

**THE EFFECT OF COMPUTERIZED ACCOUNTING
SYSTEMS ON FINANCIAL REPORTING OF SELECTED MICROFINANCE
INSTITUTIONS IN KAMPALA DISTRICT**

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**CHAPTER ONE
GENERAL INTRODUCTION**

1.0 Introduction

This chapter presents the background to the study, statement of the problem, general objective, specific objectives, research questions, hypotheses, scope of the study, significance, justification, operational definition of terms and concepts, and the conceptual framework.

1.1 Background to the study

Before World War II in the 1950s, accounting was exclusively done manually. This meant that a cashier (bookkeeper) had to keep ledgers, accounts payable, accounts receivables, journals, and any other relevant books of accounts in his/her best possible penmanship. Subsequently, after World War II, clear and proper Computerized Accounting systems (CAS) emerged through the introduction of the first computer systems called IBM 9 Pac (Kamal, 2015). This computer system was utilized by businessmen to record and keep track of their transactions. Specifically, it was used to add up the total of sales from each sales person. In the 1973, SAP R/1 was introduced and updated in 1975 with features that allowed businesses and companies to do automatic stock management, verification of invoices as well as purchasing of goods and services. Peachtree then came into force after SAP and it was first sold in 1976. Peachtree became one of the first computerized accounting programs publicly available on the market. Intuit then joined the race with its business software, namely Quicken, QuickBooks and TurboTax (Kvach, 2013).

The earliest known accounting records were found in the Middle East and date back to over 7,000 years! It was important for early rulers, businesses, and individuals to be able to keep track of income and expenditure, whether due to a desire to determine whether a particular activity was profitable, to tax citizens or to impose customs fees. In the late 1400s, the Italian friar Luca

Pacioli earned his accreditation as the 'Father of Accounting', for describing the structure of the double-entry bookkeeping system used by Venetian merchants during the Italian Renaissance, which has served as the direct predecessor of modern accounting practices. He is perhaps best known for stating the Golden Rule of Accounting (Al-Adaileh, 2009).

1.2 Statement of the problem

The advancement in information technology has eventually led to the introduction of Computerized Accounting Systems in corporate reporting to help produce relevant and faithful representative financial reports for both management and external users for decision making (Raffournier, 2006). The many advantages from the use of these systems have led many to conclude that Computerized Accounting Systems in Corporate Reporting is the 'engine of growth' in business organizations (Oppenheimer & Whittaker, 1991). Currently, MFIs in Kampala district took different measures to develop efficiency in accounting practices including switching to computerized Software in accounting and it has increased the efficiency and improved Financial Reporting compared to those years when accounting was manual (URT, 2003).

1.3 Objectives of the study

1.3.1 General Objective

The major objective of the study will be to examine the relationship between Computerized Accounting Systems and financial reporting of Microfinance Institutions in Kampala district.

1.3.2 Specific Objectives

The study will be guided by the following specific objectives;

- i. To determine the effect of Enterprise Resource Planning Systems on the financial reporting of Microfinance Institutions.
- ii. To examine the effect of Integrated Revenue Management Systems on the financial reporting of Microfinance Institutions.
- iii. To analyze the effect of Asset Management Systems on the financial reporting of Microfinance Institutions.

1.3.3 Research Questions

The study seeks answers to the following questions;

- i. What is the effect of Enterprise Resource Planning Systems on the financial reporting of Microfinance Institutions?
- ii. How do Integrated Revenue Management Systems affect the financial reporting of Microfinance Institutions?
- iii. What is the effect of Asset Management Systems on the financial reporting of Microfinance Institutions?

1.5.1 Content Scope

The study will examine Computerized Accounting Systems as the independent variable and financial reporting as the dependent variable. For Computerized Accounting systems, the study will specifically focus on Enterprise Resource Planning Systems, Integrated Revenue Management Systems, and Asset Management Systems. Likewise, for financial reporting, the study mainly focused on relevance, timeliness, and faithful representation.

1.5.2 Geographical Scope

The study will be carried out in Kampala district, located in Central Uganda, and will focus on 3 Microfinance Institutions that is; FINCA Uganda Limited, Pride Microfinance Limited, and UGAFODE Microfinance Limited.

1.5.3 Time Scope

The study will rely on information generated within five years, which is between 2018 – 2023. This timeframe is chosen because it is significant in the collection of viable and relevant data regarding the topic under investigation.

1.6 Significance of the study

The research findings, conclusions and recommendations may be beneficial to different stakeholders in different ways as shown below;

- (i) The management of Microfinance Institutions. The information may be of great importance to the MFIs Managers especially the Accounts using CAS and those that are yet to adopt the system since gaps will be identified in the use of CAS and this may help to design strategies on how to address such gaps.
- (ii) Practitioners. It may also help both internal and external users in other professions other than finance and accounting deal with accounting procedures to know more about the scope of

different accounting systems on quality of financial reports.

1.7 Justification of the study

The ever-growing need for business development, growth and expansion in today's contemporary business environment has necessitated managers to consider more advanced management strategies targeted at improving decisions at organizations. One of such strategies is the adoption of Computerized Accounting Systems within business organizations (Julie Davoren, 2019).

Despite the adoption of Computerized Accounting Systems by MFIs in Kampala district, the quality of financial reports is still poor and these circumstances create a potential for misuse of funds (Nurafiah, Fizriyani, & Maharani, 2018). Financial reports are one of the most significant pieces of information that management needs when making decisions and reviewing performance, so financial report preparation must deliver high quality data (Salatina & Sembiring, 2022). The inadequate financial reporting creates the risk of embezzlement, which can be avoided by implementing good CAS (Salatina & Sembiring, 2022)

1.9 Conceptual Framework

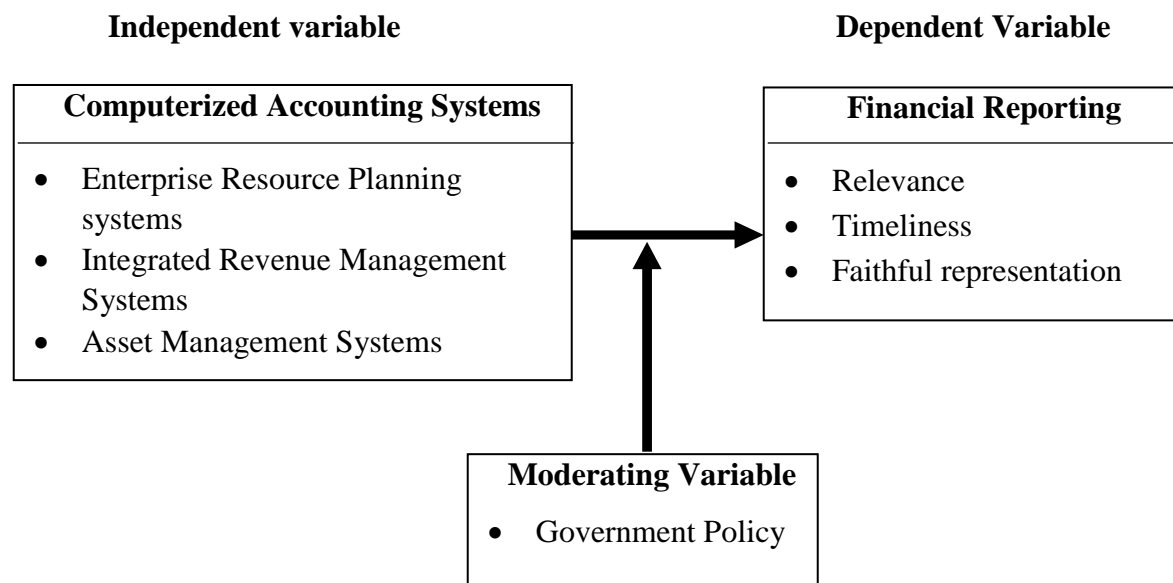


Figure 1: Conceptual Framework

Source: Adopted from Surendar and Rathnakar, (2019), and IASB/FASB Financial Reporting Conceptual framework (2010) and modified by the researcher.

In the Conceptual framework above, Computerized Accounting Systems is the independent variable with Enterprise Resource Planning systems, Integrated Revenue Management Systems, and Asset Management Systems. Financial reporting is the dependent variable represented by relevance, timeliness, and faithful representation as indicators. However, in between accounting system and financial reporting is government policy, as the moderating variable.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this chapter, theoretical review and actual review of related literature is handled. This is done in line with the study objectives. The section presents a review of the theoretical and empirical works on computerized accounting systems and financial reporting.

2.1 Theoretical Review

The Agency theory is a theory that explains the relationship between one or more parties (principals) and another party (agents) in a contract, where the principal orders and authorizes the agent to carry out tasks to provide the best results for the principal (Carol, 2023) Researchers use the agency theory to explain the relationship between the principal and the agent, wherein the principal is the shareholder and the agent is the management. The principal is assumed to be a party who seeks to increase the company's financial performance by achieving high returns on investments issued by the company. Meanwhile, the agent has its own interests, namely to receive higher compensation and salary as a result of its performance. This illustrates a difference in interests between the principal (shareholders) and the agent (manager), commonly known as a conflict of interest.

According to (Chen, 2022) principals, as shareholders, have access to and seek information related to their company, while agents are involved in the company's operational activities and possess information related to the company's overall operations and performance. The agent typically has more information than the principal. This relationship can cause an information imbalance, often referred to as information asymmetry (a condition where management has more information than is known to shareholders). With this information asymmetry between the two parties, it creates an opportunity for agents (managers) to conceal information not known by the

principal (shareholders) for a specific purpose.

2.2 Conceptual Review

2.2.1 Overview of Computerized Accounting System

A computerized accounting system is a set of interconnected software applications and tools that automate and streamline financial processes, encompassing functions such as data entry, transaction recording, ledger maintenance, and financial reporting (Itang, 2021). It replaces traditional manual bookkeeping methods with digital solutions, enhancing accuracy, efficiency, and data integrity within financial operations (Han et al., 2023). These systems often integrate modules for accounts payable, accounts receivable, general ledger, and payroll, facilitating real-time data access and analysis (Abualrejal, 2016).

A computerized accounting system is an interconnected software solution that revolutionizes financial operations by automating tasks such as data entry, transaction recording, ledger maintenance, and financial reporting (Itang, 2021). By replacing manual bookkeeping with digital tools, these systems elevate accuracy, efficiency, and data integrity within financial processes (Han et al., 2023). Such systems often encompass modules for accounts payable, accounts receivable, general ledger, and payroll, enabling real-time access and analysis of financial data (Abualrejal, 2016). The integration of these modules helps organizations streamline financial activities and make informed decisions based on up-to-date information.

Enterprise Resource Planning (ERP) systems are comprehensive software platforms that enable organizations to integrate and manage various business processes, including accounting, inventory, human resources, and customer relations (Itang, 2021). ERP systems offer a centralized database that supports data sharing across departments, promoting collaboration and efficient resource allocation. They enhance decision-making by providing real-time insights into different facets of the organization's operations, contributing to improved financial performance.

2.2.2 Overview of financial reporting

The primary purpose of financial reporting is creating information useful for decision making of a financial nature. In doing this, the primary concern to be borne in mind is the decision to be made by the investors, creditors and other external stakeholders of the company. They have different information needs depending on the nature of the decisions that they are going to make

on the basis of the information received. It is in the interest of the investor to form a portfolio consisting of such placements that are directing capital towards areas of its most profitable use (Leković & Arsenović, 2015).

Essential information for creditors is those on the basis of which they are able to keep a follow-up on whether their loans and accrued interest rates will be serviced within the contracted period. Suppliers and other creditors must have an insight into the capability of the company to service its liabilities in due time. Governments and their agencies, on the basis of information on the business operations of the stakeholders, are defining their tax policies, but also numerous statistical analyses. Finally, the broad public is also interested in the trends and development of the economic entity which, in conducting its business activities, is contributing to the development of the local economy (Heinrich & Suljovic, 2010).

2.3 Review of related literature

2.3.1 Enterprise Resource Planning (ERP) Systems and Financial reporting

Enterprise Resource Planning (ERP) Systems have garnered significant attention as transformative tools that impact financial reporting within various organizational settings. ERP systems integrate diverse business functions, including finance, human resources, procurement, and supply chain, into a unified platform (Itang, 2021). This integration offers the potential for enhanced financial reporting through streamlined processes, real-time data access, and improved decision-making.

Research by (Morris, 2011) emphasizes the impact of ERP systems on financial reporting accuracy. The study found that ERP implementation led to reduced errors in financial statements due to automated data processing and centralized data storage. Moreover, ERP-enabled real-time reporting enables financial managers to make timely and informed decisions, contributing to efficient resource allocation and risk management (Abualrejal, 2016).

However, it is crucial to acknowledge potential challenges. (Damawan & Azizah, 2020) highlights the complexities associated with ERP implementation, including high upfront costs and organizational resistance. Successful adoption requires comprehensive training and change management strategies to ensure effective utilization and integration across departments (Miller & Green, 2019).

Enterprise Resource Planning (ERP) Systems have emerged as transformative tools with far-

reaching implications for financial reporting across diverse organizational settings. These systems offer integrated solutions that consolidate various business functions, including finance, human resources, procurement, and supply chain, into a unified digital platform (Itang, 2021). This integration presents the potential to revolutionize financial reporting practices through seamless coordination, enhanced real-time data access, and improved decision-making capabilities.

The impact of ERP systems on financial reporting accuracy has been a focal point of research. (Morris, 2011) conducted a study that underscores the influence of ERP implementation on financial statement precision. Through the automation of data processing and centralized storage, ERP systems contribute to reduced errors in financial reporting. Real-time reporting functionalities embedded within ERP systems empower financial managers to access up-to-date information promptly. This timely access facilitates informed decision-making, a crucial aspect of efficient resource allocation and risk management (Abualrejal, 2016).

2.3.2 Integrated Revenue Management Systems on financial reporting

Integrated Revenue Management Systems have emerged as instrumental tools for optimizing revenue-related financial performance processes within both public and private sectors. These systems play a pivotal role in the efficient collection and reporting of revenue, ultimately impacting revenue generation and overall fiscal health (Nagujja, 2019). The seamless integration of tax processes within a single platform minimizes discrepancies, reduces the risk of fraud, and enhances transparency in tax-related activities (Odunayo et al., 2024).

One significant impact of Integrated Revenue Management systems is their contribution to increased tax compliance rates. Research by (Apollo, 2017) demonstrates that these systems have successfully elevated tax compliance levels in various local government contexts. By automating tax assessment and collection procedures, these systems facilitate smoother interactions between taxpayers and government agencies. This enhanced efficiency fosters improved revenue collection, which, in turn, bolsters the financial health of governmental bodies and organizations (Mbise & Baseka, 2023).

2.3.3 Asset Management Systems on financial reporting

Asset Management Systems have emerged as pivotal tools in optimizing financial reporting through efficient tracking, maintenance, and resource allocation of organizational assets. These

systems enable organizations to monitor the lifecycle of assets, plan maintenance activities, and make informed decisions regarding asset acquisition and disposal (Miller & Green, 2019). The integration of these systems within financial reporting practices holds the promise of improved cost control, resource optimization, and enhanced fiscal health.

The impact of Asset Management Systems on cost control and resource optimization is significant. Robinson and Davis (2022) emphasize that these systems enable organizations to strategically allocate resources for asset maintenance. By implementing proactive maintenance schedules based on real-time data, organizations can minimize downtime and extend asset lifespans. This approach reduces operational disruptions and unnecessary expenses associated with unplanned repairs, contributing to overall cost efficiency.

2.4 Moderating Variable

Government policy serves as a crucial moderating variable that can significantly influence the relationship between computerized accounting systems and financial reporting within MFIs contexts. The regulatory framework, directives, and incentives set by organizations play a pivotal role in shaping the implementation, utilization, and effectiveness of computerized accounting systems (Itang, 2021). Government policies can either facilitate or hinder the adoption of these systems, impacting their potential to enhance financial performance practices.

Government policy not only influences the adoption but also shapes the extent of integration and utilization of computerized accounting systems. Studies by Jones (2019) and Thompson et al. (2021) reveal that policies promoting cross-departmental data sharing and interoperability contribute to more comprehensive system integration. Additionally, government initiatives that emphasize data security and privacy can impact the choice of systems and vendors, influencing overall financial performance practices (Brown & White, 2021).

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the procedures that will be used in collecting data for the study. It describes the research design, target population, sample size and sampling design, data collection instruments, data collection procedure, validity and reliability of the research instruments and methods used to analyze data.

3.1 Research design

The study will adopt a cross-sectional survey design. This technique collects data at a particular point in time. Data for this study will be collected using a combination of primary and secondary sources to obtain quantitative and qualitative data. Qualitative method will involve in-depth interviews and reviews of documents for information whereas Quantitative method will involve structured questionnaires and reviews of records for numeric data.

3.2 Study Population

The population of the study will be employees of FINCA Uganda Limited, Pride Microfinance Limited, and UGAFODE Microfinance Limited in Kampala. These Institutions have many employees who are employed under various departments. The departments include; Finance Department, Human Resources Management Department, Administration and Management Department, and Operational Management. This will constitute a population of 55 people.

3.3 Sample size, design, and procedure

The sample size, procedure, and design will be determined as follows;

3.3.1 Sample size

A sample size of 48 respondents will be selected from the total population using simple random and purposive sampling. This sample will constitute of employees of various departments in the 3 Selected Microfinance Institutions. They will be determined using the table developed by Krejcie & Morgan (1970) for determining the sample of a given population.

Table 1: Distribution of the Sample Size

Category	Population (N)	Sample size (S)	Method of Sampling
Finance	15	13	Purposive
Human Resources Management	20	15	Purposive
Administration and Management	20	15	Purposive
Operational Management	20	20	Simple random
Total	75	63	

Source: Primary data modified using Krejcie & Morgan (1970)

3.3.2 Sampling procedure

In this study, the sample will be selected judgmentally/purposively and randomly. For purposive sampling, respondents will be chosen based on the researcher's judgment that they had desirable characteristics and could provide the required information. Simple random sampling will be applied in selecting respondents mainly from Operational management department in Selected Microfinance Institutions in Kampala so as to provide equal chances of every individual being included in the sample.

3.3.3 Sampling design

The study will use both Probability (simple random) and Non probability (Purposive) sampling techniques. Simple random sampling is selecting samples from a larger population size, giving all individuals an equal chance of being chosen whereas Non-probability (Purposive) sampling entails deliberately selecting cases based on specific qualities which they exhibit.

For simple random sampling, respondents from the population will be selected on probability and in no order. This will be accomplished by administering questionnaires and interviewing anyone in the organizations after having clearly explained the sole purpose of the interviews. For Purposive sampling, the researcher will focus on selecting only those members expected to have the information required.

3.4 Data Sources

Data will be collected from both primary and secondary sources. Primary data will be obtained from the field using data collection instruments which include; questionnaires and an interview guide. Secondary data will be obtained from both published and unpublished material, research

reports, Newspapers, and the internet.

3.5 Data collection methods and Instruments

3.5.1 Questionnaires

Questionnaires are data collection instruments through which subjects respond to questions or statements that generally require factual information (Sekaran, 2003). A questionnaire with close-ended questions will be used in data collection. Close-ended questions will be used to get direct answers and hence less time consuming in responding. Questionnaires will be used because data can be collected relatively quickly and the researcher does not need to be present when the questionnaire is being completed.

3.5.2 Interviews

Kothari (2004) defines an interview as a selected set of questions administered through verbal communication in a face-to-face relationship between the researcher and respondent. It entails a face-to-face conversation between the interviewer and interviewee. This method is useful as it gives the respondent freedom to ask in case of need. Interviews will be used so as to collect additional data mainly qualitative which the questionnaire could not collect. An interview guide will be prepared in order to have consistency in asking questions.

3.5.3 Documentary Review

This is a secondary data collection method. According to (Kothari, 2004), secondary data refers to the data which has already been collected and analyzed by someone else. Kothari emphasizes on the value of documents as they can provide more insights into the program being studied by cross validating and augmenting evidence from other sources. Relevant information will be extracted and reviewed from files, magazines, reports and other records published and unpublished which contains vital information. This method is useful because it supplements the interview and questionnaire methods of data collection.

3.6 Data collection instruments

3.6.1 Questionnaires

A self-administered questionnaire comprising several questions will be designed and distributed to the respondents. The respondents will have to answer the questions on their own; this will enable them to give their views freely without any interruption.

3.6.2 Interview guide

An interview guide will be used to obtain information from selected key people. This will allow respondents to express better their opinions through face-to-face interviews which will be recorded by the researcher.

3.7 Data quality control

3.7.1 Validity

Validity refers to the extent to which the concept one wishes to measure is being measured by a particular scale or index. It is the extent to which an account accurately represents the social phenomena to which it refers (Babbie, 1992). Validity of the instruments will be measured through seeking for views from experts at Muteesa I Royal University, FINCA Uganda Limited, Pride Microfinance Limited, and UGAFODE Microfinance Limited who assisted on the relevance of the scales in the instruments using Content Validity Index (CVI).

3.7.2 Reliability

Reliability refers to the consistency measure that produces the same results across time and observers (Patton, 2014). To ensure reliability, the study employed two methods of data collection; questionnaires and interviews. The reliability of the questionnaires will be enhanced through pre-testing of pilot samples from the field which enabled the re-phrasing of some questions. Additionally, reliability of the items will be done with the application of the Cronbach Coefficient Alpha for the computations to check for the internal consistency of the items.

3.8 Data processing and analysis

3.8.1 Data processing

Data given to the researcher will be edited and coded to ensure accuracy and consistency. All the questionnaires from the respondents will be checked for completeness to avoid errors and omissions then they will be coded and tabulated.

3.8.2 Data analysis

Analysis will be done using Statistical Package for the Social Sciences (SPSS) for Windows Version 26 to generate descriptive statistics such as frequencies, percentages, means, standard deviations, and inferential statistics such as correlations and regression which will be directly copied and pasted to the report. Out of these data, conclusions and recommendations will be

drawn.

3.9 Measurement of variables

The study variables will be measured using item scales developed by (Likert, 1932) with modifications to fit the context of the study. A five-point Likert itemized scale will be used to construct the items and assess the level of the variables. The questionnaire will be designed such that 1 represents strongly Disagree, 2-Disagree, 3-Uncertain, 4-Agree and 5-Strongly Agree.

3.10 Research Procedure

The researcher will obtain an introductory letter from the Research Coordinator, Muteesa I Royal University which will be presented, FINCA Uganda Limited, Pride Microfinance Limited, and UGAFODE Microfinance Limited in Kampala prior to starting any interview or filling-in questionnaires. Sensitization of the respondents for the study will be sought in order to enable efficient and effective data collection. This will enable the researcher to carry out the study without fear and substantive information will be obtained.

3.11 Ethical Consideration

As a researcher, it is important to adhere to ethical guidelines throughout the research process. The study will safeguard confidentiality by restricting access to identified information solely to those directly involved. Additionally, it will provide an accurate account of data, ensuring thorough debriefing sessions with participants in quantitative research to ensure precision and transparency.

3.12 Limitations and Solutions

Unwillingness of the respondents to answer questions; however, the researcher will be prepared to do anything possible like to reach and convince the respondents to provide the required information.

The cost of research in terms of finance, time and other academic undertakings will be too much. The researcher will suspend all non-academic pursuits and obtained financial contribution from friends and well-wishers who will be not pressed by similar problems.

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