiii

CHAPTER ONE: 1INTRODUCTION

1.0	Background.....	1
1.1	Statement of the problem.....	2
1.2	Purpose of the study.....	3
1.3	Objectives of the study.....	3
1.4	Research questions.....	3
1.5	Scope of the study.....	3
1.6	Significance of the study.....	4
1.7	Conceptual Framework.....	4

CHAPTER TWO:LITERATURE REVIEW

2.0	Introduction.....	6
2.1	Quality financial statements.....	6
2.1.1	Level of transparency.....	7
2.1.2	Level of compliance.....	7

2.2	Information asymmetry.....	7
2.2.1	Information quality	8
2.2.2.	Information quantity	8
2.3	Perceived risk.....	9
2.4	The notion of Access to Finance.....	9
2.5	Relationship between quality of financial statements, Information asymmetry, perceived risk and access to finance.....	10
2.6	Control Variables	11
2.7	Conclusion	12

CHAPTER THREE:RESEARCH METHODOLOGY

3.0	Introduction.....	13
3.1	Research Design.....	13
3.2	Study Population.....	13
3.3	Sample Size and Sampling method.....	13
3.4	Sample characteristics.....	13
3.5	Data Sources	15
3.5.1	Primary Data	15
3.5.2	Secondary data.....	15
3.6	Data Collection Instruments.....	15
3.6.1	Questionnaire	15
3.7	Measurement of variables	15
3.7.1	Quality of Financial statements.....	15
3.7.2	Information Asymmetry.....	17
3.7.3	Perceived risk.....	19
3.7.4	Access to finance	20
3.8	Validity and Reliability of instruments	20
3.8	Data Processing and Analysis	21

CHAPTER FOUR:PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.0	Introduction.....	22
4.3	Relationships between the Variables	22
4.3.1	Quality of financial statements and access to finance.....	23
4.3.2	Information asymmetry and access to finance	23
4.3.3	Perceived risk and access to finance	23
4.3.4	Enterprise Size	24
4.3.4	Industry	24
4.3.5	Conclusion	26

CHAPTER FIVE:DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.0	Introduction.....	27
5.1	Discussion of the findings.....	27
5.2.1	Relationship between quality of financial statements and access to finance	27
5.2.2	Relationship between Information asymmetry and access to finance.....	27
5.2.3	Relationship between perceived risk and access to finance.....	28
5.3	Conclusion	28
5.4	Recommendations.....	28
1.6	Limitations to the study and areas for further research.....	29
REFERENCES		31
Appendix.....		39
IQuestionnaire.....		39
II Financial Budget		45
III Dissertation work plan		46

ABSTRACT

The aim of the study was to examine the relationship between quality of financial statements, information asymmetry, perceive risk and access to finance. Specifically, the objectives of the study were; to establish the relationship between quality of financial statements and access to finance; to establish the relationship between information asymmetry and access to finance; to establish the relationship between perceived risk and access to finance and to establish the relationship between quality financial statements, information asymmetry, perceived risk and access to finance by SMEs in Kampala.

The researcher adopted a blend of cross-sectional and descriptive research design and a simple random sampling. A questionnaire survey of 85 out of the 132 SMEs registered and operating in Kampala that addressed the relationship between quality of financial statements, information asymmetry, perceived risk and access to finance was used. Validity and reliability test was carried out. The response rate was 64.4% which was considered high.

The results indicate a positive significant relationship between quality of financial statements and access to finance, a significant negative relationship between perceived risk and access to finance. The effect of quality of financial statements, information asymmetry and perceived risk on access to finance was examined by use of Ordinarily Least Squares (OLS) regression model. Overall, the model explains 21.4% of the variance in access to finance. The model indicates that quality of financial statements and perceived risk are significant predictors of whether the SMEs will access finance.

The study recommends that SMEs' should continuously improve on the quality of financial statements bearing the characteristics of; transparency, compliance and completeness and lower the level of uncertainty, bias, and estimation of risk to ease access to finance.