

**THE EFFECT OF RECORD-KEEPING ON THE FINANCIAL PERFORMANCE
OF SMALL-SCALE BUSINESSES IN KYALIWAJJALA MARKET**

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**UGANDA CHRISTIAN
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DECLARATION

I hereby, declare that the work provided in this dissertation is entirely my own work and has not been submitted for any award of degree or publication. All sources of information and references are recognized, and my dissertation reflects my own research and analysis.

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APPROVAL

This dissertation has been submitted for examination with my approval as the supervisor.

NAME

SIGNATURE.....

DATE.....

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ABSTRACT

The study sought to examine the effect that Record keeping could have on financial performance of SMEs in Kyaliwajjala market, Kiira Division.

The researcher adopted a case study research design utilizing the quantitative approach. A Case study research design was selected because it enables the in-depth examination of the study problem with a view of providing rich data and a more comprehensive understanding of issues and problems applicable to real-life situations as recommended by Soy, (1997).

The study used quantitative method (through self-administered questionnaires) in data collection for purposes of triangulation to get accurate and reliable data for the study. From a sample size of 50 respondents, the researcher chose to use simple random sampling, focusing on grocery stores, from where a total of fifty respondents were chosen to represent the sample population.

Completed questionnaires were edited, coded, and entered into and categorized into themes and analyzed using SPSS 20 for Windows.

Regression analysis was used to test the effect of each construct of Record-keeping on financial performance. In testing the significance of the model, adjusted R² was used to measure the extent to which the variation in financial performance explains each construct of Record-keeping. Financial statistics were computed at a 95% confidence level to test whether there is a significant relationship between Record keeping and financial performance.

The findings from the study reveal that Manual bookkeeping is still prevalent among small businesses, especially in markets where digital access is limited. However, manual methods increase the likelihood of errors, such as miscalculations, lost receipts, or duplicate entries, which can distort financial reports. The study suggested that transitioning to digital bookkeeping systems is the most effective way

The study therefore concludes that Record-keeping has effect on financial performance of SMEs and recommends proper record filling, retention and retrieval in order to improve financial performance of SMEs.

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CHAPTER ONE

1.0 Introduction

The study's context, problem description, objectives, research questions, scope, location, and time are all presented in this chapter.

1.1 Background

SMEs are recognized globally as key drivers of economic growth, innovation, and poverty reduction. In developed economies, SMEs contribute significantly to job creation; for example, in the European Union, they account for almost 85% of employment (Pandy, 2019). In India, SMEs constitute over 90% of the economy's total enterprises (Pandy, 2019), while in Nigeria, they employ over 84% of the labour force in both formal and informal sectors (Mutesigensi et al., 2017; Niwemutoni et al., 2018).

In Uganda, SMEs account for more than 90% of private sector businesses and are seen as engines for income generation, wealth creation, and poverty reduction (Ssempala, 2019; UBOS, 2020; UIA, 2020; Uwonda & Okello, 2015). However, despite their importance, over 90% of small and micro-enterprises in Uganda fail within their first year (Mukhaye, 2020; Nshemereirwe, 2018). This high failure rate is often attributed to poor financial performance, which is linked to inadequate record-keeping (Kizito, 2017; Mukhaye, 2020). Financial performance, typically measured by profitability and sales growth, is a key indicator of a business's ability to utilize its resources effectively (Eton et al., 2019; Nangih et al., 2020).

Financial record-keeping has become the foundation on which modern businesses thrive for growth and sustainability (Ademola, James, & Olore, 2012). Businesses are highly dependent on financial records kept in the books of accounts for instance, record-keeping gives substantial information about the financial strength and performance of an enterprise and therefore managers find those decisions useful for the growth and development of the business (Salamatu & Muhammad, 2021). Despite the significance of records, there is limited understanding of how SMEs in Uganda practice record-keeping and its impact on their financial performance.

1.2 Statement of the problem

Businesses world over, no matter how small, have got one primary intention and desire that is to succeed and grow in their endeavors. However, for a business to be successful in the business world, the owners need to develop the discipline of keeping track of all sales, cash proceeds, and overall turnover of their businesses. Keeping a proper record of all income and expenditure helps the owner of a business to keep proper track of financial transactions (Abdul Rahaman and Adejere 2014) which is still a challenge with most small business operators in Kyaliwajjala Market Kiira Division, who are yet to be sensitized of the importance and benefits of proper record keeping.

1.3. The Objectives of the study.

- i. Identify the effects of record keeping on the financial performance of small scale businesses.
- ii. Find out the various record keeping practices available.
- iii. Identify challenges associated with record keeping and provide possible solutions.

1.4. Research Questions.

- i. What are the effects of record keeping on the financial performance of SMEs?
- ii. What are the various types of record keeping?
- iii. What are the problems associated with record keeping of SME's and suggest possible solutions to overcome them.

1.5. Scope:

Scope provided for the boundary of the study in terms of content, geographical area and period of study.

1.5.1 Content

The study examined the relationship between the effect of record keeping and

financial performance to establish the extent to which record keeping (independent variable) affects the financial performance (dependent variable) of SMEs. The effect of record keeping on financial performance studied are record-keeping practices, retention and purpose of record keeping. On the other hand, financial performance dimensions that have been studied are profitability, growth, and liquidity (Return on Investment/ return on assets).

1.5.2 Geographical scope.

The geographical study was carried out from Kyaliwajjala market Kiira Division. The above location is selected because of the accessibility to the researcher from which representative data relevant to the study was obtained.

1.5.3 Time scope

The study covered the period of three month from June to august to 2024 because during this period small business operators in the Kyaliwajjala market experienced fluctuating performance financially.

1.6 Conceptual Framework

The conceptual framework outlines the relationship between record-keeping (independent variable) and financial performance (dependent variable). Record-keeping practices, such as completeness, accuracy, timeliness, record retention, and the purpose of records, are expected to influence financial performance indicators like profitability, growth, and liquidity.

Table 1: Effects of record keeping on Financial Performance.

Independent Variable	Dependent variable
Practices:	Profitability
- Completeness	Growth
- Accuracy	Liquidity
- Timeliness	Return on investment/ return on
Record retention:	Assets

<ul style="list-style-type: none"> - the cost of records acquisition. -system in use Purpose of record. 	
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CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction:

The study assessed the effects of record keeping on the financial performance of SMEs in Kyaliwajjala market Kiira Division. The chapter presents a review of available literature on the effects of record keeping on financial performance.

2.1 Definition of key terms

Small and Medium-Sized Enterprises: These companies are stand-alone, non-affiliated companies with fewer than a specific number of employees. One of the biggest municipalities in the Kampala metropolitan area is Kiira Municipality.

The process of entering events and transactions into an accounting system is known as record keeping. Record keeping is the cornerstone of accounting since the principles of accounting depend on complete and accurate records.

Record retention is the process of keeping important company data for predetermined amounts of time for a variety of reasons, including legal compliance.

The length of the retention period is determined by the nature of the firm, risk management techniques, and legal requirements.

The ability of a business to make money in relation to its costs is measured by its profitability. When a business’s revenue growth outpaces its spending

and operating costs, it is said to be profitable.

Growth. Business growth is expanding or increasing a company's capabilities and resources. It's a rise in revenue (sales), market share, and customer base. The expansion of product lines and services and making a business bigger and more successful over time.

Liquidity. The capacity to convert an asset into cash is known as liquidity. An asset is more liquid if it can be turned into cash more easily. Furthermore, most people agree that cash is the most liquid asset. You can quickly and easily access cash in a bank account or credit union account by making an ATM withdrawal or bank transfer.

One indicator of an investment's profitability is return on investment, or ROI. ROI assesses an investment's effectiveness by comparing the amount you paid and the amount you made.

Return on Assets (ROA): ROA is a metric that evaluates a company's profitability over a predetermined period of time by comparing the value of its assets. Asset return is a tool used by managers and financial analysts to determine how effectively a company is using its resources to make a profit.

2.1.1. BASIC RECORDS TO BE KEPT BY SMIEs

Financial record keeping is influenced by so many factors for instance; type/nature of business, the kind of information required, volume of activities among others. The choice by some business owners to use electronic software for tracking various aspects of their businesses and resources is totally dependent on their nature of business. The key advantage of accounting software is to save time and also give freedom to the business owner to concentrate on running the business.

Sales records. For every sale made to a customer a record of it should be made in a sales journal. An accounting entry is made to show that your

customer paid you money and your revenue increased. These types of entries also show that an item left your inventory by moving your costs from the inventory account to the cost of goods sold account. .

Purchases records. These are records containing the amount of goods a company has bought or buys over the course of the year. The information that's recorded should consist of the kind, quality, quantity, and cost of goods purchased before adding to inventory. Purchases are offset by Purchase Discounts, Purchase Returns and Allowances.

Expenses records. All expenses in cash form spent by the business/organization needs to be accounted for. Especially operating expenses (these are expenses incurred on day to day running of a business such as rent, utilities, salaries, plus office supplies). whichever method you choose to make payment whether by cash or cheque, records of that particular transaction should be kept. Operating expenses should be typically recorded as expenses on the income statement.

Inventory Records. This document provides information on stock items, order quantity, and inventory status together with regulatory information. Cash flow for parts, assemblies, and components is also monitored.

Businesses and organizations need inventory records to keep track of their stock levels, estimate their stock requirements, and monitor stock movements. The following details need to be recorded: purchase date, item stock number, purchase price, date of sale, and price.

2.2 Effects of Record-keeping on the Financial Performance of Small Businesses.

In order to prepare financial statements, records must be identified, categorized, stored, protected, received, sent, retained, and disposed of. Maintaining records is essential to managing the knowledge required for successful corporate operations. For example, daily company activities including receipts and expenditures should be precisely documented to enable informed decision-making. These will assist the business in assessing

its performance throughout a specific time frame, usually at the conclusion of a fiscal period (Onaolapo & Adegbite, 2014).

Maintaining accurate records demonstrates how the transaction was managed and attests to the efforts made to adhere to company guidelines.

Good record-keeping practices have a big impact on how well small enterprises succeed financially in local markets. As outlined below:

Improved Financial Management: Good record keeping helps the business in tracking income expenses and profits accurately. This allows for better budgeting and financial planning, ensuring that resources are efficiently relocated.

Helpful in decision-making. Accurate records, help business owners to make informed decisions such as; identifying profitable products or services, understanding customer preferences, and managing inventory effectively.

Compliance and legal requirements. Maintaining accurate records makes it easier to report revenue for tax filings at the end of the year. This ensures compliance with tax regulations and other legal requirements, preventing fines and legal issues.

Access to Financing. Lenders and investors often require detailed financial records to assess the viability of a business. Good record-keeping can go a long way to increase a business chance of securing loans or attracting investment.

Performance monitoring. Regular updates of records allow business owners monitor their performance over time, which is helpful in identifying trends, spotting potential issues early, as they make necessary adjustments to improve profitability.

Operational Efficiency: efficient record-keeping can streamline operations by reducing the time spent on administrative tasks. This will allow business owners to focus more on core activities and growth strategies effectively.

In summary, effective record-keeping is crucial for the financial health and growth of small businesses. It not only aids in day-to-day management but also supports long-term strategic planning and sustainability.

2.3 Various types of record keeping available.

Paper-based systems

Paper-based systems are the oldest and simplest type of records management systems, where records are kept in physical folders, boxes, cabinets, or shelves. Although these systems are easy to set up and use without any special software or equipment, they possess many limitations. For instance, paper-based systems take up a lot of space are difficult to search, update, and share, and not compatible with digital records. Furthermore, these systems are not environmentally friendly. Paper-based systems may be suitable for small organizations with a low volume of records that do not need frequent access or collaboration.

Paper-based records management systems are increasingly outdated due to their limitations in space, accessibility, and vulnerability to damage. They also lack easy searchability and are not eco-friendly. While they may be suitable for small-scale operations, their inefficiencies become glaring as organizational needs grow. Modern alternatives include hybrid systems that combine both paper and digital records, as well as specialized document management software. The trend is unmistakably shifting towards more technologically advanced systems for managing records.

Currently, Electronic Records Management Systems are the most widely used kind, with digital records kept on computers, servers, or cloud platforms. They have numerous benefits, including the ability to save resources and space, increase security and durability, facilitate quick search, update, and sharing, and work with both digital and physical documents. They also have a positive environmental impact. They do, however, need specialized software and hardware, rely on a steady internet and power supply, are vulnerable to viruses, cyberattacks, and corruption, require routine maintenance and backup, and must adhere to a number of standards and laws. Electronic systems are

therefore appropriate for medium-sized to large enterprises that require regular access and collaboration and have a huge number of documents.

Combining paper-based and electronic systems, hybrid systems can provide the best of both worlds by supporting a variety of record types and formats, giving users flexibility and convenience, lowering the possibility of losing or damaging records, and easing the shift from paper to digital. Hybrid systems can, however, also result in record duplication and inconsistency, raise the complexity and expense of records administration, provide difficulties for synchronization and integration, and lead to user misunderstanding and mistakes. Hybrid systems may be advantageous for businesses that need to weigh the benefits and drawbacks of using both digital and physical information.

Automated systems have numerous advantages. They automate and optimize records management procedures through the use of artificial intelligence (AI) and machine learning (ML). These systems can decrease human error and intervention, increase productivity and efficiency in the records management process, improve record quality and accuracy, offer insights and analytics from records, and even adapt and learn from records. However, automated systems can lack human judgment and inventiveness, be costly and complex to install and maintain, need high standards of data security and privacy, present ethical and legal obstacles, and present operational and technical difficulties. These systems may be appropriate for utilizing AI and ML in organizations with a huge volume and variety of records.

2.4 Challenges associated with poor record keeping and suggested possible solutions.

Although starting and maintaining a small business can be financially rewarding, there are drawbacks as well, particularly with regard to bookkeeping and accounting. It is imperative for novice bookkeepers to comprehend these typical obstacles, since they play a crucial role in offering useful remedies and assistance.

The most frequent ones are running out of cash, combining personal and

business transactions, improperly monitoring expenses, lacking proper bookkeeping knowledge or skills, improper auditing, not reconciling bank statements, and failing to take advantage of financial analytics, to name a few. One surefire way to fail in business is to keep bad records.

Challenges that come along with poor record keeping should be well noted such that an entrepreneur can always avoid them and not fall prey. Below are some of the challenges the researcher has chosen to discuss:

Gaps in knowledge and expertise: small business owners often lack the necessary accounting knowledge and experience to effectively manage their finances. This inadequacy can lead to errors in financial records and misinterpretation of financial statements leading to decision making hiccups. To overcome this, business owners should prioritize acquisition of basic financial knowledge and consider seeking professional guidance to ensure accuracy and compliance.

Time Constraints: changing of business responsibilities can lead to negligence of proper bookkeeping practices. Time management becomes crucial when it comes to managing bank statements, as tracking expenses and updating records become challenging. This is where technology and automation tools if embraced come in handy to help streamline these processes, freeing up time for core business activities.

Inaccurate Record Keeping. These can grow into significant accounting challenges if not professionally handled. Inaccurate records will always lead to an imbalance in financial reports, discrepancies between bank statements and business transactions, which is likely to affect decision-making. Establishing a good record keeping practice and acquiring an accounting software can relieve the business of these issues.

Cash Flow Management: Undermining the importance of cash flow management can lead to payment delays, missed opportunities, plus cash flow shortages. Businesses ought to prioritize tracking of their cash flows, negotiating favorable payment terms, and creating emergency funds. These will curb financial instability and prevent cash flow irregularities.

Tax Compliance and Reporting: Navigating complex tax regulations and deadlines is a persistent challenge for small business owners. Inaccurate tax filings can lead to penalties and legal consequences. Seeking guidance from tax professionals and staying updated on tax requirements are essential steps to mitigate this challenge.

Interpreting Financial Information: Understanding financial statements and metrics can be overwhelming, especially for those without an accounting background. Small business owners should invest in gaining basic financial literacy to effectively interpret financial reports and make informed decisions about their business's future.

Mixing of personal and business Finances: Mixing personal and business finances can complicate tax filings, impede financial analysis, and damage the business's reputation. One needs to create clear distinctions between personal and business finances by having separate bank accounts.

Payroll and Employee Expenses: Handling payroll accurately and on time is vital for employee satisfaction and compliance with labour laws. Errors in payroll processing can lead to legal issues and also demoralize employees or make them discontented.

Inventory Management: Businesses dealing with physical products must manage inventory and calculate the cost of goods sold precisely. Inaccurate inventory records can affect profitability and customer satisfaction. Implementing efficient inventory management systems is crucial to avoid stockouts and overstocking.

Choosing the Right Accounting Method: Selecting the appropriate accounting method is pivotal, as it affects financial reporting accuracy and compliance. Small businesses must select between the “cash basis” and “accrual basis” methods based on their size and complexity of financial operations.

Cybersecurity and Data Protection: The rise of online transactions exposes small businesses to cyber threats and data breaches. Inadequate cybersecurity measures can result in financial losses and reputational damage. Businesses should invest in robust cybersecurity measures to protect sensitive financial information

Technological Disadvantages: With the post-COVID-19 technological landscape evolving rapidly businesses must embrace accounting software and digital tools for efficient financial management. Ignoring technology can lead to manual errors, delayed reporting, and hindered growth.

In conclusion, successful management of accounting and bookkeeping challenges is essential for small business owners to ensure financial stability and growth. By addressing these hurdles with proper knowledge, professional assistance, technological adoption, and sound financial practices, entrepreneurs can navigate the complex financial landscape and drive their businesses toward success.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

The study presents methods used which include research design, study population, sample size, sampling technique and procedure, data sources,

data collection tools, data collection procedure, data analysis, ethical considerations and limitations.

3.1 Research Design

The study adopted a case study research design utilizing both qualitative and quantitative approaches. Case study research design was selected because it enables the in-depth examination of the study problem with a view of providing rich data and a more comprehensive understanding of issues and problems applicable to real-life situations as recommended by Soy, (1997). The study used quantitative method (through self-administered questionnaires) in data collection for purposes of triangulation to get accurate and reliable data for the study. There was collaboration and consultation with respondents which is a key strength of the case study research design as Soy (1997) asserts.

3.2 Study Population.

The study population involved about 2000 owners of businesses duly registered (by 28th of August 2024) in Kyaliwajjala market located in Kiira Division (as per my Personal communication with accounting officer Kira Town council). Who are majorly dealing in electrical items, construction and plumbing (hardware shops), groceries (both wholesale & retail), mobile money agents, boutiques, drug shops, supermarkets, pharmacies etc.?

3.3 Sample size.

The sample size is the part of the target or accessible population that the researcher has chosen to represent the rest of the population.

The sample size for this study will be determined using a simplified formula for proportions provided by Yamane (1967) as seen below;

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

Where N = Population size, n = sample size, e = level of precision (0.05).

In the formula, a 95% confidence level and a 5% level of precision were assumed. This formula is convenient because although tables can provide a

useful guide to determining the sample size, there was the need to calculate the necessary sub-sample sizes from each stratum.

3.4 Sampling technique/procedure

3.4.1 Purposive sampling.

Purposive sampling is a non – probability sampling technique where subjects are specifically targeted to provide required information concerning the objectives of the study. Shops in Kira division include those selling electrical items, construction and plumbing supplies (hardware stores), groceries (both wholesale and retail), mobile money services, boutiques, pharmacies, drug shops, saloons etc. But for this study, grocery stores dealing in both wholesale and retail services for household items were purposely selected.

3.4.2 Simple random sampling

Simple random sampling technique where each unit of population has an equal probability of inclusion in the sample (Bryman & Bell, 2007). Since the focus was on grocery stores, dealing with household items, a total of fifty shop owners were randomly selected whom the questionnaires were administered.

This method was applied because the fifty owners selected were in the best position to provide the information required on the effect of record keeping on the financial performance of small-scale businesses.

3.5 Data sources.

Data was collected primarily through questionnaires. The use of self-administered questionnaires allows, respondents to provide information at

their convenience, enhancing the accuracy of the data.

Data collection tools.

Questionnaires

A questionnaire is a type of research tool made up of a list of connected questions that the researcher has written. It includes inquiries concerning the research topic being looked into in accordance with the study's goals. The self-administered questionnaires were created and organized by the researcher so that respondents can finish it with minimal guidance. The questions were prepared using a five-point Likert-type scale, which goes as follows: 5- "Strongly Disagree," 4- "Disagree," 3- "Not Sure," 2- "Agree," and 1- "Strongly Agree" (Cooper and Schindler, 2008). This scale will be used to measure variables. The scale will be employed since it provides a range of options, allowing respondents to choose their responses from the pre-arranged input. Furthermore, results with coded responses are simpler to interpret and evaluate. The questionnaire aims to gather information from respondents (McLeod, 2018; Amin, Social Research Conception "Methodology and Analysis, 2005).

3.6 Data collection procedure

The researcher obtained a letter of introduction from Uganda Christian University to the respondents identified. The researcher visited the respondents in their respective places of operation during the process of data collection and personally distributed the questionnaires to improve data accuracy and minimize suspicion among respondents. Information gathered or data collected was compiled and analyzed.

3.7 Data analysis.

Completed questionnaires were edited, coded, entered into and categorized into themes and analyzed using SPSS 20 for Windows to generate descriptive statistics on each of the three objectives and one constructed under independent and dependent variables respectively. Bivariate analysis in the form of Pearson's product-moment correlation was used to show the direction and strength of the relationship between each dimension of Record-keeping and financial performance. Regression analysis was used to test the effect of each construct of Record-keeping on financial performance. In testing the significance of the model, adjusted R² was used to measure the extent to which the variation in financial performance explains each construct of Record-keeping. Financial statistics will be computed at a 95% confidence level to test whether there is a significant relationship between Record keeping and financial performance.

3.8 Ethical consideration

The researcher was objective in conducting the research process to avoid bias for example employing research assistants to collect data. The researcher displayed a high level of confidentiality with the data collected from the selected respondents and sought their consent before administering data collection.

3.9 Limitations.

The study was limited to a few selected small-scale business owners operating in the Kyaliwajjala market.

Failure to trace all the sampled respondents was yet another challenge because these are personal operated businesses, absenteeism is inevitable.

Given the limited time available for the research project not all the targeted population could be reached and therefore the results presented here are only a representation of the sampled population.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0. Introduction:

The study examined the effect of record keeping on the financial performance of SMEs in Kiira Division with Kyaliwajjala market as a case study. The chapter presents findings, analysis and interpretations of the study findings. The first section presents the response rate and socio – economic characteristics followed by a presentation and analysis of the study findings in relation to the objectives.

4.1 Response rate

The response rate was computed using actual respondents divided by Targeted respondents multiply by 100% and the findings are presented in table 1 below.

Instrument	Targeted respondents	Actual response	Response rate
Questionnaires	50	41	82%
Total	50	41	

From the table above, a total of 50 questionnaires were distributed out of which 41 were returned implying a response rate of 82%.

4.2 Demographic analysis of the respondents

The study sought to find out the gender of the respondents and the findings are indicated in the table 2 below.

Gender of respondents

Gender	Frequency	Percent
Male	22	54%
Female	19	46%
Total	41	100%

Source: Primary data

Table 2 shows that the male respondents 22 (54%) were the majority, as compared to female respondents 19 (46%). From the table above, more males participated in the study and this is evidenced by the returned questionnaires. This is because more males were willing to share their business information & experience than the female respondents.

Table 3: Distribution by Age of respondents.

Age (years)	Frequency	Percent
21 – 30	10	24%
31 – 40	20	49%
41 – 50	10	24%
Above 50	1	2%

Source: Primary data

As we can see from the above table more middle – aged respondents participated in the survey. This is because most of them are of mature age and given their experience, the information they have given is indeed of great importance to the study conducted.

Table 4. Level of Education

The study sought to use only respondents with some level of education as seen in the table 4 below.

Level	Frequency	Percent (%)
Primary	1	2
Secondary	6	15
Certificate	18	44
Diploma	9	22

Degree	6	15
Masters	1	2
Total	41	100%

Source: Primary data

As illustrated on the table 4 above, the researcher was careful to choose only those respondents with some educational skills, simply because they were in the best position to read and interpret the questionnaires with much ease and thereafter give more accurate information than those without any educational background.

Table 5: Distribution by duration in business.

Duration in business	Frequency	Percent
Less than 1 year	3	7
1 - 5	16	39
6 - 10	15	37
10 - 15	5	12
16 - 20	2	5
Total	41	100%

Source: Primary data

From Table 5 above, we can see that the highest number of respondents have been in business for 1-5 years (39%), while 37% have been in business for 6-10 years, 12% have been in business for 10-15 years, 7% for less than a year and 5% for a period more than 15 years. The respondents have stayed in the business long enough to give the right information relevant to the study. The information statistically tabled above implies that, the skills and knowledge acquired by the respondents in the business sector as a whole can be relied upon.

Table 6: Position held in business

Position	Frequency	Percent
Accountant	1	2%
Ass. Manager	1	2%

Cashier	4	10%
Co - Owner	2	4%
Manager	12	29%
Owner	14	34%
Sales Personnel	7	17%
total	41	100%

Source: Primary data

Table 6 shows that majority of the respondents are owners of the businesses that is 34%, 29% are managers and 17% sales personnel, who have direct contact with the customers and interact frequently with them, therefore they possess the knowledge and understanding of the study area.

4.3 Effects of record keeping on the financial performance of SME.

use the scale provided to tick in the box of the relevant answer that describes your opinion. NB: 5=Strongly Agree, 4=Agree, 3= Not Sure, 2= Disagree and 1=strongly disagree.

Table 7 shows the effects of record keeping on the financial performances of SME

Effects	SA	A	NS	D	SD
Proper record keeping helps in having access to loans from formal and informal financial institutions	15 37.5%	9 22.5%	4 10%	9 22.5%	4 7.5%
Good record keeping is part of the legal requirements to determine the taxable profits of the organization.	24 59%	14 34%	1 2%	2 5%	0 0.0%
Proper record keeping can lead to business expansion in the future	7 17%	20 49%	7 17%	7 17%	0 0.0%
Proper record keeping has a positive effect on the general performance of the	15 36.6%	18 43.9%	4 9.7%	4 9.7%	0 0.0%

organization					
Good financial records provide management with information on sales and purchases over a period of time	14 34.1%	15 36.5%	6 14.6%	6 14.6%	0 0.0%
Proper record keeping enables the organization to assess its performance and identify areas for improvement.	22 54%	16 39%	2 5%	0 0.0%	1 2.4%
Financial records depict the efficiency and productivity of an organization	4 10%	15 37.5%	19 47.5%	2 5%	0 0.0%
Good financial records allow for comparative performance analysis among organizations	10 24.4%	17 41.5%	7 17.1%	5 12.2%	2 4.9%
Good financial records help management make informed decisions about the company	14 35%	20 50%	4 10%	2 5%	0 0.0%
Proper financial records minimize errors and fraud	14 35%	13 32.5%	5 12.5%	5 12.5%	3 7.5%

Source: Primary field data 2024

The findings of the study revealed that Proper record keeping helps in having access to loans from formal and informal financial institutions. This was evident where by 37.5% of the respondents strongly agreed to the statement while 22.5% of the respondents agreed as well. This was portrayed that proper record-keeping helps borrowers in exhibiting financial discipline.

Good record keeping is part of the legal requirements to determine the taxable profits of the organization this was revealed according to the findings

of the study whereby 59% of the respondents strongly agreed to the statement and 34% agreed as well.

Further, the findings of the study revealed that Proper record keeping can lead to business expansion in the future, this was showed whereby 49% of the respondents agreed to the statement and 17% strongly agreed, this was a case that proper record keeping shows the flow of income and expenditure of business performance.

According to the findings of the study, good financial records provide management with information on sales and purchases over a period of time. This was stated whereby 54% of the respondents strongly agreed to the statement, while 39% of the respondents agreed as well.

The findings of the study further revealed that 47.5% of the respondents were not sure that financial records depict the efficiency and productivity of an organization. The findings further showed that 37.5% of the respondents agreed to the statement.

The findings of the study further revealed that Good financial records allow for comparative performance analysis among organizations, this was evident whereby 24.4% of the respondents strongly agreed to the statement while 41.5% agreed as well.

Lastly the findings of the study revealed that Proper financial records minimize errors and fraud, this was evident whereby 35% of the respondents strongly agreed to the statement and 32.5% of the respondents agreed to the statement.

4.4 Various Record Keeping Practices available.

The table show the various record keeping practices

Statement	SA	A	N	D	SD	St De	Mea n
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1	Paper based system. documenting records such as; ledgers, files, notes, folders or forms.	51.9%	48.1%	0%	0%	0%	.505	1.48
2	Use of hybrid system.	34.6%	0%	15.4%	50%	0%	.687	1.81
3	Use of digital electronic systems to store record	53.8%	0%	0%	46.2%	0%	.503	1.54
4	Use of phone applications	38.5%	46.2%	15.4%	0%	0%	1.007	1.92
5	Automated systems, which use artificial intelligence (AI) and machine learning (ML)	0%	30.8%	0%	69.2%	0%	.466	1.31

Source: ~~page 24~~

~~Source:~~ **Primary data**

The findings of the study revealed that Paper based system. documenting records, such as spreadsheets, databases, or forms was a major record keeping practice. This was evident where 51.9% of the respondents strongly agreed to the statement while 48.1% of the respondents agreed as well. This statement registered a ~~score of 0.505 and 1.48~~

The findings of the study further showed that the majority of the respondents disagreed to the Use of hybrid system in record keeping. This was evident where 50% of the respondents disagreed while 34.6% of the respondents strongly agreed to the statement. The findings showed that there was minimal knowledge about the use of the hybrid system much as the respondents tended to respond. This statement registered a ~~score of 0.687 and 1.81~~

The findings of the study further revealed that the Use of digital electronic systems to store records was a major practice among the respondents. This was evident whereby 53.8% of the respondents strongly agreed to the statement, however 46.2% of the respondents disagreed to the statement. This statement gathered a ~~score of 0.503 and 1.54~~

Further the findings of the study revealed that Use of phone applications was a common record- keeping practice. This was evident whereby 38.5% of the respondents strongly agreed to the statement while 46.2% agreed to the statement

Lastly the findings of the study revealed the Automated systems, which use artificial intelligence (AI) and machine learning (ML) where not a common book keeping practice. This was evident wherby 69.2% of the respondents disagreed to the the statement much as 30.8% agreed as welll. This statement gathered a total of 46 and 13

4.4.1 Records maintained

Tables showed that major forms of records maintained

Response	Frequency	Percentage
Expenses	11	26.8%
Inventory	10	24.3%
Sales	20	48.7%
Purchases	10	24.3%
total	41	100

Source: Primary data

The findings of the study revealed that sales records are the most maintained practice in record keeping. This was evident whereby 48.7% of the respondents agreed to the statement. This was followed by expenses record, then inventory and purchase were the least maintained records in book keeping

4.5 Challenges faced with record keeping

Table shows the challenges with recordkeeping

Statements	The extent of agreement &	
------------	---------------------------	--

	disagreement		
	A	D	NS
	Freq. (%)	Freq. (%)	Freq (%)
Lack of record-keeping knowledge	31 75.6%	10 24.4%	0
Failure to reconcile bank statements	28 68.2%	13 31.8%	0
Mistakes in data entry and inaccurate record keeping	35 85.3%	6 14.7	0
Choosing the Right Accounting Method	38 92.6%	3 7.4	0

The findings of the study revealed that 75.6% of the respondents agreed to the challenge of lack of book keeping knowledge, however 24.4% of the respondents disagreed to this statement.

The findings of the study further revealed that failure to reconcile banks statement was a major challenge in book keeping. This was portrayed whereby 68.2% of the respondents agreed to the statement and 31.8% disagreed.

The study further found out that Mistakes in data entry and inaccurate record keeping was a major challenge. This was showed whereby 85.3% of the respondents agreed to the statement.

And lastly the findings from the study revealed that Choosing the Right Accounting Method was an impactful challenge. This was evident whereby 92.6% of the respondents agreed to this as a challenge ion book keeping

4.5.1 Possible solutions to the challenges faced in book keeping.

The findings of the study suggested that Adopting Digital Tools for Bookkeeping would be a solution to record-keeping challenges. Digital accounting software like QuickBooks or Wave can significantly reduce errors caused by manual bookkeeping.

As one business owner highlighted:

~~“Relying on manual methods can lead to mismanagement of finances. By using software, businesses can track income, manage expenses, and reconcile accounts more efficiently, reducing the risk of errors and improving the overall financial process.”~~

The findings from the study suggested that Providing Financial Literacy Training would curb the challenges faced in book keeping. Many small business owners lack the knowledge of proper bookkeeping techniques. Offering workshops or training on the basics of accounting and cash flow management would empower traders to keep accurate records.

~~“Without understanding cash flow, it is easy to be taken by your finances. Manual record-keeping is time-consuming and prone to errors. Training programs can provide essential tips to manage revenue and expenses more effectively.”~~

Lastly the findings from the study suggested that Implementing Regular Account Reconciliation will minimize challenges to record-keeping. Reconciliation of accounts is crucial to ensuring financial accuracy. Small businesses should reconcile their records weekly or monthly to avoid errors in financial reporting. Automated reconciliation through software can also assist in this process by cross-referencing transactions and flagging discrepancies early

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATION

5.0 Introduction.

This chapter presents the summary, discussions, conclusions and recommendations got from the research findings by the research objectives. Summary of findings.

5.1 Discussion of the findings.

5.1.1 To identify the effect of record keeping on the financial performance of SMEs

The findings from the study revealed that Record keeping plays a key role in the management of knowledge necessary for good business performance. Day-to-day transactions of business for instance transactions concerning receipts and expenditures should be accurately recorded for correct decision-making. These help the enterprise to evaluate its performance in a particular period usually at the end of a financial period. This finding was in alignment with the study by (Onaolapo & Adegbite, 2014).

The findings of the study revealed that accurate record-keeping allows small businesses to make informed financial decisions. When business owners have access to timely financial reports, they can assess their financial standing, determine profitability, and decide whether to expand or cut back on certain operations. Decisions regarding investments, purchases, and hiring are all tied to the financial information at hand.

The findings further showed that Effective record-keeping contributes to long-term profitability by enabling small businesses to control costs and manage resources efficiently. By tracking expenses, businesses can identify areas where they are overspending and take corrective action. Furthermore, accurate financial records help in measuring the return on investment (ROI) of various business activities, such as marketing or product development.

5.1.2. Find out the various record keeping practices available.

The findings of the study revealed that manual record-keeping involved maintaining physical records of financial transactions, typically in the form of ledgers, journals, and receipts. This traditional method is still prevalent among small businesses, particularly in areas with limited access to digital tools or where the volume of transactions is relatively low. As described by the

findings many small businesses still rely on handwritten notebooks to track daily sales and expenses, despite the errors and inefficiencies associated with this method.

The findings revealed that digital practice of book keeping is One step up from manual record-keeping. Digital practice is the use of spreadsheet software like Microsoft Excel or Google Sheets. These tools offer businesses a more organized way to track financial data, with the added benefit of calculations and data sorting features. Small businesses use spreadsheets to maintain records such as sales, purchases, and inventory, and some even use pre-built templates to automate parts of the process.

5.1.3 Challenges faced in record-keeping and possible solutions.

The findings of the study showed that one of the primary challenges in record-keeping is the lack of financial literacy among small business owners. Many entrepreneurs do not have formal training in accounting and are unaware of the best practices in financial record-keeping. This lack of knowledge can result in errors in recording transactions, misclassification of accounts, and difficulties in understanding financial reports. However, the study suggested that Business owners can enhance their financial literacy through training and education. Offering workshops and courses on basic accounting principles and bookkeeping software could significantly improve their ability to manage finances. Additionally, hiring a professional bookkeeper or accountant can ensure that records are accurate and compliant with legal standards

The findings from the study found out that Manual bookkeeping is still prevalent among small businesses, especially in markets where digital access is limited. However, manual methods increase the likelihood of errors, such as miscalculations, lost receipts, or duplicate entries, which can distort financial reports. The study suggested that transitioning to digital bookkeeping systems is the most effective way to minimize errors. Software solutions can automate data entry and calculations, reducing human error. Additionally, cloud-based tools offer the benefit of data backup and remote access, allowing business owners to manage their books from anywhere.

5.2. Conclusion.

Record-keeping plays a critical role in shaping the financial performance of small-scale businesses. The effects of maintaining accurate and timely records are multifaceted and contribute significantly to the overall health of a business. As discussed, proper record-keeping enhances cash flow management, facilitates informed financial decisions, ensures tax compliance, and fosters growth by providing a clear picture of profitability. Accurate records help business owners track expenses, revenue, and debts, which are vital for maintaining liquidity and avoiding cash flow problems. Businesses that maintain up-to-date and accurate records are better equipped to make strategic decisions, such as whether to expand operations, take on new investments, or cut costs

In conclusion, effective record-keeping is indispensable for the financial performance of small-scale businesses. Accurate and consistent financial records are essential for managing cash flow, making informed decisions, and ensuring compliance with legal obligations. The study identified various practices for maintaining these records, ranging from traditional manual methods to advanced digital solutions. Despite the many challenges associated with bookkeeping—such as a lack of financial knowledge, manual errors, and inconsistent record-keeping—these can be addressed through targeted solutions, including training programs, the adoption of digital tools, and outsourcing. Ultimately, businesses that prioritize proper record-keeping are more likely to thrive, grow, and sustain long-term financial success.

5.3. Recommendations

Based on the findings of the study, several recommendations can be made to address the challenges and improve the record-keeping practices of small-scale businesses:

Small business owners should be provided with opportunities to improve their financial literacy. Governments, non-profit organizations, and business

development agencies should collaborate to offer training programs that cover basic bookkeeping, accounting principles, and financial management. Such programs will empower entrepreneurs to manage their books more efficiently and make informed decisions regarding their finances.

Businesses should transition from manual methods to digital bookkeeping tools. Software like QuickBooks, Xero, and cloud-based solutions offer automation, reduce errors, and improve efficiency. These tools provide real-time financial data that can help businesses track performance more effectively. Implementing affordable, user-friendly software would simplify record-keeping for small business owners, especially those with limited financial

Small businesses should establish internal controls and conduct regular financial audits to prevent fraud, errors, and financial mismanagement. Having separate roles for financial tasks, such as one person handling transactions and another reconciling accounts, will improve oversight. Regular reviews of financial records can help detect anomalies early, ensuring financial integrity

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APPENDIX

QUESTIONNAIRE

UGANDA CHRISTIAN UNIVERSITY
SCHOOL OF BUSINESS

I am Aliamo Alice a student of Uganda Christian University conducting a research study on the effect of record keeping on financial performance of SME's, using Kyaliwajjala as my case study in Kiira Division as a requirement for the award of Bachelor's degree in Business administration of Uganda Christian University.

I am kindly requesting you to assist me in this study by answering the following questions. I assure you that your information will be treated with utmost confidentiality.

SECTION A: Demographic Data

Please tick (✓) in the appropriate box as the most agreed answer to the following statements:

Gender of the respondent

Male

Female

Age group of respondents

21 – 30 years

31 – 40 years

41 – 50 years

above 50 years

Education level of respondent.

Primary level

Secondary level

Certificate level

Diploma level

Bachelor's level

Others specify

For how long have you been operating this business?

Less than 1 year
 1 – 5 years
 6 - 10 years
 10 – 15 years
 16 – 20 years

What is your position in the business?

Owner
 Manager
 Sales Personnel
 Cashier
 Other (please specify)

SECTION B

Rate your agreement on the effect of record keeping on financial performance of SME's.

Using a scale of 5 = strongly agree, 4 = Agree, 3 = Not sure, 2 = Disagree and 1 = strongly disagree

A	Effect of Record keeping on the financial performance of SMEs	5	4	3	2	1
1	Proper record-keeping helps in having access to loans from formal and informal financial institutions					
2	Proper record-keeping has a positive effect on the general performance of the organization					
3	Good financial records provide management with information on sales and purchases over a period of time.					
4	Proper record-keeping enables the organization to assess its performance and identify areas for improvement.					

5	Financial records depict the efficiency and productivity of an organization.					
6	Good financial records help management to make informed decisions about the company.					
7	Proper record keeping can lead to business expansion in the future.					
8	Good record keeping is part of the legal corporate requirements to determine the taxable profits of the organization.					
9	Proper financial records minimize errors and fraud.					
10	good financial records allow for comparative analysis among organizations.					

SECTION C: Types of Record-Keeping Practices.

Note: These questions are based on the requirements of the data warehouse system. NB: 5=Strongly Agree, 4=Agree, 3=Not Strongly Agree, 2=Disagree and 1=strongly disagree.

SECTION B: TO EXAMINE THE PRACTICE OF CREDIT ASSESSMENT IN PRIDE MICRO FINANCE LIMITED, MUKONO BRANCH

Questions		Responses				
NO.	STATEMENTS	5	4	3	2	1
1	paper based system. documenting records, such as spreadsheets, databases, or forms					
2	Hybrid system					
3	Digital systems					
4	Use of phone applications					
5	Automated systems, which use artificial intelligence (AI) and machine learning (ML					

What financial records do you regularly maintain?

- Sales records
- Purchases records
- Expenses records
- Inventory records
- Payroll records
- Tax records
- Audit records.
- Other (please specify)

SECTION D: challenges and solutions in record keeping

What challenges do you face with record keeping in your business?

- Lack of time
- Lack of knowledge or skills.
- High costs of record-keeping tools. Difficult
- in organizing records
- Other (please specify)

What solutions do you think could improve record-keeping practices in your business?

- Training on record keeping
- Affordable accounting software
- Hiring professional accountants
- Regular audits
- Other (please specify)

SECTION E: Additional comments

Do you have any additional comments or suggestions regarding record-keeping in small businesses?

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THANK YOU FOR YOUR PARTICIPATION