

**ACCOUNTING PRACTICES AND PERFORMANCE OF SMALL MEDIUM
ENTERPRISES: A CASE STUDY OF SMALL MEDIUM ENTERPRISES IN
MUKONO**

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**UGANDA CHRISTIAN
UNIVERSITY**

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DECLARATION

I, Nalubowa Irene hereby declare that this research proposal on accounting practices and performance of small medium enterprises is authentically mine to the best of my knowledge and the already published work used in the study is for reference purposes

Signature.....

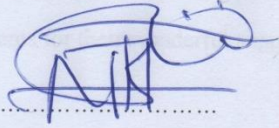
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APPROVAL

I certify this report by Nalubowa Irene was prepared under my guidance and supervision as a university supervisor and it is here ready for submission with my approval

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TABLE OF CONTENTS

Table of Contents

DECLARATION	i
APPROVAL	ii
ACKNOWLEDGEMENT	iii
TABLE OF CONTENTS	iv
LIST OF TABLES	vii
ABSTRACT	viii
CHAPTER ONE	1
1.0 Introduction	1
1.1 Background	1
1.2 Statement of the problem.....	2
1.3 Purpose of the study	3
1.4 Objectives	3
1.5 Research question	3
1.6 Scope of the study	3
1.6.1 Geographical scope.	3
1.6.2 Content scope.....	4
1.6.3 Time scope	4
1.7 Significance of the study	4
1.8 Conceptual framework.....	4
Figure 1.1: Conceptual framework	5

CHAPTER TWO	6
LITERATURE REVIEW	6
2.0 Introduction to literature review	6
2.1 Definition of key terms	6
2.1.1 Accounting practices.....	6
2.1.2 Financial performance.....	8
2.2 Examine the role of book keeping in performance of small medium enterprises in the study context.....	10
2.3 Examine the role of budgeting on to performance of small medium enterprises in the study context.....	12
2.4 Examine the role of financial reporting in the performance of small medium enterprises in the study context.....	14
2.5 Literature gap.	15
CHAPTER THREE	16
METHODOLOGY	16
3.1 Introduction	16
3.2 Research design	16
3.3 Study population	16
3.4 Sample size	16
3.5 Sampling techniques	17
3.6 Data sources.....	17
3.6.1 Primary data	17
3.6.2 Secondary data	18
3.7 Data collection tools	18
3.7.1 Questionnaire	18
3.8 Validity	18

CHAPTER FOUR.....	19
DATA PRESENTATION, ANALYSIS AND INTERPRETATION	19
4.0 Introduction	19
4.1 Response rate	19
4.2 Demographic aspects of respondents.....	19
4.2.1 Gender of Respondents.....	20
4.2.2 Age distribution of respondents.....	20
4.2.3 Position in the business	21
4.2.4 Period of operation of the business	21
4.3 Analysis of the role of Bookkeeping in performance of SMEs.....	22
4.5 Analysis of the role of Budgeting in SMEs performance.....	24
4.6 Analysis of the role financial reporting in SMEs performance	25
CHAPTER FIVE	28
DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS.....	28
5.0 Introduction	28
5.1 Discussion of Findings	28
5.1.1 Role of Bookkeeping in SMEs Performance	28
5.1.2 Role of Budgeting in SMEs Performance	28
5.1.3 Role of Financial Reporting in SMEs Performance.....	29
5.2 Conclusion	30
5.3 Recommendations	30
References.....	31
Appendixes	35
QUESTIONNIERE	35

LIST OF TABLES

Table showing the distribution for the sample size.....	17
Table 4.1 illustration of the respondent rate.....	19
Table 4.2 showing the gender of the respondents.....	20
Table 4.3 showing the age distribution of the respondents.....	20
Table 4.4 illustrating the period of operation of the respondents.....	21
Table 4.6 Statistics on the role of budgeting in SMES performance.....	24
Table 4.5 showing the role of bookkeeping in performance of SMEs in the study context.....	22
Table 4.7 illustrates the role of financial reporting in performance of SMEs.....	25

ABSTRACT

The purpose of this study was to investigate the relationship between accounting practices and the performance of Small medium enterprises in the study context. SMEs are recognized as essential contributors to economic development. Despite their importance, they face challenges therefore the study explored how the accounting practices can improve SMEs providing actionable insights for business owners, policy makers and other stakeholders. The study was guided by three objectives which included: to examine the role of book keeping in performance of small medium enterprises in the study context, to examine the role of budgeting on to performance of small medium enterprises in the study context, to examine the role of financial reporting in the performance of small medium enterprises in the study context. The research employees across sectional survey design and gather qualitative data. The study population comprises of 60 respondents with a sample size of 52. A structured questionnaire was used to collect primary data on accounting practices employed by these businesses and their impact on performance indicators such as profitability, sales growth and overall business sustainability

Key findings revealed a strong positive relationship between accounting practices and SMEs performance. Respondents agreed that proper bookkeeping enhances financial accuracy, facilitates better debt management, and enhances budgeting and financial forecasting all of which contribute to improve financial decision making. Effective budgeting was found to help SMEs set realistic profitability targets, allocate resources efficiently, and manage financial risks. Financial reporting was found to improve transparency, stakeholder confidence, and decision-making processes, contributing to the overall growth and sustainability of SMEs.

The study emphasizes the significance of adopting reliable and ethical research practices, including expert-reviewed questionnaires and adherence to confidentiality and informed consent. This research provides valuable insights into how sound accounting practices can drive SMEs performance and long term success. These include the need for SMEs to invest in professional accounting services, implement formal budgeting processes and adopt digital tools for bookkeeping and financial reporting. These measures would not only improve operational efficiency but also increase profitability and long term sustainability.

CHAPTER ONE

1.0 Introduction

This topic was to explore the impact of accounting practices on performance of Small medium enterprises. The study was to access the relationship between efficiently practicing accounting practices and the performance of small and medium enterprises.

1.1 Background

Across the globe, Small and medium enterprises are known for their contribution in the economic development hence crowning them backbone of many economies in the world. This is due their role in stimulating income generations, private ownerships and entrepreneurial skills. It is due these factors that Small medium enterprises important for developing countries like Uganda (Kakooza J et al, 2023). The difference in level of development of each country is reflected in the in their small medium enterprise sector making their contribution in terms of economic result and employment rates noteworthy where small medium enterprises in high income countries form more than 51% of GDP and 57% employment and in low income countries slightly rise from 20%GDP and employment rate(Mahdova L and Katonáné J, 2018). Small medium enterprises are faced with various challenges however every Small medium enterprise has its own challenges towards maintaining its own performance in order therefore despite their contribution, not many live past their first birthdays as a result to failure to surpass these challenges (Perez J et al, 2022)

The performance of any entity can be evaluated in various ways. The most recognized standards are the key performance indicators known as KPI which help policymakers assess and evaluate progress towards organizational objective however these indicators vary from one organization to another (Yadavalli S et al, 2020).

It has been discovered that positive organizational performance has positive effect on the economic growth of developing or developed countries. It was also noted that having a good outcome on the organizational performance results from having a good

flow of the economy between owners and customers provision of financial information. Therefore, it is important to exercise proper accounting practices in order to supply efficient economic decisions made by business owners. (Perez J et al, 2022).

Accounting practices in Small medium enterprises are influenced by several factors which include the industry sector and regulatory environment and its due to these that the accounting practices for small medium enterprises vary widely. They are faced with the challenge of inefficient resources to implement comprehensive accounting systems this results in to inconsistency and inadequate accounting practices which can result into hindrance of accurate tracking of financial performance and the business health (Olatuji 2018).

The competitive environment makes it necessary for SMEs to maintain robust accounting practices to make strategic decisions and also remain competitive(Amoaka, 2017)Furthermore the business may be faced with tax compliance issues leading legal consequences like financial penalties on the businesses (Muteti 2018).

1.2 Statement of the problem

Accounting practices have always been valued essential for any kind of business that is small to large size businesses. These practices aid business owners information which would enable them analyze and also work on the performance of their businesses. It has been noted that inadequate accounting practices hinder these businesses from adversity (Manyani and Maseko ,2017). This is due to the fact that when done wrongly, they can provide the business owner with wrong or inaccurate information which would later lead to wrong decision which affect the business.

Despite the importance of effective accounting systems, many SMEs lack the necessary resources and expertise to implement then which results in to poor decision making and financial management (Adebisi and Gdegi, 2021)

This research aims at investigating how contemporary accounting practices influence the financial performance, identify key practices and propose strategies which would improve and enhance the performance of SMEs

This study was to investigate the extent to which accounting practices influence performance among Small medium enterprises which information will be added to that of other scholars and help in understanding the different factors that affect performance of small medium enterprises and how best they can be handled.

1.3 Purpose of the study

The main objective of this study was to examine the relationship between accounting practices and performance of small and medium enterprises in the study context.

1.4 Objectives

- i. To examine the role of book keeping in performance of small medium enterprises in the study context
- ii. To examine the role of budgeting on to performance of small medium enterprises in the study context
- iii. To examine the role of financial reporting in the performance of small medium enterprises in the study context

1.5 Research question

- i. What is the role of book keeping in the performance of small medium enterprises in the study context
- ii. What is the role of budgeting on the performance of small medium enterprises in the study context
- iii. What is the role of financial reporting in the performance of small medium enterprises in the study context

1.6 Scope of the study

1.6.1 Geographical scope.

The geographical scope is Mukono town. Mukono town is a municipality located in Mukono District in the central region of Uganda situated along Kampala-Jinja road. The town is rich with SMEs that includes a Market area known as Kikko Market and other businesses.

1.6.2 Content scope

The content of this study is accounting practices and performance of small and medium enterprises in Mukono town. The variables to be studied are record keeping, budgeting and financial reporting.

1.6.3 Time scope

The study was to consider literature that is within 2017 -2024

1.7 Significance of the study

It is assumed that the study was to be beneficial to SMEs that is the owners as the study was to through more light to how what relationship is there between accounting practices and the performances

It is believed that this study was to a form ground for the other researchers and scholars as it will enlarge the area of the study and also providing more information and so leading to the progress of research on the performance of s mall medium enterprises.

It is believed that this study may be of help to policy makers to understand how best to put in place polices that help the performance of SMES.

1.8 Conceptual framework

The conceptual frame work properly describes the dependent variable and the independent variable. The dependent variable for this research is performance for small and medium enterprises while the independent variable is accounting practices.

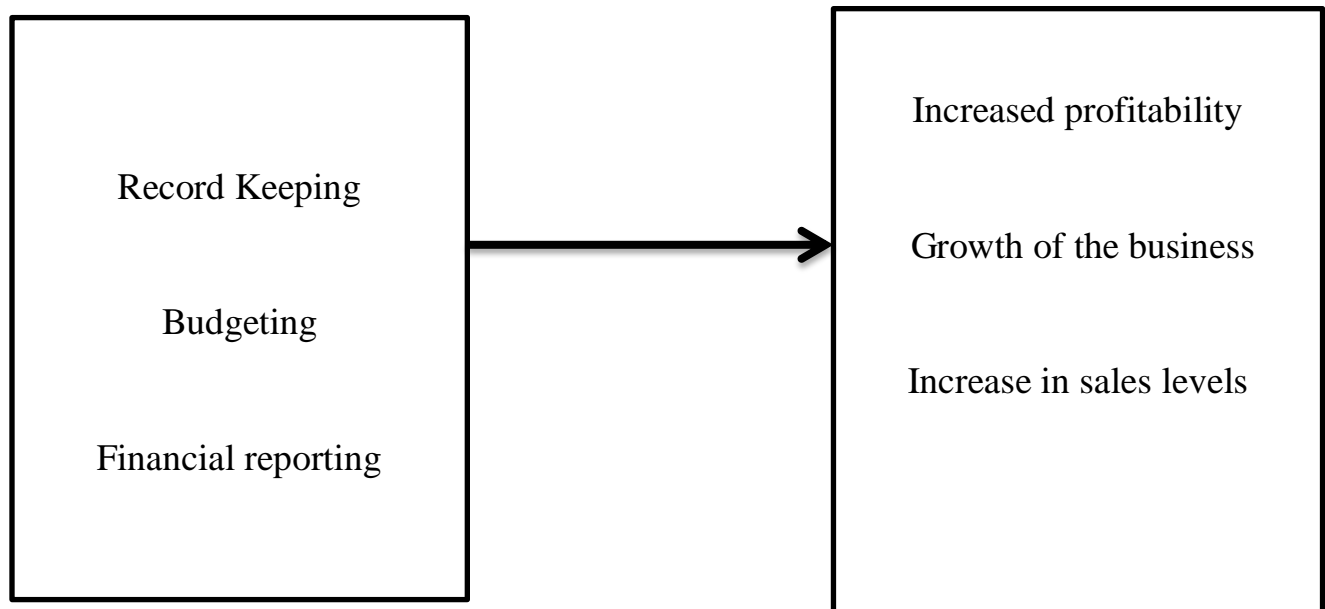


Figure 1.1: Conceptual framework

Source: Adopted from Effect of Accounting Practices on Financial Performance of Small Medium Enterprises in Rwanda by Kuol Gabriel Wach and Dr.Thomas Tarus (2021) and modified by researcher.

The conceptual framework illustrates the relationship between accounting practices and performance of SMEs. The illustration puts forward that accounting practices in SMEs encompassing record keeping, budgeting, and financial reporting as fundamental tools which organizations use to attempt to enhance profitability, support business growth and achieving higher sales level .

The framework shows that these practices provide SMEs with the financial visibility and strategic insights necessary to navigate challenges, capture opportunities and achieve long term success which would enable these businesses are able to last long in competition and also long life span

Therefore the framework shows that accounting practices form the foundation for the effective management and growth of SMEs leading to increased profitability, business growth and higher sales level.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction to literature review

This chapter reviews the existing literature put forward by different scholars and explores the relationship between accounting practices and performance of SMEs. It discusses the impact of various accounting methods and practices on SME performance.

2.1 Definition of key terms

2.1.1 Accounting practices

Accounting practices refer to standard procedures and methods used by businesses to record, summarize and report financial transactions hence ensuring accuracy, consistency and transparency. The practices are made up of activities including bookkeeping, financial reporting, budgeting and financial analysis. These activities are important for enhancing financial management which in turn improves business performance (Adebisi and Okike, 2017). It was argued that effective accounting practices enable better financial management, which in turn improves business performance.

According to the International Financial Reporting Standards (IFRS) foundational accounting practices take an important role in financial reporting as they facilitate preparation of financial statements that provide a perfect insight of the company's financial position and performance (IFRS Foundation, 2021)

The standardization of accounting practices is important for maintaining integrity of financial data. It involves the application of Generally Accepted Accounting Principles (GAAP) depending on the jurisdiction. The adherence to these standards ensures the financial statements are comparable across different organizations and time periods which is important to different stakeholders, investors, creditors and the business owner themselves (Brouther et al, 2020)

SMEs with well implemented accounting systems exhibited higher profitability and better cash flow management. It was emphasized that accurate financial reporting enables SMEs to secure funding from financial institutions as it increases transparency and reduces perceived risks. (Al-Matari et al, 2019)

SMEs are often challenged resources and also adopting of sound accounting practices. It should also be acknowledged that different SMEs are faced with unique challenges these mainly include access to capital, high dependency on local capital and ability to respond to market changes. Effective accounting practices enable SMEs navigate these problems as it provides reliable financial information that supports decision making, financial planning and performance evaluation (Acar& Acar, 2018)

A comprehensive analysis demonstrated that SMEs that adopted advanced accounting practices such as financial forecasting and accrual accounting experienced significant improvements in their performance (Kinyua, Njeru, and Namusonge , 2020). The researchers also noted that these practices provide more reliable financial data which facilitated better strategic decisions and resource allocation.

Many SMEs face challenges in implementing effective accounting practices these mostly include expertise, limited financial resources and resistance to change. Most owners of owners of SMEs lack necessary knowledge in terms of accounting and accounting practices leading to inadequate financial management (Amoako, 2017).In addition, resource constraints also often limit SMEs hence restricting their ability to invest in accounting software and hire professional accountants. (Nkundabanyanga et al. 2018)

With the development of the world, there has been development in accounting practices in attempt to make it easy where by the adoption of cloud accounting enables SMEs manage their accounting processes, reduce errors and improve real-time financial monitoring (Mahzan and Lymer , 2020)

Furthermore, SMEs that integrate advanced technologies into their accounting systems realized increased efficiency and productivity that is automation of routine

accounting tasks allow SME owners focus on other important aspects of the business (Deloitte, 2021)

2.1.2 Financial performance

The performance of SMEs is connected to their sustainability, growth and contribution to the economy. Therefore effective accounting practices are fundamental in enhancing financial performance as they provide accurate and timely financial information which is later used in strategic planning and decision making. It refers to the degree at which financial objective are being accomplished or have been achieved.

Performance is typically measured using many financial and non-financial indicators these include profitability, revenue growth, market share, customer satisfaction and employee engagement. The performance of SMEs is critical factor in the economic growth this is due to the fact these enterprises play a role in job creation, innovation and income generation in different countries (Beck, Demirgüç-kunt & Maksimovic, 2020)

The encompassing metrics include profitability, revenue growth, return on assets and cash flow. Financial performance is a key indicator of the business' health and its ability to sustain operations, expand and compete in the market (Akinboade and Kinpack , 2019)

There have been emerging trends in financial performance these put emphasis on sustainability and corporate social responsibility (CRS). Companies that integrate CRS into their core strategies tend to putout superior financial performance (Eccles, Ioannou, and Serafeim 2017)

There are many factors that influence financial performance .These factors are both internal and external determinants have been identified where internal factors include corporate governance, capital structure efficiency that is the role of robust corporate governance in enhancing financial performance by mitigating agency problems and fostering strategic decision making (Gompers, Ishii, and Metrick 2020). It's emphasized that the trade-offs between debt and equity financing optimize

financial performance and so the findings suggest that while debt can enhance returns through tax shields when it's done excessively, it increases financial risk (Modigliani and Miller, 2018)

Managerial skills and competencies are also important in determining the performance of an organization. Where the leadership is effective, planning is strategic and proper management of finances, the business's growth and profitability are sustainable (García Pérez-de-Lema et al, 2017)

The external determinants are made up of market conditions, regulatory environments and macroeconomic factors. It's also highlighted that market anomalies and investor behavior also influence financial performance (Fama and French ,2019). Moreover regulatory changes have a profound implication on financial institutions (Acharya, et al 2018).

Access to finance is often stated as one of the significant barriers to SME growth as many businesses have been limited towards accessing credit and other forms of external financing hence hindering their growth and expansion however businesses could opt for financing options crowd funding, venture capital and government grants but still these are not easily accessible (Beck et al, 2020).

2.2 Examine the role of book keeping in performance of small medium enterprises in the study context

In the evolving growth of small medium enterprises, book keeping has been one of the essential activities and so it plays an important role in ensuring businesses sustainability and growth. It's the process of recording financial transactions which enables maintaining accurate financial records which are crucial for making informed decisions.

The performance of small medium enterprise can be measured using various indicators which include profitability, growth and sustainability. Studies have shown that there is a positive correlation between proper book keeping and the financial performance of SMEs (Maseko & Manyani, 2017). Effective book keeping enables business owners identify profitable areas, minimizing cost and avoiding financial pitfalls thereby enhancing business performance (Mutua, 2018; Ntim, 2020).

Book keeping serves as a backbone of SMEs financial management as it provides a way of tracking income, expenses, assets and liabilities. This can always be possible when there is accuracy in the practice which in return business owners gain insights on their financial health, plan for the future and comply with regulatory requirements (Chidi & Shadare, 2017). Therefore without reliable data, SMEs face challenges with evaluation of performance, secure financing and management of cash flow effectively this is due to the fact that accurate bookkeeping ensures that records meet legal standards (Mutua, 2018).

It should be noted that transparency in financial reporting enables businesses build trust with stakeholders, customers and investors hence enhancing the reputation and credibility of the business (Maseko & Manyani, 2017).

When businesses accurately work on their financial records, they are able to track their profitability by providing insights into the revenue streams and cost structures .Businesses with rigorous bookkeeping practices easily identify profitable and non-profitable areas enabling them make strategic adjustments that enhance overall profitability(Onyango , 2019).It also enables business owners identify cost-saving

opportunities ,reduce unnecessary expenditures which contribute to higher profit margin (Mutua, 2018).

Effective bookkeeping is crucial for cash flow management. Cash flow management involves tracking of outflows and inflows of cash. It's asserted that SMEs with reliable systems for book keeping enable the business owners accurately monitor cash position, forecast and avoid liquidity crises (Chidi and Shadare, 2017)

Bookkeeping plays a significant role in enhancing the efficiency in operations of SMEs through facilitating optimal resource allocation. This is due to the fact that it business owners with well-maintained financial records easily analyze and allocate resources efficiently. It helps them identify areas where there is underutilization and areas where there is overutilization allowing better financial planning and operation efficiency (Maseko & Manyani, 2017). It's noted that SMEs that keep accurate books are in a position that enables them allocate funds toward high returns investment and cut down wasteful spending.

According to Mutua (2018), SMEs that practice effective bookkeeping easily analyze financial trends, evaluate business performance and make informed decisions that enhance their growth and competitiveness .In addition well-maintained financial records enable easy anticipation of financial challenges and so enabling business owners come up with strategies to mitigate risks (Chidi & Shadare, 2017).

2.3 Examine the role of budgeting on to performance of small medium enterprises in the study context

Budgeting is important tool in the management of finances of SMEs to enable them plan, control and monitor their financial resources effectively. The budgeting involves the preparation of detailed plans that outline expected revenues, expenses and resource allocation over a specific period of time. This served as a roadmap for the operations of the business helping the business owners and managers make informed decisions, determine financial needs and realistic goals (Akinyele & Fasogbon, 2017). This is due to the fact that budgeting involves preparing detailed financial plans that outline expected revenue, expenses and resource allocation over specific period. Effective budgeting ensured that resources are efficiently allocated which is important for SMEs, proper budgeting allows SMEs to anticipate the future financial needs and avoid liquidity crises (Osama & Saidu, 2021). The budgeting practice is made up of processes and methodologies used to plan and control financial activities that is to say ; Budget preparation which is the detailed financial plan based on historical data and future projects (Osama & Saidu, 2021). Budget implementation. This involves ensuring the budget is put in action through proper allocation of resources and adherence to financial plans further more regular adherence to budgeting processes allows SMEs to identify areas of potential cost reduction and helps businesses remain resilient in uncertain economic conditions (Ngugi, 2020). Budget monitoring and control. This involves continuously reviewing and comparing actual performance against the budget to identify variance and take required action (Chidi & Okpala, 2017).

Budgeting is recognized as management tool for cash flows and also a way of strategizing for future growth. SMEs that implement formal budgeting are able to determine their business' financial needs and avoid liquidity problem (Brinckman et al 2019). It enables business owners align their financial strategies with their goals which enables them easily allocate their scarce resources and also prioritize investment and operational activities. By setting clear financial targets, businesses

can ensure that their investments are aligned with their strategic goals, leading to improved performance and long term success (Mazzarol, 2018)

SMEs that faithfully pay attention to their budgeting process and are committed to following it tend to have higher profit and an improvement in cash flow management this is due to the fact that SMEs enable businesses forecast their revenue and expenses, manage risks and also make informed decisions. A significant number of SMEs either lack the expertise to prepare detailed budget or view budgeting as unnecessary task this leads to poor financial planning and an increased likelihood of financial mismanagement and SMEs that fail to adopt structured budgeting processes often struggle to manage their costs and optimize budgeting (Eling and Luhn, 2019)

Budgeting enables business owners to build discipline within their business this enables them to efficiently use resource and also easily carry out cost control. It's also highlighted that budgeting enables SMEs to forecast cash inflows and outflows (Akinboade & Kinack 2020). Budgeting is a communication tool which would be used by the business owners to align the goals with activities they intend to carry out with the overall objectives of their organization this enhances operational performance (Hiebl et al, 2020)

2.4 Examine the role of financial reporting in the performance of small medium enterprises in the study context

Financial reporting is also a fundamental aspect of financial management .Several studies have highlighted the positive correlation between financial reporting and performance of SMEs. According to Ahmad and Akinyemi (2019), proper financial reporting can significantly reduce information asymmetry between SMEs and their potential financiers. Higher profitability and improved cash flow management financial outcomes are experiences that most businesses with robust financial reporting practices get the luxury to attain (Uddin et al, 2020).It also enables them avoid legal penalties (Adebisi & Matthew, 2017) and effective risk management as it provides early signs of potential financial distress(Rahman et al. , 2022).

Financial reporting provides critical information for decision making, monitoring and evaluation (Alkali et al., 2021).This is through providing detailed analysis of the company's financial position and so enabling them identify potential risks and vulnerabilities allowing them develop strategies for their business (Haron et al, 2018). It was noted that comprehensive financial reporting contribute to better planning and resource allocation leading to enhanced financial performance (Ezeagba 2017)

As it's one of the areas that potential financiers that include investors, banks and other financial institutions it's important that SMEs generate accurate reports with transparency as these are heavily relied on to assess the credit worthiness of these businesses (Njoku & Okoye, 2017).

SMEs are faced with challenges that hinder them from implementing effective financial reporting these mostly include limited resources, lack of expertise and cost of maintaining proper accounting systems(Onalapo & Adegbite, 2020). The cost of hiring qualified personnels in accounting and investing accounting software can be prohibitive (Lekhanya , 2019).Many SMEs still rely on informal accounting methods which undermine the reliability and accuracy of their financial reports (Kieu and Hoang, 2021). It should be noted the primary challenge faced by the business owners is mainly financial literacy (Asouquo et al, 2019)

The Covid 19 pandemic brought to light the importance of timely and accurate financial reporting. It's during this period that many SMEs were faced with many challenges and trials underscoring the need to robust financial reporting practices in order to easily navigate financial uncertainties and also make informed decisions (Ratten, 2020)

However it's also noted that, SMEs that have adopted the new trends which enhance financial reporting have found it easier to them to maintain accurate up to date financial records (Thangamani & Mohd, 2021). It's also indicated that SMEs that have adopted digital accounting tools can enhance the efficiency and accuracy of financial reporting there by improving the overall SME performance (Kamau et al. ,2019).Some owners do not prioritize making financial reports for their businesses this is mostly those that don't understand its benefits (Fatoki, 2020)

The advances in cloud-base accounting software and other digital tools have made financial reporting accessible and affordable for SMEs which enables they improve on their accuracy and efficiency in their financial reporting (Ghasemi et al, 2021)

There has been an increased focus on integrating environmental, social and governance factors (ESG)in to the financial reporting of SMEs this is due to the fact these are demanded by shareholders due to assurance of transparency regarding the business' social and environmental impact (De silva et al ,2022)

2.5 Literature gap.

Despite the extensive research on accounting practices and performance of small medium enterprises, there are several gaps in the existing literature. Many studies mainly focus on the general findings without considering the fact that different societies face different challenges and so some of the references may not be applicable to them.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

In this chapter the researcher analyses the research design, area of study, study population, selection of the sample, data sources, research tools and methods.

3.2 Research design

A survey research design was used during the study this design is most appropriate due to the fact that accounting related practices are mainly used internally and many SMEs do not publish their financial statements to the public. It's to consist of quantitative which was be utilized for the study. Across sectional research design was be employed when generating data for the study

3.3 Study population

The study population was made up of small medium enterprises operating in study context. The SMEs in the area were to be the focus for this study .The population was to include SMEs from various sectors that have to say retail, services like mobile money and medical, manufacturing and many others .This is to ensure that the diversity nature of the SMEs is represented. The study population for this study was of 60 SMEs

3.4 Sample size

A sample size of 52 SMEs is to be considered. This sample size was to be adequate for achieving the objectives of this study allowing for meaningful findings. The sample size of 52 SMEs is due to the need of manageable number.

Using Taro Yamane formula, "Yamane T, (1973)"

$$n = \frac{N}{1 + N(e)^2}$$

Where

N=Target population

n=Sample size

e= Marginal error (5%)

Applying the formula with N=60

$$n = \frac{60}{1 + 60(0.05)^2}$$

n=52 Respondents

Table showing the distribution for the sample size.

Category	Target population	Sample size
Retail shops	20	19
Mobile money	10	5
other SMEs	30	28
Total	60	52

Source: Krejcie & Morgan, (1970)

3.5 Sampling techniques

The sampling technique to be employed was to be stratified random sampling. This was to be used to select the sample of SMEs. The technique ensures that different sub groups within the population are chosen this due to the fact that SMEs vary in size and industries are adequately represented. Here the population is to be divided into strata based on their characteristics and a random sample is drawn from each stratum.

3.6 Data sources

The data was collected from both primary and secondary sources.

3.6.1 Primary data

Primary data refers to as first hand data that's collected by the researcher from the original sources. It can be referred to as first hand data. This data is collected mainly through questionnaires, interviews and surveys. In this study the primary source is to be mainly questionnaires.

3.6.2 Secondary data

Secondary data is referred to as data which has been already collected and published by someone else. This data is used in supporting the primary data and the sources include research documents, journals, papers and reports.

3.7 Data collection tools

Structured questionnaires are to be used and where the respondents are unable to complete the structured questionnaire. The questionnaire is to be able to capture information on various accounting practices adopted by SMEs these include book keeping financial reporting and budgeting. It was also include performance indicators, profitability, growth, and sales levels.

3.7.1 Questionnaire

The questionnaire was designed focusing on the objectives of the study in an understandable and simple questions with which the researcher was to be able to analyze. The questionnaire was to be close ended that is it was to provide respondents with fixed set of pre-defined answers. These predefined answers were to be mostly scale rated (1-5) and likert scale (strongly agree to strongly dis agree) hence reducing bias and also to ease interpretation.

3.8 Validity

To ensure the validity, several measures were taken these include review of the literature and consultation. The data collection instruments were tested to easily identify biases and adjustments were to be made. Multiple data sources were used to enable reliability of the findings.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

In this chapter, we are going deal with the analysis interpretation of the research findings. This were to be done basing on the research questions to set the relationship between accounting practices and performance of small and medium enterprises.

4.1 Response rate

The study focused on a sample size of 52 and the response rate was 100% (52 out of 52)

Table 4.1 illustration of the respondent rate

Details	Number
Questionnaires distributed	52
Questionnaires answered	52
Response rate	100%

Source: Primary data 2024

The above illustration shows that all the 52 questionnaires that where distributed were responded to hence the 100% response rate.

4.2 Demographic aspects of respondents

This section focuses on the personal data and background of the respondents

4.2.1 Gender of Respondents

Table 4.2 showing the gender of the respondents

Category	No of respondents	Percentage (%)
Males	30	57.7
Females	22	42.3
Total	52	100

Source: Primary data 2024

According to the above table, it's seen that the respondents were predominantly male with 57.7% and 42.3% were female

4.2.2 Age distribution of respondents

Table 4.3 showing the age distribution of the respondents

Category	No of respondents	Percentage (%)
25 years and below	8	15.4
26-39 years	20	38.5
40-33 years	16	30.8
56-60 years	6	11.5
Above 60 years	2	3.8
Total	52	100

Source: Primary data 2024

According to the table above, majority of the respondents which are 38.5% are of the age of 26-39 years and the least of them were above 60 years of age with a percentage of 3.8%. This indicates that the study was made up of the young adults

4.2.3 Position in the business

Table 4.4 illustrating the position in the business of the respondent

Category	No of respondents	Percentage (%)
Owner	20	38.5
Manager	22	42.3
Accountant	10	19.2

Source: Primary data 2024

The findings of the table show that managers predominated the study at 42.3% with the lowest as 19.2% and these were accountants this indicated that the study was conducted with the people who are responsible for the running of the businesses though there was low participation of the people with knowledge of the study topic it still assured that the researcher would still get information about the performance and the accounting practices

4.2.4 Period of operation of the business

Table 4.4 illustrating the period of operation of the respondents

Category	No of respondents	Percentage (%)
Less than 1 year	6	11.5
1-3 years	16	30.8
4-6 years	18	34.6
more than 6 years	12	23.1
Total	52	100

Source: Primary data 2024

According to the statistics above, majority of the SMEs have been in operation for 4-6 years with a percentage of 34.6% of respondents and the with the least years of operation are ones with less than 1 year and so this indicates that most of the participants have spent some time in operation and so could help with the study topic

4.3 Analysis of the role of Bookkeeping in performance of SMEs

This section is to illustrate various responses in relation to the first objective of the study which is to examine the role of bookkeeping in performance of SMEs in the study context

Table 4.5 showing the role of bookkeeping in performance of SMEs in the study context

Statement	Mean	Standard Deviation
Our Bookkeeping records are well maintained and up-to-date	4.42	0.63
Bookkeeping is important for the performance of my business	4.58	0.57
Proper bookkeeping reduces financial errors	4.50	0.61
Efficient bookkeeping helps in tracking the transaction of the business	4.45	0.65
Proper bookkeeping contributes to budgeting and financial forecasting	4.38	0.68
Bookkeeping ensures better debt management impacting overall sales and profitability	4.41	0.66
Timely bookkeeping supports better inventory management	4.37	0.70

Source: Primary data 2024

The table above presents the strong that there is a strong relationship between bookkeeping and performance of SMEs as it measures the participation of these businesses regarding the impact of bookkeeping on their performance.

The first statement had mean of 4.42. This indicates respondents agree that their bookkeeping records are well maintained and current .The relatively low standard deviation of 0.63 shows that there was little variation in the responses suggesting consistent agreement among SMEs about the importance of maintaining accurate and up to date records.

The following question “Bookkeeping is important for the performance of my business” had a mean of 4.58 reflecting that respondents strongly agree that

bookkeeping significantly impact performance of the business. The standard deviation of 0.57 shows minimal divergence in opinion, highlighting the widespread belief in bookkeeping's role in enhancing performance.

The mean of 4.50 and standard deviation of 0.61 indicate that respondents strongly agree that proper bookkeeping reduces financial errors evidenced by the mean of 4.50. The standard deviation of 0.61 suggests that most respondents concur with view.

The mean of 4.45 indicates that respondents to the fact that bookkeeping aids in transaction tracking. The standard deviation of 0.65 indicates slight variability in responses.

The statement with the mean score of 4.38 shows that respondents agree that bookkeeping plays a vital role in financial forecasting and budgeting and standard deviation of 0.68 which is slightly higher indicate more diverse opinions , though majority still agree on the importance of this relationship.

The mean of 4.41 indicates that respondents agree that bookkeeping enhances debt management. The standard deviation of 0.66 shows minimal variation in responses

The mean score of 4.37 indicates that respondents agree to the statement that timely bookkeeping contribute to better inventory management. The slightly higher standard deviation of 0.70 shows more varied opinions but overall agreement

The analysis suggests that SMEs recognizes that bookkeeping play a critical role in reducing financial errors, tracking the transaction of the business, debt management impacting overall sales and profitability and also inventory management. Therefore they strongly agree to the fact that bookkeeping plays an important role in the performance of SMEs.

4.5 Analysis of the role of Budgeting in SME performance

Table 4.6 Statistics on the role of budgeting in SMES performance

Statement	Mean	Standard Deviation
Proper budgeting process help in setting realistic profitability targets	4.49	0.61
Effective budgeting contribute to effective allocation of resources	4.53	0.58
Regular adherence plays an important role in achieving the desired sales levels	4.42	0.66
Budgeting enables us identify areas of cost reduction	4.48	0.64
Efficient budgeting enhances the ability to manage finances	4.45	0.62
Efficient budgeting helps managing financial risks	4.39	0.68
Proper budgeting helps in identifying opportunities and prioritizing the ones that support growth	4.43	0.65

Source: Primary data 2024

The findings with the mean score of 4.49 and standard deviation of 0.61 indicate that respondents agree that budgeting helps in setting realistic profitability this indicates that when businesses participate in budgeting they are able to do different forecast for their businesses and also ability estimate where they can again hence improving on to their performance evidenced with the mean of 4.49. The standard deviation of 0.61 reflects consistency in responses with majority of respondents sharing this perspective.

The findings with mean score of 4.53 and standard deviation of 0.58 show that the respondents strongly agree that effective budgeting contributes to effective allocation of resources evidenced with mean of 4.53. The standard deviation of 0.58 shows minimal variation, reinforcing the shared view across SMEs.

The mean score of 4.42 shows that respondents agree that regular adherence to budgeting results into achieving the desired sales level. The relatively low standard deviation of 0.66 indicates slight variation in opinions, but majority support the statement.

The mean score of 4.48 indicates that respondents agree that budgeting helps identify cost saving opportunities. The standard deviation of 0.64 shows moderate agreement among SMEs with most recognizing budgeting's role in bookkeeping.

The findings with the mean of 4.45 suggest that respondents agree efficient budgeting enhances financial management. The standard deviation of 0.62 shows consistent responses with minimal variability.

The mean score of 4.39 suggests respondents agree that budgeting helps manage financial risks, though the standard deviation of 0.68 indicates slightly more variability in opinions compared to other statements.

The mean score of 4.43 indicates that respondents agree that budgeting supports growth by identifying and prioritizing opportunities. The standard deviation of 0.65 demonstrates a general consensus with slight variation in views

The statistics to the analysis on the role of budgeting on the performance of small medium enterprises show that the respondents agreed budgeting supports stability by enabling business owners to control cost and risk management this shows that the respondent recognize the importance of bookkeeping and also give it credit on its contribution to the performance of SMEs

4.6 Analysis of the role financial reporting in SME performance

Table 4.7 illustrates the role of financial reporting in performance of SMEs

Statement	Mean	Standard Deviation
The use of Financial reporting improve on the company's financial performance	4.47	0.61
Financial reporting improves on transparency which in return improves stakeholders confidence	4.50	0.56
Financial reporting helps in identifying growth opportunities	4.42	0.63
Timely financial reporting influences decision making process	4.48	0.6
The quality of financial reporting has an impact on the sales levels	4.44	0.65
Financial reporting ensures better debt management impacting overall sales and profitability	4.46	0.64
Our financial reporting aligns with the regulatory requirements	4.48	0.59

Source : Primary data 2024

The statistics on table 4.7 on the analysis on the role of financial reporting in SME performance. The analysis checks whether the respondents are in agreement to the fact that financial performance influences the of SMEs.

The mean score of 4.47 indicates that respondents agree that financial reporting improves financial performance. The standard deviation of 0.61 shows minimal variability indicating strong consensus.

Findings with the mean score of 4.50 and a standard deviation of 0.56 indicate that respondents strongly agree to the fact that financial reporting improves on transparency which in return improves stake holder confidence. This shows that respondents recognize the fact that their stakeholders depend on their financial reports prepared to understand what's happen in the business and also how the business is running evidenced with the 4.50. The low standard deviation of 0.56 high consistent in responses.

The finding on whether financial reporting helps in identifying growth opportunities indicate that the respondents are in agreement to the statement scored an average mean was 4.42 and standard deviation 0.63. The mean of 4.42 indicate that the respondents agree that financial reporting aids in identifying growth opportunities. Therefore recognized the fact financial report enable them identify growth opportunities this enables them easily decide on where to invest and what to priorities in attempt to grow their business. The standard deviation of 0.63 shows moderate consistency in responses.

The finding on the statement "timely financial reporting influences decision making process" scored the mean of 4.48 and standard deviation of 0.6 .The mean of 4.48 agree that timely financial reporting improves decision making and the standard deviation 0.6 indicates little variation show strong agreement among SMEs.

The findings on the following statement scored a mean of 4.44 this indicates that respondents agree that the quality of financial reporting impact sales. The standard deviation of 0.65 indicates moderate agreement, with some variability in responses.

The mean score of 4.46 on the statement "financial reporting ensures better debt management impacting overall sales and profitability" indicate that respondents agree that financial reporting supports better debt management . The standard deviation of 0.64 reflects moderate consistency among SMEs.

The mean score of 4.48 indicate that respondents that their financial reporting aligns with regulatory standards and the standard deviation of 0.59 reflects that there was little variability I responses.

CHAPTER FIVE

DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter focuses on discussing the findings of the research study for the topic “accounting practices and performance of SMEs”. It contains the discussions, conclusions and recommendations.

5.1 Discussion of Findings

The research explored the role of various accounting practices (bookkeeping, budgeting, and financial reporting) on the performance of SMEs. The findings from Chapter Four indicated a strong positive relationship between these practices and SME performance. These findings are consistent with previous literature, which underscores the importance of accounting practices in enhancing SME performance (Agyapong et al., 2021; Ntim et al., 2019)

5.1.1 Role of Bookkeeping in SME Performance

The study established that proper bookkeeping plays a significant role in improving the performance of SMEs, as evidenced by the high mean scores across various factors. This aligns with previous research, such as that by Musah (2017), who found that effective bookkeeping reduces financial errors and improves profitability in SMEs. In addition, Karadag (2018) emphasized that accurate bookkeeping is essential for monitoring financial transactions, managing cash flow, and making informed business decisions, which was reflected in the respondents' strong agreement on these points. The study also revealed that bookkeeping is essential for budgeting, debt management, and inventory control, as SMEs that engage in proper bookkeeping are better positioned to track financial performance and reduce errors. This is consistent with findings from Ibrahim and Sani (2020), who reported that SMEs with strong bookkeeping practices experience higher profitability and reduced financial risks.

5.1.2 Role of Budgeting in SME Performance

The findings also demonstrated that budgeting significantly contributes to SME performance, as indicated by high agreement levels among respondents regarding the

effectiveness of budgeting in resource allocation and financial planning (see Table 4.6). This concurs with Nguyen and Nguyen (2018), who argue that budgeting enables SMEs to set realistic financial goals and manage costs more effectively. Similarly, Owolabi and Ajiboye (2020) confirmed that budgeting plays a crucial role in cost control and profit maximization in SMEs, reflecting the results of this study, where SMEs benefited from budgeting practices that improved profitability and financial stability.

Budgeting further assists in managing financial risks and identifying growth opportunities, supporting findings by Haron et al. (2019), who noted that SMEs utilizing structured budgeting processes are more likely to grow and sustain themselves in competitive environments. The study's findings, therefore, corroborate the existing literature in emphasizing the importance of budgeting as a tool for improving SME performance.

5.1.3 Role of Financial Reporting in SME Performance

The study confirmed that financial reporting positively affects SME performance by improving transparency, facilitating decision-making, and ensuring regulatory compliance (see Table 4.7). These findings are consistent with the work of Alsharari and Alhmoud (2022), which highlighted that transparent financial reporting enhances stakeholder confidence and fosters better relationships with investors and creditors.

Moreover, financial reporting helps SMEs identify growth opportunities, which aligns with Akinyemi and Olutunde (2021), who found that timely and accurate financial reporting enables SMEs to assess their performance and identify areas for investment and growth. This study also showed that financial reporting enhances debt management and profitability, which is supported by Osborne et al. (2019), who reported similar findings in SMEs across different sectors. The alignment of the study's findings with previous research underscores the critical role of financial reporting in the financial health and sustainability of SMEs. Timely reporting, as indicated in the study, helps SMEs make informed decisions and align their operations with regulatory standards, which in turn improves performance and growth potential.

5.2 Conclusion

The findings from this study reinforce the existing body of literature by showing that accounting practices such as bookkeeping, budgeting, and financial reporting significantly enhance the performance of SMEs. The study confirmed that proper bookkeeping helps reduce financial errors, budgeting ensures resource allocation and cost control, and financial reporting improves transparency and decision making. These practices are fundamental to the financial success and sustainability of SMEs. The positive relationship between accounting practices and SME performance emphasizes the need for SMEs to adopt and integrate these practices into their daily operations to improve their financial performance and long term growth.

5.3 Recommendations

SMEs should prioritize maintaining accurate and up to date bookkeeping records. This will help them reduce financial errors, manage debt, and make informed decisions about business operations. Implement Structured Budgeting. Therefore, they should adapt to comprehensive bookkeeping practices which in the end will enable them to achieve the above results.

SMEs should develop and adhere to a well-structured budgeting process. This will help them allocate resources efficiently, set realistic profitability targets, and manage financial risks. Improve Financial Reporting

SMEs should ensure that their financial reporting processes are transparent and timely. By aligning financial reports with regulatory requirements and using them to guide decision making, SMEs can build

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5 .What is the size of your business

1-10 employees
employees

11-50 employees

51-100 employees

>100

Part B: The role of Bookkeeping in performance of small medium enterprises

To what extent do you agree with the following statements (Strongly agree (5), Agree (4), Not sure (3), Disagree (2), strongly Disagree (1))

No. Qns	Statement	5	4	3	2	1
6	Our Bookkeeping records are well maintained and up-to-date					
7	Bookkeeping is important for the performance of my business					
8	Proper bookkeeping reduces financial errors					
9	Efficient bookkeeping helps in tracking the transaction of the business					
10	Proper bookkeeping contributes to budgeting and financial forecasting					
11	Bookkeeping ensures better debt management impacting overall sales and profitability					
12	Timely bookkeeping supports better inventory management					

Part C: The role of Budgeting on to the performance of Small medium enterprises

To what extent do you agree with the following statements (Strongly agree (5), Agree (4), Not sure (3), Disagree (2), strongly Disagree (1))

No. Qns	Statement	5	4	3	2	1
13	Proper budgeting process help in setting realistic profitability targets					
14	Effective budgeting contribute to effective allocation of resources					
15	Regular adherence plays an important role in achieving the desired sales levels					
16	Budgeting enables us identify areas of cost reduction					
17	Efficient budgeting enhances the ability to manage finances					
18	Efficient budgeting helps managing financial risks					
19	Proper budgeting helps in identifying opportunities and prioritizing the ones that support growth					

Part D: The role of financial reporting and performance of Small medium enterprises

To what extent do you agree with the following statements (Strongly agree (5), Agree (4), Not sure (3), Disagree (2), strongly Disagree (1))

No. Qns	Statement	5	4	3	2	1
20	The use of Financial reporting improve on the company's financial performance					
21	Financial reporting improves on transparency which in return improves stakeholders confidence					
22	Financial reporting helps in identifying growth opportunities					
23	Timely financial reporting influences decision making process					
24	The quality of financial reporting has an impact on the sales levels					
25	Financial reporting ensures better debt management impacting overall sales and profitability					
26	Our financial reporting aligns with the regulatory requirements					