

TOPIC: THE IMPACT OF ACCOUNTING RECORDS KEEPING ON GROWTH OF SMALL AND MEDIUM ENTERPRISES

CASE STUDY KASAANA – HIGHWAY MUBENDE

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

Small and medium enterprises play a crucial role in driving economic growth and employment opportunities in many countries. However, they often face numerous challenges that can impede their growth. One such challenge is the lack of proper accounting records keeping, which can have a significant impact on their financial performance and overall growth potential

Accounting records keeping is the systematic process of recording, organizing and maintaining financial transactions and information. For many years record keeping is seen as the most important practice in the business, because it is significant for accountability, decision making and budgeting, staff performance. Good accounting records help owners or manager s know how

their businesses are performing in terms of financial position, assess profitability and comply with tax obligations

1.1 Background of the study

(O. Aladejebi and J. Oladimeji, 2019) Globally, SMEs are acclaimed to have a vital role in the economy of both developed and developing countries. The vast majority of firms worldwide are SMEs and are gaining wide spread acceptance as viable drivers of economic growth and they contribute substantially to job creation. Small and medium enterprises have tremendous impact on employment generation. (Christian Nordqvist, 2020), According to World Bank, over 90% of enterprises worldwide are SMEs and employ around half of all the World's workers. SMEs for example in Uganda contribute to government income generation through income taxation and offer household income through taxes, profits and salaries.

According to Daily monitor, 2021, data shows that SMEs represent a significant part of the African economy as they constitute about 90% of the private business, contribute more than 50% of the country employment rates and make up as much as 40% of Gross Domestic Product (GDP) in most African countries. And in addition, (Uganda Investment Authority, 2016), in Uganda, Small and Medium Enterprises are engine of growth for economic development, innovation, wealth creation and they led to an increase in the employment levels to 70% of the non-farm labor force thereby contributing to 80% of the manufactured output and 20% of the total GDP. Employment growth has been estimated at around 25% per annum. SMEs are the prime source of new jobs and play a crucial role in income generation, especially for the poor. The SME sector in Uganda, like other developing economies, is highly diversified by ownership, type of enterprise and stage of development. According to the Small Scale Industries Association (2012), SMEs are spread across all sub-sectors of the economy with the majority operating in the informal sector. Of recent the government of Uganda is actively promoting the SME (including micro enterprise) sector in its Poverty Eradication Action Plan, by targeting the majority of people who live below the poverty line.

1.2 Statement of the problem

While small and medium sized Enterprises play a crucial role in Uganda's economic landscape, their growth potential is hindered by various challenges which lead to business failure. In the past, the common factors that constrained SMEs growth included lack of government support, high operating costs, lack of access to finance and stiff competition among others (Esaete, 2005). Other causes of failure may include management incompetence, lack of capital, lack of experience, competition, poor customer credit practices, and improper attitudes such as laziness. Some researchers didn't link business failure to lack of proper records keeping, which later leads to collapsing. However, in recent times, increased attention has been focused on the effect of inadequate financial records keeping as a source of business failure (Adurayemi, 2016)

Most business owners are in this predicament of collapsing because they do not keep records and there is a misconception that records are for big businesses. However, records in business have no boundaries since it's an individual's responsibility to keep records properly (Monitor 2021). Insufficient attention to accurate financial documentation will lead to suboptimal decision making and hinder the growth prospects

1.3 Purpose of the study

The purpose of the study is to investigate the impact of accounting records keeping on the growth of SMEs. Effective record-keeping practices are vital for financial management, and this research aims to generate knowledge that can be applied practically, contribute academic landscape and facilitate informed decision making; explore how such practices contribute to SMEs' growth and sustainability.

1.4 Objectives of the study

- i. To identify the importance of accounting records keeping towards the growth of SMEs.
- ii. To identify the challenges and barriers faced by SMEs in maintaining proper accounting records.
- iii. To examine the relationship between accounting records keeping and the growth of SMEs..

1.5 Research questions

- i. What is the importance of accounting records keeping on the growth of SMEs?
- ii. What are the challenges and barriers faced by SMEs in maintaining proper accounting records?
- iii. What is the relationship between accounting records keeping and the growth of SMEs?

1.7 Scope of the study

1.7.1 Geographical scope

The study focuses on the small and medium enterprises that operate in Kasaana – Highway Mubende. Which is a locality in Mubende Town with numerous enterprises , nearby centres are kibaati, kasenyi, kisekende and Mubende tax park

1.7.2 Content scope

The study focuses on providing information about the accounting records used by SMEs, the growth of SMEs along kasaana-highway Mubende and the relationship between accounting records keeping and the growth of SMEs in Kasaana –High way Mubende

1.8 Significance of the study

The study will provide information that will be used by policy makers and regulatory bodies especially Uganda Revenue Authority for implementing proper tax policies and help business community to keep proper records so as to avoid penalties

The study will provide the academic knowledge base on providing empirical evidence on the relationship between accounting records and growth of SMEs. This will contribute to the existing literature in accounting, finance and business management. Identifying areas where educational and training programs shall be developed to enhance the accounting skills of small and medium enterprises owners and personnel, hereby addressing any existing gaps in knowledge or practice

1.9 The Conceptual Framework

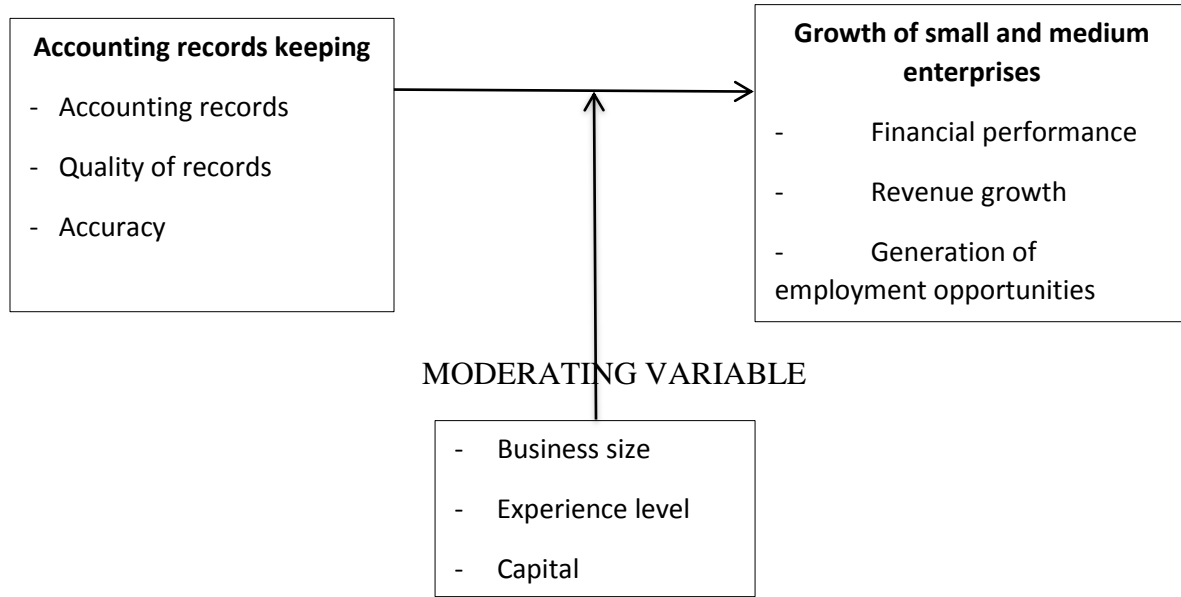
This is a diagrammatic representation of assumptions and rules related to the variables of study. This model explains the correlation of variables. Accounting records keeping being the

independent variable has aspects such as book keeping, preparation of financial statements and adherence to accounting standards. The growth of small and medium enterprises being the dependent variable focuses on the overall development and expansion. It can be measured through various indicators such as revenue growth, market share, profitability, employment generation

Figure 1

INDEPENDENT VARIABLES

DEPENDENT VARIABLE



LITERATURE REVIEW

2.0 Introduction

This chapter reviews existing literature and its purpose is to explore or examine the existing body of knowledge and research related to the impact of accounting records keeping and their association to the growth of SMEs.

2.1 Theoretical Review

This study is predicated on number of accounting theories which form the basis of understanding how accounting practices influence organizational performance and growth. These include Decision Usefulness Theory, Agency Theory.

2.3 Accounting Records Keeping

According to Ademola et al. (2012), record keeping is critical in business management, as it's the management of knowledge required for business growth and success. Modern organizations are concerned with the acquisition, application, and storage of knowledge. Accounting records keeping entails identifying, categorizing, storing and protecting records, receiving and transmitting records, retaining and disposing of records in order to prepare financial statements. It also covered the policies, systems, procedures, operations, and personnel needed to manage the records.

Romney (2003) defined record keeping systems as set of components that collects, records, classifies, analyses, and processes and summarizes business transactions in the books of accounts. Record keeping has been operationally defined as the accounting practice involving the proper maintenance of relevant books for the purpose of entering the details of daily business transactions. The steps in the process of recording are briefly explained below.

- i. Source documents: these include : invoices, receipts, bank studs, goods received note etc.
- ii. Recording into the source books: these source books are also known as Journals. The data obtained from the source documents are recorded into appropriate source books. Such source books include sales daybook, for the recording of credit sales; purchase daybook, for the recording of credit purchases; cashbook, for the recording of cash transactions; and general journal, for other transactions.
- iii. Posting to the ledger: the journalized data are entered into appropriate books of account (known as ledgers). The double entry principle is applied at this stage.
- iv. The trial balance: these are list of balances extracted from the ledger to be used for the preparation of the final account. This checks arithmetical accuracy of the ledger.
- v. Financial reports: An adequate and effective record keeping process should be able to produce relevant financial reports.

Adequate record keeping ensures that economic resources of the business is effectively and efficiently utilized to achieve goals (Kamau, 2015).

2.3.1 Methods of accounting

(Donald A. Cordano, 1991)

There are two basic methods of accounting: cash basis and accrual basis. The method you choose will depend on your type of business. Cash basis is the simpler method. It is mainly used by service businesses that do not maintain inventory or startup businesses that do not offer credit. The accrual method is used by businesses that provide for credit sales or maintain an inventory.

Cash Basis Method. In cash basis accounting, you record sales when cash is received and expenses when they are actually paid. Using the cash basis method is like maintaining a checkbook. Under this method, accounts receivable are not recorded as sales until they are collected. Accounts payable are not recorded as expenses until the account is paid. Bad debt, accruals and deferrals are not appropriately recorded under cash basis because they are examples of outstanding credit business notes). The cash basis method is not appropriate for businesses that extend credit.

Accrual Basis Method. In accrual basis accounting, you report income or expenses as they are earned or incurred rather than when they are collected or paid. Record credit sales as accounts receivable that have not yet been collected. The accrual basis also provides a method for recording expenditures paid in a single installment but covering more than one period. For example, interest may be paid semiannually or annually, but it is recorded on a monthly basis. The accrual method satisfies the matching concept, i.e., matching income with related expenditures. Consequently, it can provide a clear and accurate view of business operations for a given period

2.9.2 The growth of Small and Medium Enterprises and Revenue growth

SMEs contribute significantly to employment, innovation, and economic diversification. Their growth directly influences revenue growth, as SMEs often operate in niche markets, providing specialized goods or services that larger companies may overlook. SMEs contribute significantly to employment, innovation, and economic diversification. Their growth directly influences revenue growth, as SMEs often operate in niche markets, providing specialized goods or services that larger companies may overlook.

In addition to accounting records, revenue growth is a key driver of SME growth. By focusing on increasing their revenues, SMEs are able to expand their operations, invest in new technologies, and hire more employees. A study by the World Bank (2019) found that SMEs that prioritize revenue growth are more likely to achieve long-term success and sustainability, as they are able to adapt to changing market conditions and customer preferences.

Moreover, revenue growth is closely linked to the ability of SMEs to attract and retain customers. By offering high-quality products and services, SMEs can build a loyal customer base and generate repeat business. This is supported by a study by McKinsey & Company (2016), which found that SMEs that focus on customer satisfaction and retention are more likely to achieve sustainable revenue growth and profitability.

2.11 Summary and gaps of the literature review

The literature review on the impact of accounting records keeping on the growth of SMEs highlights several key findings. Studies have shown that proper accounting records keeping can lead to improved financial management, decision-making, and overall performance of SMEs. However, there are gaps in the literature that need to be addressed.

One gap is the lack of research on the specific types of accounting records that are most beneficial for SMEs. While some studies have examined the overall impact of accounting records keeping, more research is needed to determine which specific types of records (e.g. cash flow statements, balance sheets) have the greatest impact on SME growth.

Another gap is the limited focus on the role of technology in accounting records keeping for SMEs. With the increasing use of accounting software and other technological tools, it is important to understand how these advancements can impact the growth of SMEs.

Additionally, there is a lack of research on the challenges and barriers that SMEs face in maintaining proper accounting records. Understanding these obstacles can help policymakers and practitioners develop strategies to support SMEs in improving their record-keeping practices.

Overall, while existing literature suggests a positive relationship between accounting records keeping and SME growth, there are gaps that need to be addressed in order to provide a more comprehensive understanding of this relationship.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

Research methodology is defined as a way to systematically solve the research problems. Research methodology is the procedural plan that is adopted by the researcher to validly, objectively, economically and accurately answer the research questions (Babbie 2002). The chapter describes the area of study, the population, research design, sampling technique, validity and reliability of instruments, methods of data collection, and research procedure to be used and the methods of data analysis to be applied, data management and processing, ethical consideration and limitations of the study. . The methodology applied by the study will have to be chosen in order to acquire information and deduce conclusions about the impact of accounting records keeping on small and medium scale businesses.

3.1 Research Design

Descriptive research design is used in this study. Descriptive research involves gathering data, describes phenomenon and then organizes, tabulates, depicts and describes data collection, in the form of graphs and charts, in order to help the reader understand the distribution of data (Cooper & Schindler, 2011). A descriptive survey attempts to describe characteristics of subjects or phenomena, opinions, attitudes, preferences and perceptions of persons of interest to the researcher (Bell 1993). The characteristics of a community include gender, age, education level and even marital status of respondents Moreover, a descriptive survey aims at obtaining information from a representative selection of the population and from that sample the researcher is able to present the findings as being representative of the population as a whole (Mugenda and Mugenda 1999). Descriptive research is appropriate since it enables analysis such as correlation and regression analysis between the variables; accounting records keeping being the independent variable and growth being dependent variable. This gives us the opportunity for us to have the option to evaluate the accounting records keeping among the SMEs along Kasaana-Highway. Moreover this design chosen to provide insight and comprehension concern the assessment of

the contribution of accounting records on the growth of Small and Medium Enterprises. The reason for choosing this method is to increase the reliability of the report.

The survey method will be used in gathering information from respondents. This includes direct visits, interviews and administration of questionnaires. Questionnaires and personal interviews are the methods employed in gathering the field data and are convenient. The field data will be analyzed using frequencies, percentages, pie chart and tabulations are to be used to score the data.

3.2 Area of the Study

This study is to be conducted in Kasaana-Highway, a trading center located on the Kampala-Fort Portal road, in Mubende town council, to assess the impact of accounting records on the growth of Small and Medium Enterprises. The reason for choosing this area of the study simply is because it is very familiar to the researcher and it helps him/her to get the information needed in data collection. The researcher chooses this area because of population and numerous businesses, so this helps to access more information. Therefore the reason of choosing this area is because of knowing if SMEs are keeping records properly.

3.3 Study population

According to Onwuegbuzie & Leech (2005) a population element is the study subject and may consist of a person, an organization, customer database, or the amount of quantitative data on which the study measurement is being taken. The population of the study comprises of business owners, managers and employees that operate in the selected small and medium sized businesses in the Kasaana-Highway, Mubende Town Council because they are the basis of the study and provide the relevant answers to the study questions. These businesses have been in operation for some years. Basically, the study population was made up of 100 SMEs.(Field survey, 2024)

Table 1.0

Business	Population	Sample size
Whole sales	9	8
Retail shops(trade stores)	50	16

Supermarkets and grocery shops	8	5
Hotels and guests houses	4	2
Hardwares	15	12
Pharmacy	6	4
Electronic shops	5	2
Bakery/ cakery	3	1
Total	100	50

3.4 Sample Size

This refers to the number of elements selected from a given population (Denscombe, 2014). A sample is defined as a small proportion of an entire population; a selection from the population (Lohr, 2010). The sample size is an important feature of any empirical study in which the goal is to make inferences about a population from a sample (Noy, 2008). From table 1, the estimated sample size was 50 SMEs

3.5 Sampling technique

Cooper and Schindler (2011) state that sampling refers to the process by which part of the population is selected and conclusions are drawn about the entire population. The probability sampling techniques were used. Simple random sampling approach was suitable for this study because of its advantages like minimization of bias results, improver liability and validity of data from respondents who represents the population. This implied that all participants in the study population had equal chances of being selected. Purposive sampling was also used to select only those respondents with importance attached to their office, and also to pick enterprises that have experiences of one year and beyond of their operation. These enterprises provided gave information rich in terms of the value of accounting records keeping

3.6 Data Collection Methods and Instruments

Data will be collected from primary sources and data collection involved the use of questionnaires. Data collection will be done using majorly two tools namely a self-administered questionnaire and interview guide. The self-administered questionnaire tool covered the respondent's descriptive statistics on district, age, sex, educational level, and the importance of record on the growth of the business. Both explanatory and descriptive approaches are to be used as suggested by Bell (1993), who recognized them as drivers towards getting clear opinions, attitudes, preferences and perceptions of persons of interest to the researcher. These approaches included observation and surveys as well as analysis using tables.

3.6.1 Questionnaires

The questionnaires shall be used to determine the respondents' understanding of the value of accounting records keeping to the performance of their businesses through an investigation on accounting records keeping, accounting records kept by the businesses, and the growth of businesses towards their profitability. The questionnaire comprised of both opened and closed ended questions.

3.6.2 Interview guide

The researcher also uses the Interview guides as tool for data collection which enables the researcher to deal with respondents directly to get first-hand information, explained some hard questions and at the same time had a direct interaction with the managers or owners of Small business enterprises in kasaana - highway, Mubende.

3.7 Validity and Reliability of research instruments

This section is important in assuring the validity and reliability of the instruments and thus controlling data generated through questionnaires and interviews.

3.7.1 Validity

Mugenda and Mugenda, (2003) defined validity as the degree to which results obtained from the analysis of the data actually represents the phenomena under study. The concept of validity

ensures that the instruments to be used yield relevant and correct data. Validity of the instruments in this study is assured through the use of strategies; Member-check. Respondents are asked to read through the questionnaire, and interviews. The questions that are found ambiguous are reframed and those who are found irrelevant to the study shall be reconstructed.

3.7.2 Reliability

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda and Mugenda, 2003). To ensure that the instruments are reliable, the researcher employed pre-test instruments, which ensured consistency of the results. In this sense the researcher also conducted a pilot study/ test on the instruments, where a few respondents are given questionnaires to rate themselves on the applicability of the instruments. Further, consultation with other supervisors and peers is done to review the research instruments.

3.8 Data processing and analysis

The data collected will be generalized and captured into the computer for analysis using Microsoft excel, and Microsoft word. The data was then presented in a convenient and informative way including frequency tables, graphs and charts for easier analysis and interpretation. Descriptive analysis is used to determine the proportions and frequency of the variables and Microsoft excel will be used to facilitate the data analysis. The results is to be presented in form of tables and figures.

3.9 Ethical considerations

All respondents are assured of confidentiality and the purpose of the research being academic shall be declared and explained in advance to all respondents. Identity of respondents is not required on the questionnaire. All respondents will be skillfully and professionally approached.

3.10 Limitation to the study

Lack of financial records in SMEs of Kasaana - Highway and ambiguity surrounding their quality. Obtaining access to the detailed financial records of SMEs became challenging, as they are reluctant to share sensitive information.

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