

**ACCOUNTING SERVICES AND FINANCIAL PERFORMANCE OF SMEs IN
MBARARA DISTRICT**

Case study of Mackansigh Street

By



**A Research Report presented to the Faculty of Business Administration and Management
in partial fulfillment of the requirements for the reward of a Bachelor's degree in Business
Administration and management**

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Dedication

This academic work is dedicated to my parents **Mr. & Mrs. Beinomugisha Frank** for all the time, money and effort they put into my studies, and to my sisters for the always welcomed guidance they offered. Without their support, this course may never have been a reality for me.

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I thank the Almighty God the provider of knowledge and wisdom for seeing me through my studies and for enabling me to undertake my research successfully, without His grace I would not have made it.

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May the Almighty Lord bless you abundantly!!

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List of Abbreviation/Acronyms

FDI:	Foreign Direct Investments
GDP:	Gross Domestic product
IACPA:	Iranian Association of Certified Public Accountants
ICAEW:	Institute of Chartered Accountants in England and Wales
NGOs:	Non-Governmental Organizations
ROA:	Return on assets
SMES:	Small and Medium Enterprises
SPSS:	Statistical Package for Social Sciences
UK:	United Kingdom
UMU:	Uganda Martyrs University Nkozi
WB:	World Bank

Abstract

This study sought to investigate the effect of accounting services on the financial performance of SMEs. The specific objectives were to assess how tax planning influences the financial performance of SMEs; to determine the role of advisory services on the financial performance of SMEs and to establish the influence of financial reporting on the financial performance of SMEs.

A case study design was adopted and data collected from a sample of 56 respondents. Self-administered questionnaires, interview and documentary review were used in the study to collect data. Data was analysed using SPSS Version 16 and findings were presented in a tabular format showing frequencies and percentages. Qualitative findings were presented in themes in a narrative form.

The study revealed that SMEs Plan for all the taxes that they pay, have been able to reduce tax burdens without additional investments in tax planning, have also encountered misunderstanding, punishment and censor from some basic taxation law enforcement agencies. SMEs have accountants who help to get advisory services on what to do in case the business is not doing well. It was also revealed that Advisory services have provide them better management control and that they have also helped them to access new market and maximize profits. SMEs also keep financial records properly and that Cash flow difficulties have reduced as a result of financial records, Financial reporting has been useful for decision making and the SMEs are also able to compare information of different entities because they use the same accounting principles.

Finally it was recommended that the managers should aim at producing a good quality and reliable financial records that will assist and equip them with accurate accounting information. Thus, this will guide them to make a quick and precise decision. The tax authorities should also address the lack of formal tax planning as this may be a way of evading taxation in the name of tax avoidance. The small scale enterprises should also be ready to open up to advice on tax planning to make savings lather than playing a hide and seek game with tax authorities.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

In all activities whether business activities or non-business activities and in all organizations which require money and other economic resources, accounting is required to account for these resources. Accounting services and functions is very important role because it can provide them better management control and assist in decision-making, helping them to access new market and maximize profits in the corporate world (Dorasamy et.al, 2010) and nowadays the accounting software is easy to use and its usage has facilitated their financial management and companies' accounts because that software have had positive impact on their businesses. Ismail and Mat Zin, (2009) agreed that the outsourcing of accounting function has a significant impact on financial performance of the SMEs.

The accounting department exists as one of the key departments in many organizations where it plays a significant role to the achievement of the business objectives and goals. Accounting is primarily involved in the recording, classifying and summarizing business transactions, preparation and interpreting financial statements and reports (Glautier & Underdown, 2011). Accounting tasks are categorized as routine and non-routine tasks. The task of recording, classifying, summarizing financial transactions and preparation of financial statements are routine. They involve the day-to-day processing of payables, receivables, payroll, general ledger processing, costing, cashier, internal audit, bank and other reconciliations and the preparation of accounts and financial reports. These tasks are similar in all organizations and are commonly referred to as back office accounting activities hence approach to outsource the above task is of

particular importance (Weru, 2016). Accounting services are gaining popularity as a means of reducing financial and operational risks by making businesses easier to manage. As White (2001) points out, improved risk management has a direct correlation with improvements in financial performance and shareholder value and as continued pressure for improved financial performance and so do the levels of competency and demands for consistency in accounting functions.

This chapter is therefore comprised of; the background of the study, the problem statement, objectives, research questions, scope of the study, significance of the study ,justification of the study, definitions of key terms used in this research and conceptual framework.

1.1 Background to the Study

The history of accounting or accountancy is thousands of years old and can be traced to ancient civilizations (Henio, and Edrian, 2013). The early development of accounting dates back to ancient Mesopotamia, and is closely related to developments in writing, counting and money and early auditing systems by the ancient Egyptians and Babylonians. By the time of the Emperor Edrian Henio, the Roman government had access to detailed financial information (Alisdair 2010). The Italian Luca Pacioli, recognized as The Father of accounting and bookkeeping was the first person to publish a work on double-entry bookkeeping, and introduced the field in Italy (Henio, and Edrian, 2013). The modern profession of the chartered accountant originated in Scotland in the nineteenth century. Accountants often belonged to the same associations as solicitors, who often offered accounting services to their clients. Early modern accounting had similarities to today's forensic accounting. Accounting began to transition into an organized profession in the nineteenth century, with local professional bodies in England merging to form

the Institute of Chartered Accountants in England and Wales (ICAEW) in 1880 (Greg & McCarthy 2010)

It can therefore be noted that business processes and functions are essential and important for the business to be relevant in today's ever changing business environment. Accounting which entails classifying, summarizing business transactions and the preparations and interpretation of financial statements and reports are important to a business and none can do without them if they so wish to remain as a going concern. In spite of all this, the accounting function is not necessarily a core function of the business. Generally, accounting practices are not organization specific implying that it is standard across all business sector. Similar standard format, regulations and even computer applications have been developed to facilitate accounting profession. This is due the routine nature of the accounting profession. Outsourcing has proven to be a valuable business approach or model where realize firms that they tend be more relevant in the business circles by handing over their non-core processes and functions to firms that consider them their core competencies, (Weru, 2015).

Getting Accounting services doesn't work in every situation, but when it does, it is hard to argue with better financial reporting, decision making and professionalism as well as lower costs compared to in-house accounting (Mutherin, 2016). While great ideas and entrepreneurial skills are fundamental to a business start-up, good financial management is considered critical to business survival (Gildea, 2015). This is where outsourcing the accounting function becomes an alternative for businesses to consider in order to remain competitive.

The main accounting services offered include accounting and auditing. These services include financial records, tracking revenues and expenses, and provide consulting on business's overall

financial health. This helps with long-range planning, such as buying property or upgrading infrastructure. It can also help determine how to break even and what cash-flow needs are. These services help SMEs to plan next moves, figure out whether they are making a profit and make decisions about company's growth.

Accounting services and functions are a very important role to SMEs because they can provide them better management control and assist in decision-making, helping them to access new market and maximize profits in the corporate world (Dorasamy *et.al*, 2010) and nowadays the accounting software is easy to use and its usage has facilitated their financial management and companies' accounts because that software have had positive impact on their businesses (Ismail and Mat Zin, 2009) and this statement also agree from Kamyabi and Devi (2011), explained that the outsourcing of accounting function has a significant impact on performance of the SMEs. The European Federation of Accountants says business decisions need to be supported by good quality financial information, which needs to be relevant, user-friendly and available in a timely manner. Poor accounting and reporting and decisions based upon inaccurate or incorrect financial information can actually cause problems which may threaten the solvency of the business. In addition, poor accounting increases the risk of the business of not being aware of significant problems or of it recognizing them too late. Elements such as excessive fixed and variable costs, incorrect revenue recognition, decrease in sales, etc. if not promptly recognized, can lead in the long run to damage to the solvency of the business.

Financial performance is a subjective measure of how well a firm can use its current assets from its primary mode of business and operations and generate revenues for the business (Baxter, 2007). This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to

compare industries or sectors in aggregation. In this study financial performance is characterized by Return on assets, Return on capital employed and sufficient cash flows. Financial performance is an indication of the financial health over a given period of time for a firm, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation to enable a business make decision on how it can improve on the prevailing situation or sustain a desirable position (Berger, Oliver & Pua, 2007).

The term SMEs covers a wide range of perceptions and measures, varying from country to country and between the sources reporting SME statistics. SME's have been defined variously by many individuals and institution using various yardsticks such as numbers of employees, volume of sales, value of assets, or the volume of deposit in banks (Ademola et al 2012). Beyene (2004) and Mutula and Brake (2007) argue that there is no universally accepted definition for small and medium sized enterprises (SMEs) in Africa. Aikaeli (2007) in support of the above added that there is no precise and universally accepted single definition of SMEs. The definition of an SME may depend on the number of employees, business turn over and assets (Aremu & Adeyemi, 2011). Some of the commonly used criteria are the number of employees, total net assets, sales and investment level (Ayyagari, Beck & Demirguc-Kunt, 2003) added. However, the most common definitional basis used is employment, but, there is a variation in defining the upper and lower size limit of an SME (Ayyagari, Beck & Demirguc-Kunt, 2003). Generally, Small and medium enterprises (SMEs) are businesses whose turnovers fall below certain limits. The current definitions categorize businesses with less than 10 employees as "micro," those with fewer than 50 employees as "small" and those with less than 250 as medium". SMEs therefore need to have between 20-500 employees (Williams, 2010). A small business is any business that is independently owned and operated (Kuehl, 2006).

1.2 Problem statement

Much has been written about small business and in particular about small business failure rates (Watson and Everett, 1996). Bowen (2009) observes that there is a strong relationship between business performance and the level of training in the business management especially in business finance record keeping. Business management entails keeping proper records of the business transactions. Knowledge and skills in bookkeeping is especially one major factor that impacts positively on sustainability and growth of SMEs. However, Susela & Helen, (2010) noted that poor financial performance is a chronic challenge to most SMEs, and yet accounting services are very crucial to the survival and financial growth of SMEs, although the ability to play this role effectively and efficiently largely depends on the degree of development of the accounting services. Accounting services which are key players in the performance of nearly every SMEs, have the potential to meet the needs of SMEs, however, there is still a huge gap between capabilities of the accounting services and the demanding needs of SMEs. It is based on this fact that the researcher conducts an in-depth research on the effect of accounting services and financial performance of SMES

1.3 General objective

To assess the impact of accounting services on the financial performance of SMEs

1.3.1 Research objectives

- i. To assess how tax planning influences the financial performance of SMEs.
- ii. To determine the role of advisory services on the financial performance of SMEs.
- iii. To establish the influence of financial reporting on the financial performance of SMEs.

1.4 Research questions

- i. To what extent does tax planning influence the financial performance of SMEs?
- ii. What is the role of advisory services on the financial performance of SMEs?
- iii. How does financial reporting influence the financial performance of SMEs?

1.5 Scope of the study

1.5.1 Subject scope

This study is dealing with the impact of accounting services on the financial performance of SMEs. The study was confined to how tax planning influences the financial performance of SMEs, the role of advisory services on the financial performance of SMEs and the influence of financial reporting on the financial performance of SMEs.

1.5.2 Time scope

Since this is an educational study, it took less than two months of study in order to come up with conclusions about the study.

1.5.3 Geographical scope

The study took place in SMES in Mbarara district, using businesses operating along Mackansigh Street. Mbarara is a town in the South Western Region of Uganda. It is the main municipal, administrative, and commercial center of Mbarara District and the site of the district headquarters.

1.6 Significance of the study

The result of this study will help identify the area where SMEs have not employed accounting services and finding reason why that is so and therefore solutions will be put in place to address the problem and hence SMEs will be able to operate effectively without failing.

The results of this study can also be used as relevant guidelines for developing future business plans and making changes or improvements in the current activities of players in the Pakistani SMEs sector. It gives an idea of the areas which need to be emphasized more for better development and future growth.

The findings of the study will benefit small and medium sized enterprises in such a way that will enable these enterprises to discover the gaps that are hindering their successful, knowing about these inconsistencies in accounting services and will enable these enterprises to plan effectively and avoid making mistakes in future.

The study will benefit the small and medium sized enterprises in such a way that business owners will know exactly how to employ accounting skills in order to perform better in business. If accounting services are employed and improved upon after the following findings of the study, then the performance of the small and medium sized enterprises will be improved.

The research will be of great importance to the researcher because the researcher hopes to acquire research skills which will be applied to conduct research in other subjects. Skills like developing questionnaires, interacting with new people and get the necessary information and analyzing data.

1.7 Justification of the study

Concerned with accounting services, most previous researchers have concentrated on examining, investigating and describing the behaviour of SMES in the use of these services (McCarthy, 2007). Over the past years many researchers have written about the rapid and widespread diffusion of accounting services in organizations as one of the most notable trends. The various areas of accounting services including tax planning, advisory services and financial reporting have long attracted the attention of researchers (Baldauf, Cravens and Binder, 2008, Bowen, 2009).. Their findings are mainly related to exploring and describing the behavior of entities towards accounting services. Although they provided much descriptive statistical data and empirical evidence on how accounting services affect financial performance of SMEs, it appears that there still are some gaps in the literature, which need to be addressed. Thus the reason why this study was undertaken to cover this research gap.

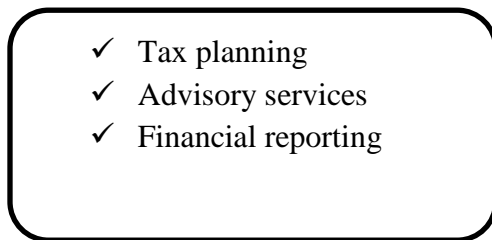
1.8 Conceptual frame work

According to Kotler (2000), a conceptual framework is a basic structure that consists of certain abstract blocks which represent the observational, the experiential and the analytical/synthetically aspects of a process or system being conceived. The interconnection of these blocks completes the framework for certain expected outcomes.

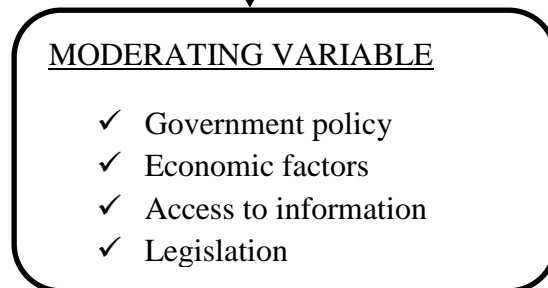
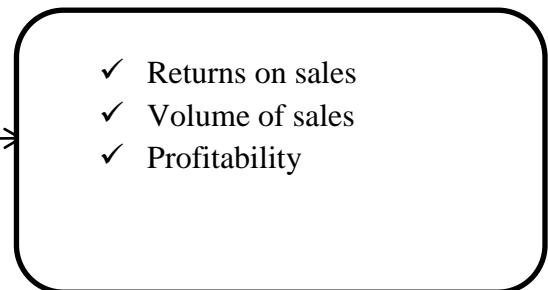
A frame work showing the relationship between accounting services, financial performance of SMEs and the moderating factors

Figure 1.1: Conceptual Frame Work

ACCOUNTING SERVICES



FINANCIAL PERFORMANCE OF SMEs



Source; Baron & Kenny (1986) modified by researcher

The framework suggests that the SME financial performance is influenced by accounting services (Baron & Kenny 1986). Financial Performance of the entities is significant because it is the key

indicators of the achievement of their goals and objectives. Accounting services are significant through tax planning, advisory services and financial reporting. All these appear to have a significant effect on the financial performance of SMEs measured by Returns on sales, Volume of sales and Profitability. However, there are intervening variables that influence accounting services and financial performance of SMEs include Economic factors, Access to information and Legislation

1.9 Definition of the terms

Small and Medium Enterprises (SMEs) according to Uganda Investment Authority (2008), can be defined basically using two terms that is a small enterprise and a medium enterprise. A small enterprise is an enterprise that is employing a maximum of 50 people with an annual sales or revenue turnover and total assets of a maximum of 360 million Ugandan shillings. A medium enterprise however is one employing more than 50 people with an annual sales or revenue turnover and total assets of more than 360 million Ugandan shillings.

Accountancy services means services requiring accountancy or related skills performed by a member of a professional accounting body including accounting, assurance, financial management services, insolvency services, investment advice, management consulting and taxation.

Financial performance as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.

1.10 Conclusion.

In conclusion therefore, the long-term benefits of accounting services are linked to overall financial performance of SMEs. Therefore this study continues to analyse how tax planning influences the financial performance of SMEs, the role of advisory services on the financial performance of SMEs and the influence of financial reporting on the financial performance of SMEs as seen in the literature review in the next chapter

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter looks at the relevant literature regarding financial systems and performance of SMES. it focus on the major themes of the study which are; how tax planning influences the financial performance of SMEs, the role of advisory services on the financial performance of SMEs and the influence of financial reporting on the financial performance of SMEs

2.1 Overview of accounting services

Accounting services include; Accounting and Auditing, Tax Filing and Planning, Management Consulting. Other services include; Compliance; The vast majority of firms operate at this level, offering services like tax, financial reporting and bookkeeping, Performance advisory; At this level, accounting practices are focused on analyzing the health of the businesses they serve. Services like business intelligence and growth profitability are common, Strategic advisory; Firms that offer strategic services are analyzing performance but also advising on the best course of action for their clients. These practices help their clients with strategic planning, forming succession plans and managing risk. Regarding financial performance, there are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt (Brush, Bromiley & Hendrickx, 2000).

According to Snodgrass & Winkler, (2004); all accountants are involved in recording and analyzing business transactions, bookkeeping, and assessing the financial capabilities of businesses, organizations and the likes. However, accounting practices differ according to the business environment, management status and experience. Accounting services for a small businesses come in a variety of offerings. Most accountants are flexible and offer a variety of services. The accounting services include the following;

2.1.1 Tax planning

Tax planning is the analysis of one's financial situation from a tax efficiency point of view so as to plan one's finances in the most optimized manner (Ross, Westerfield, Jaffe 2015).. This means that tax planning allows a taxpayer to make the best use of the various tax exemptions, deductions and benefits to minimize their tax liability over a financial year. Tax planning is a legal way of reducing income tax liabilities, however caution has to be maintained to ensure that the taxpayer isn't knowingly indulging in tax evasion or tax avoidance

According to Gillingham (2001) Tax planning is the analysis of a financial situation or plan from a tax perspective. The purpose of tax planning is to ensure tax efficiency, with the elements of the financial plan working together in the most tax-efficient manner possible. Tax planning is an important part of a financial plan, as reducing tax liability and maximizing eligibility to contribute to retirement plans are both crucial for success.

Bowen (2009) pointed out that when tax planning is done inside the frameworks defined by the respective authorities, it is fully legal and in fact a smart decision. However, using shady techniques to avoid tax payments is illegal and you may get into trouble for doing so. Tax saving practices include tax avoidance, tax evasion and tax planning. Out of these tax planning is the

only legal manner of reducing your tax liabilities (Henio, and Edrian, 2013). The government offers the different opportunities to save on taxes with the intention of reducing tax burden on a taxpayer through legal income tax planning methods

2.1.2 Advisory services

In addition to routine tasks, accounting firms also advise clients on financial strategies. They might provide advice on methods for lowering a client's tax burden, or review and make suggestions for updating a business plan. Some firms specialize in risk management, while others focus on managing financial investments. They also ensure all clients are aware of regulatory change

Presence of accountants in an SME would help the SME get advisory services on what to do in case the business is not doing well. Therefore they will be equipped with information on how to acquire finances in case they needed them (Chimucheka and Rungani 2011). It has been noted that over time advisory services are provided by the professional accountants that are actually rarely employed by SMEs which affects their financial performance negatively. Appropriate accounting information is important for successful management of a business (European Commission 2008). Research on the role of SMEs has recognized that the relationship between small firm owner-managers and their accountants is primarily an economic one (Marriott and Marriott 2000).

2.1.3 Financial reporting:

Financial reports is becoming necessary with the obvious need for accountability of stewardship from the managers to whom investors entrusted their financial resources (Graham, and Harvey, 2001).

According to Deegan, (2013), financial reporting involves as the process of producing statements that disclose an entities financial status to management, investors and the government. In other words, financial reporting involves the disclosure of financial information to management and maybe the public (that is if the company is publicly traded) about how the company is performing over a specific period normally issued on a quarterly and annual basis. Nobes (2014) pointed out that the four basic reports are statement of financial position, statement of comprehensive income, statement of cash flows and statement of shareholders' equity. Financial reporting enables the management to engage in effective decision-making concerning the company's objectives and overall strategies.

As agreed by Carl & James, (2004) this means that data disclosed in the reports can help management discern the strengths and weaknesses of the company, as well as its overall financial health.

2.2 Financial performance

According to Flammer, (2015), financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

2.2.1 Return on assets

ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a

percentage. Sometimes this is referred to as "return on investment (Ross, Westerfield, Jaffe 2015).

ROA is considered to be one of factors to predict business failure. According to Hossari & Rahman (2005), the ROA is the single most common ratio in all the failure prediction studies based on their study including previous studies. ROA is also a useful tool to investigate financial position, performance and company' future predictions. Besides, assets are well utilized to generate income which is indicated through high percentage of ROA. The important of ROA in assessing and SMEs financial position, performance and future prospects was shown through a survey by Gibson (2010).

2.2.2 Volume of sales

The sales (selling) concept holds that customers, if left alone, will not ordinarily buy enough of the firms products. The entity must therefore undertake an aggressive selling and effort regarding accounting services. So the company must use effective accounting services tools to stimulate more buying thereby increasing sales volume (Kotler, 1999)

According to Getinet, (2007), the ultimate goal of any SME is to remain in business profitably through production and sale of products or services. Without optimal profit, an entity cannot survive, let alone achieve a sustainable growth. One of the core activities in a business is the proper accounting services and sales activity. The ultimate success or failure of a company depends on its ability to sell what it produces and continues the production-sales cycle for relatively a longer period of time

2.2.3 Profitability

Profitability is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities. Without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important. Profitability is measured with income and expenses (Aderemi, 2013).

Profitability determines the long-term growth prospects of a company (Scapens, 2008). Profitable firms will be more motivated to grow, because they will not only have the financial means to expand, but their ongoing profit creation will also make it possible to sustain growth (Rochart, 2007)

2.3 Theoretical Review

The study considers Proprietary theory: Samad & Hassan (2010) explained that proprietary theory sees the entity as the agent, representative or arrangement through which the individual entrepreneurs or shareholders operate. The view point of the proprietor groups as the center of interest is reflected in the ways in which accounting records are kept and financial statements are prepared. The primary objective of proprietary theory is the determination and analysis of the proprietor's net worth. Samad & Hassan (2010) states that for purpose of proprietary theory the accounting equation is stated as follows; $Assets - Liabilities = Proprietor's Equity$.

The proprietary theory sees the proprietor as the owner of all the assets of the entity – the liabilities which are negative assets are provided by the external people, e.g. the banks. The

proprietary theory may be said to be asset ‘centered’ and consequently, balance sheet oriented. Assets are valued and balance sheets are prepared to measure the changes in proprietary interest or wealth. The revenue and expenses are considered to be increases or decreases respectively in proprietorship that do not result from proprietary investments or capital withdrawal by the proprietor. Thus, net income on debt and corporate income taxes are expenses; dividends are withdrawals of capital.

The proprietary theory’s relevance in SMEs’ financing is not questionable. The prospective capital provider, for example, the bank, may want to know the extent the proprietor’s equity covers the financial need of the business. The proprietor’s equity is no doubt the collateral for further funds that can be accessible by the SME operator. The proprietary theory like the residual equity concept, Chimucheka and Rungani (2011) focuses on the determination of the proprietor’s equity as the main objective of accounting. Most SMES’ accounting follows the proprietary theory because their businesses are not seen as being different from their private affairs. Capital providers may be considering other issues outside the balance sheet e.g. personal commitment, like marital status, reputation of the SME-owner, among others

2.4 Tax planning and financial performance of SMEs.

The implementation situation of SME income tax planning is distorted tax planning, that is to say, on the one hand, more and more SME pay tax in accordance with the law, and on the other hand, because of the role of the interest mechanism and other various reasons, more and more SME tax-related cases appear (Karing and Wanjala, 2005). According to the survey, the vast majorities SME have not yet started or are considering carrying out tax planning, which cannot

fight for the legitimate tax interests and ruin financial interests leading to a large number of emerging additional tax burden (Fjeldstad and Rakne, 2003).

In addition, SME tax planning is treated unreasonable. Due to the limitations of the concept, SME tax planning activities often encounter misunderstanding, punishment and censor from some basic taxation law enforcement agencies (Karing and Wanjala, 2005). Tax law is said to be barely connected with the universe and with universal law as we understand it. However, tax law is founded not only on principles but also on practicality. There is no element of perpetuity about tax law, only the constant clash of the immediate and semi-permanent (Kibua and Nziok, 2004).

.According to Omotoso (2001), in his definition of the modern taxes, defined tax as a compulsory charge imposed by a public authority on the income of individuals and companies as stipulated by the government decrees, acts or case laws irrespective of the exact amount of services rendered to the payer in return. Thus, taxes constitute the principal source of government revenue and the beauty of any government is for its citizen to voluntarily execute their tax obligations without much coercion and harassment (Adedeji and Oboh, 2012).

According to findings by Gordon & Li, (2009) forecasted capital investment policies change if firms can successfully evade taxes by conducting all business in cash, Thereby avoiding any use of the financial sector. The forecasted policies by small enterprises are now much closer to them and their perception and the forecasted capital investment policies change if firms can successfully evade taxes by conducting all business in cash as established by Gordon & Li, (2009).

Kibua and Nzioki, (2004) found that tax planning through advertisement is regarded as business propaganda expenses with reasonable grounds and sufficient evidence a position. This reflects

why small enterprises do not use this method of tax planning as it may not add value in the eyes of the customers that they so much wish to attract besides the cost component.

2.5 Advisory services and financial performance of SMEs.

Presence of accountants in an SME would help the SMEs get advisory services on what to do in case the business is not doing well. Therefore they will be equipped with information on how to acquire finances in case they needed them. Clearly, the lack of awareness of the existence of these programs will affect access. So even if the financing is available, it will not be accessed by those who might need it. This could be because the SMEs lack knowledge on how to apply for the financing. A study by Chimucheka and Rungani (2011) found that 28% of SMEs surveyed had never applied for financing from a bank. The main reasons given were not knowing the procedures for applying for a loan (53%), not knowing about the sources of finance available from the banks (23%) and the high interest rates (7%). 17% indicated that they had enough capital to start and run their own businesses.

Although the intervention from government has increase the success propensity of firms or small and medium enterprises, firms still do lack the ability to innovate in order to stay competitive due to lack of human capital and expertise. In view of this most economies both in the developing and developed economies have design policies and strategies to provide expert knowledge and skills to firms through business advocacy offices and centers. These offices offer business advisory services to small and medium to argument it human resource and expertise. According recent literature business advisory services is classified as a form of government support for firms to strengthen its capabilities and firm performance. Government, NGOs and other third parties normally funds these services. The rationale behind the provision of these

services is to provide firms with the needed skills and expertise to enhance its internal innovation capabilities and processes. The knowledge base of these advisory bodies spans through a diverse subject matter therefore provision firms with a repository of data and knowledge base to tap into. The interaction between these agencies and firms creates large pool of social capital when utilized in an efficient manner will boost the performance of small and medium enterprises (Hjalmarsson & Johansson, 2003).

The role advisory service plays in the financial performance of small and medium enterprises cannot be underestimated. According to studies conducted in this field it shows that advisory services have a positive impact on the productivity of firms (Roper & Hart, 2005). The business coaching services given to firms enables them to improve upon its production activities by adopting new improved methods and technologies. Although advisory service has a significant influence on the performance of firms especially small and medium enterprises, most studies focus on how advisory services impacts on the productivity of firms (e.g. Mole et al, 2008; Cumming & Fischer, 2012) presenting a significant gap in current literature. Previous studies do not provide insights into how advisory services impacts the innovation capabilities and financial performance of small and medium enterprises. Therefore the theme of this study is too theoretical examines how advisory services influence the innovation performance and capabilities of firms. The question that this study seeks to unravel is how does business advisory service enriches small and medium enterprise innovation process and capabilities and further influencing financial the performance.

Kinney (2001), mentions that accounting is one of the important types of information for decision making both within and outside the organization. He further states that the quality of this information gauged by its relevance and its reliability for a particular decision is equally

important. Mitchel et al. (2000) argued that accounting information could help SMEs manage short-term problems in such areas as costing, expenditure and cash flow by providing information to support monitoring and control. Robson and Bennett (2000) presented the multivariate analysis of the relationship of SME growth with the acquisition of business advice, whilst controlling for the influence of SME characteristics of age, manufacturing/services, high technology and innovation, level of skill of the workforce, exporter and number of competitors

In recent times the demand for professional service has increased rapidly. Most SME seeks the advice from firms offering diverse advisory services ranging from accounting, solicitation among others. A study conducted in both the UK and Australia showed that firms engage the services of business advisory firms frequently with accounting services been on top of the list. Firms are of the view that engaging professionals to conduct these services provides firms with the need value to gain competitive advantage over other entities (. Carey et al, 2005; Bennett & Robson, 1999). The diverse form of services that these advisory firms offer provide value added service (Berry et al, 2006).

During service offering process firm's turns to form a specific alliance focus on the exchanges of information and knowledge. This interaction between firm's especially small and medium enterprise and professional business advisory service firm resulted in the creation of an information and knowledge pool. The amount of knowledge and information shared within these interactive activities further provides firms with the social capital to boost its internal capabilities. In addition the frequent interaction between actors enables the development of mutual trust and collective responsibility. Therefore providing a fertile ground for transactional exchange that happens to be essential to the innovation process. The social relation between actors provides actors the grounds to utilize the social capital available in a more efficient

manner for the mutual benefit of each actor involved. The ability to utilize these resources is critical if any firm is to survive in this ever-changing knowledge-based economy (Elliott & Jacobson, 2012).

2.6 Financial reporting and financial performance of SMEs.

Preparing financial reports is becoming necessary with the obvious need for accountability of stewardship from the managers to whom investors entrusted their financial resources (Graham, and Harvey, 2001). Many trends have prompted the debate about financial reporting and disclosure regulations around the world. The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions

Bookkeeping alone without preparing reports is likely not to be fundamental in aiding decision making unless proper reports are prepared and analyzed to attach a meaning so as to help decision makers. D'Amboise and Gasse (1980) studied the use of financial statement analysis by small manufacturers in Quebec, Canada and found that small manufacturers in shoe and plastic industries formally undertook the analyses based on financial statements and the findings revealed that manufacturing firms managerial decisions were largely based on the financial reports prepared.

A proper system of financial records keeping has become integral part of managing enterprises in today's competitive and challenging business environment. A good financial record keeping enables business organizations to plan properly and also check for misappropriations of resources of the organization. Weygandt & Kieso, (2005) explains that keeping proper books of accounts is essential to the growth and survival of a business. In order to ensure efficiency,

effectiveness and the continuing survival of any business organization, management must seek for reliable, relevant, accurate and timely financial information for planning and decision making. Bookkeeping is the recording off all financial transaction in a systematic and logical manner. Transactions include sales, purchase income, and payments by an individual or organization. Book keeping is usually performed by a book keeper using common methods of bookkeeping such as single entry and double entry systems. While these systems may be seen as “real” book keeping, any process that involves recording of financial transactions is a bookkeeping process (Haber, 2004). Primary bookkeeping records all business transactions and allocates the income and expenses to various income and expenses account in separate account records (McCarthy, 2000). The single book keeping can be done with book keeping software to speed up manual calculation (Haber, 2004).

Beck & Demirguc-Kunt (2006), Beck et al. (2004) Mohd Shariff et al. 2010; Mohd Shariff & Peou, 2008; and World Bank reports (2010) continue to show that in a research on the factors that influence the survival and performance of SMEs finds show that business performance is strongly influenced by financial reporting which affects the access to finance by SMEs. However Bakisa Harriet Matovu (2005) urged that the primary objective of financial reporting is to provide useful information to interested parties. This information should have qualitative characteristics to be useful for decision making. According to (Weygandt & Kieso, 2005) qualitative characteristics of accounting information include relevance (information makes a difference in decisions), reliability (information must be free of error and bias), comparability (ability to compare information of different companies because they use the same accounting principles) and consistency (use of same accounting principles and methods from year to year within the same company). Accounting information is used to assess the profitability of

alternative courses of action, measure performance, and evaluate the position of enterprises in terms of profitability, liquidity, activity and leverage. It can be used to improve SME performance, especially financial decisions (Naruanard, 2003).

Although there are many ways to measure SMEs growth and performance such as market share, productivity and return on capital, three important indicators are particularly useful for policy makers: 1) employment growth; 2) sales growth; and 3) increase in profitability (UNESCAP, 2005). Profitability measures the firm's ability to generate revenues in excess of expenses, an accomplishment that is necessary if the firm is to be considered a "going concern." (Coleman, 2007). (McCannon, 2002) argued that many businesses fail because managers did not keep adequate records and could not make timely and important management decisions. Good record keeping provides SMEs with accurate information on which to base decisions, such as projecting sales and purchases, determining break-even points, and making other financial analyses. (Kazooba, 2006) concurred that poor record keeping and a lack of basic business management experience and skills were major contributors to SMEs failure.

Even if it is considered that financial statements also fulfill the stewardship-control function it is anyhow emphasized that "those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions" (IASB, 2005). In the IASB SME project work it is assumed that financial information – in order to be useful to users in their economic decision-making - should be relevant, reliable, comparable and understandable. Lundell (2005) studied a financially successful entrepreneur's use of accounting information in perceiving risk.

An adequate accounting system will generate the needed financial accounting information for whatever purpose. A study conducted in Zimbabwe on 100 SMEs by Maseko and Manyani (2011) brings out that SMEs do not keep complete records of accounts due to lack of knowledge in accounting and the cost of engaging professional accountants. Poor record keeping is has been cited as a cause for start-up business failure. In most cases, this is not only due to the low priority attached to it, but also a lack of the basic business management and skills. Irena Jindrichovska (2013) noted that there is a need for more knowledge about basic financial concepts either through books/ magazines or by attending a workshop on finance.

Most business operators, therefore, end up losing track of their daily transactions and find it difficult to account for their expenses and their profits at the end of operations. In a study of 148 respondents in Nigeria (Enugu), Okoli (2011) links proper record keeping and profitability of small scale enterprises and assert that due to inadequate record keeping, the small scale operators could not assess their performances effectively. He argues that in order to enhance the profitability of small scale enterprises and their continuity, there is need for adequate record keeping which will help the proprietors to keep track of the performance of these enterprises.

2.7 Moderating Variables.

This section looks at the intervening variables which are economic factors, Access to information and Legislation

2.7.1 Government policies

The ever-changing business environment and fierce competition among firms has affected the performance and sustainability of most firms leading to the folding up of most enterprises. The importance of SMEs to the economy of a country indicates how important it is to have government policies that support SMEs, including regulations that enable them to operate efficiently and regulations that reduce their administrative costs (Harvie and Lee, 2005). Although there have been initiatives by governments to promote and support SMEs in order to enhance their development and reduce poverty, there is still a lack of laws and genuine administrative procedures such as accessibility to assistance from the government agencies (Harvie, 2005).

Government policy reflects theoretical or experiential assumptions about that is required to resolve a particular issue or problem (Obio, 2001). Governments create the rules and frameworks in which SMEs are able to compete with each other. From time to time government changes these rules and frameworks forcing SMEs to change the way they operate (Essien and Udofia, 2006). For example a rise in incorporation tax (business tax has an effect on SMEs operations.

2.7.2 Economic factors.

The success of a new venture depends on the state of the national economy at the time the business is launched (Ligthelm & Cant, 2002; Viviers et al, 2001; Nieman, 2006, Gurol & Atsan, 2006) these factors include, Enterprise Density; Enterprise density is defined as the number of

firms in a given population at a given time and refers to the percentage of existing and possible entrepreneurs (Panco & Korn, 1999); Inflation; Inflation has an effect on entrepreneurship (Viviers et al, 2001:4; Ligthelm & Cant, 2002:5). Interest rates; Low interest rates facilitate access to capital and thus resources required for entrepreneurship (Ligthelm & Cant, 2002); Taxation; One of the key factors inhibiting SME development is taxation (Robertson et al, 2003). If tax rates are high they reduce the profit incentive drastically

2.7.3 Access to information

The need for financial information and auditing the accounts of companies has been enhanced after privatization of economic entities (Salehi and Azary, 2008). To satisfy this need, the Iranian Association of Certified Public Accountants (IACPA) was established in 2001 as an independent professional body (Mirshekary and Saudagaran, 2005). Professional accountants play a significant role in an economy; this is more significant for SMEs because they constitute over ninety percent of enterprises of Iran (Mirshekary and Saudagaran, 2005).

To ensure survival in today's competitive business world, small-sized enterprises require access to accurate and relevant information both at the start-up stage and during their day-to-day operations. SMEs generally tend to be information intensive thus various interventions may be required on the part of management to ensure that the information needs and resources of the enterprises are met and well managed. However, Kirk (1999) doubts whether managers are able to exploit the wealth of information that surrounds them. Given the range of SMEs' needs, it is important to ensure that the information they require to maintain their competitive advantage is both accessible and usable. The managers of SMEs, in turn, also require different aspects of information to plan, organise, staff, administer and control activities in ways that best achieve the enterprise's objectives. In the digital economy, successful enterprises are expected to produce

high technology goods and services; hence high quality information and effective systems are necessary to achieve such end

Studies by Mirshekary and Saudagaran, (2005) on the information needs of SMEs in parts of Africa showcase the range of information required by SMEs, including information on suppliers, potential customers, standards, acts relating to business ethics and practices, business directories, price lists, etc. SMEs also need knowledge pertaining to management, commercialization and information technology; international trade knowledge; and information about foreign markets (Ntsala, 2010).

In Asia, a study on the IT needs of SMEs in Singapore (Hong Kong) and the Philippines found that SMEs require information relating to credit; the technology market and business opportunities; skills and management training; business exchange/matching; technical assistance in project development; consultancy and advisory services; material sourcing; and research and advocacy. SMEs were also found to need information on.

2.7.4 Legislation

A number of organisations have reported that excessive regulation is an emerging barrier to the survival and growth of small firms (British Chambers of Commerce, 2002). Small businesses are more severely affected by red tape than are large companies because small firms are less proficient in dealing with the complexities of regulation and are unable to spread the costs of compliance across large-scale operations. Governments increasingly recognise this and try to alleviate the resulting competitive distortions through the promotion of initiatives such as those recommended by the Better Regulation Task Force in the United Kingdom and the Mandelkern Group in the European Union (BRTF, 2000; Mandelkern, 2001).

Raphael Lam and Jongsoon (2012) state that the temporary SME Financing Facilitation Act should also be phased out by March 2013, such that banks would not have an obligation (but still retain the option) to restructure loans at the request of SMEs. This would help limit restructured loans being reclassified as 'normal.' Hon. Dr. Juma Ngasongwa MP. (Minister for Industry and Trade 2002) noted that a number of initiatives have been designed by the Government to set up funding mechanisms and schemes to address poverty and employment related problems through promoting SMEs.

2.9 Conclusion

In this chapter, the researcher has reviewed and discussed the context of the literature review on accounting services and financial performance. Generally, this chapter is intended to give the reader proper insight as to what the various scholars talk about the study considering the objectives of the study which are ; To assess how tax planning influences the financial performance of SMEs; To determine the role of advisory services on the financial performance of SMEs; To establish the influence of financial reporting on the financial performance of SMEs and To investigate whether SMEs use book keeping as accounting tool to ascertain the financial performance of their businesses. The next chapter three of the study looks at the research methods used by the researcher to conduct the study

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter deals with the methods and tools the researcher used in data collection and analysis. It describes the research design that was used by the researcher, data sources and collection tools, processing, analyzing methods.

3.1 Research Design

According to McMillan & Schumacher (2006) research design is a plan that describes the procedures, nature and strategy of the research. Mouton and Marais (1990) noted that the purpose of the research design is to ensure that the eventual validity of the research findings is maximized. The study used a case study design approach. A case study was used because it provided an in-depth study of the problem with limited time scale, in other words, the case study approach is perceived as the most preferable way of obtaining holistic, in-depth insights into the topic under investigation. The study considered both quantitative and qualitative approaches using structured questionnaires, interviews, and document analysis

3.2 Area of study

The area of study is Mackansigh Street, Mbarara town. I chose to examine this area because it has the biggest number of small and medium business in Mbarara town and since most of them are family based and run by families they rarely employ accounting services which has led to their failure over time.

3.3 Population of the Study

Kothari (2004) defines study population as the sum total of elements about which inferences are to be made. Thus the group made up of all possible observations of a characteristic of interest is the population, while a collection of observations presenting only a portion of that population is a sample (Denscombe, 2008). The researcher used a population of 65 Small and medium enterprises in Markhansing street Mbarara town to obtain the relevant information for the study

3.4 Sample and Sampling technique

3.4.1 Sample Size

Selecting an appropriate sample size is a critical aspect in research with particular reference to this study. A total of 56 respondents was selected based on probability simple random sampling method from a population of 65 respondents based on Krejcie., & Morgan, (1970) Sample size determination

3.52 Sampling Technique

Convenience sampling was used. Convenience sampling is a non-probability sampling technique where subjects are selected because of their convenient accessibility and proximity to the researcher. The subjects are selected just because they are easiest to recruit for the study and the researcher did not consider selecting subjects that are representative of the entire population. This technique was used because it was easy, fast and usually the least expensive and troublesome.

3.5 Data sources

The collection of data represents a pre-requisite for carrying out a research and can be derived from a number of sources. These sources are classified into secondary and primary data (Clarke and Dawson, 1999). Neil (1985), pointed out that secondary data is material that has been gathered previously and primary data consists of new material collected by the researcher for the purpose at hand by the use of questionnaires, interview schedules, observation, participation etc.

3.6 Data Collection instruments

3.6.1 Questionnaire

This is a formulated written set of questions that were used to obtain information about the study objectives from the study population (Amin, 2005). The questions were formulated basing on the fact that the variables such as views, opinions, perceptions and feelings of the respondents cannot be observed (Sekaran, 2003). The researcher formulated both close and open-ended questionnaires that were answered in written form by the owners of SMEs.

3.6.2 Interviewing

In this method, the researcher interviewed the members face to face to obtain in-depth information on the study. The researcher used a structured interview guide on the targeted respondents. All responses were captured by the researcher himself. The interview guide was used to collect qualitative data to supplement the information that was obtained from the questionnaire.

3.7 Quality Assurance

3.7.1 Validity

Validity refers to the extent to which questions in an instrument accurately measure the variables therein (Hair et al., 2003). In other words, Validity is the accuracy and meaningfulness of inferences, which are based on the research results (Mugenda and Mugenda, 1999). The questionnaire was subjected to expert face validity and theoretical content validity tests. A content validity index (CVI) is an indication of the degree to which the instrument corresponds to the concept it is designed to measure. Amin's (2005) recommended minimum content validity index of 0.7 which were considered.

3.7.2 Reliability

Reliability refers to the degree to which a set of variables are consistent with what they are intended to measure (Amin, 2005). When the items on an instrument are not scored right versus wrong, Cronbach's alpha is often used to measure the internal consistency which is often the case with attitude instruments that use likert scale (Barifaijo, Basheka & Oonyu, 2010). Mugenda & Mugenda, (2003) stresses that a coefficient of 0.80 or more implies that there is a high degree of reliability of the data, and that's what the researcher adopted.

3.8 Measurement of variables.

The independent variable was perceived quality of accounting information for purposes of this research. A five-point Likert scale was used to determine the degree of agreement or disagreement with the statements that define the measures of perceived quality of accounting information. The question scales were developed basing on the literature definitions of the qualitative characteristics attributes (ASB 2000 & SAP, 3, 1990). The dependent variable was performance of SMEs and includes sales and profitability. A 5-point Likert scale was employed

to measure performance since it was perceived rather than actual, as a result of the difficulty of obtaining actual performance levels from SMEs.

3.9 Data Analysis and presentation

The data collected was edited, coded and later analyzed using Statistical Package for the Social Sciences (SPSS) computer program version 16. Quantitative data was presented in form of descriptive statistics using means frequencies and percentages for each of the variables used in the study. Data was then presented by using graphs, and tables.

3.10 Ethical considerations

The data obtained from the respondents was treated purely as academic and confidential for the safety, social and psychological well-being of the respondents. Informed consent was sought and appropriate documentation was kept. Questionnaires were coded guarantee anonymity as none of the respondents were named at any time during the research or in the subsequent study, and Respondents were selected for their willingness to participate without compulsion and no risks to the respondents were identified at any stage during the research.

3.11 Limitations of the Study

Research limitations likely to affect this study fall into three predominant categories, identified as service provider, small business, and analytical limitations.

The major problems the researcher encountered were in the area of data collection. Most of the respondents were sceptical and thought that the research was made to make them pay more taxes

to the government. It was not easy convincing some of them to understand that the purpose of the research was not for taxation.

Interestingly, however, most of the respondents were more than willing to provide information about their enterprises, especially in enumerating their problems.

Another limitation of this study was inconsistency of answers. Most of the respondents initially were inconsistent with their answers, so the researcher had to go through various processes by asking further questions before the right answers were given.

The researcher took interest to explain to the respondents that, the research is mainly an academic exercise, which is a requirement for the award of a degree, and that it had nothing to do with the government or of any commercial motive.

Financial and time constraints also presented a limitation in the sense that a more elaborate and detail study into the report could not be permitted than what is presented here.

In spite of all these problems faced by the researcher, the study was a good experience and a basis for further research into the research topic.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF THE FINDINGS

4.0 Introduction

This chapter presents the findings of this study. It highlights the characteristics of the respondents and presents the findings that were generated based on the study objectives which were: to assess how tax planning influences the financial performance of SMEs; to determine the role of advisory services on the financial performance of SMEs and to establish the influence of financial reporting on the financial performance of SMEs.

4.1 Response rate

The study administered the following instruments for the collection of the data.

Table 4.1: Showing the Response Rate of the Respondents

Instruments	Targeted No	No of respondents	Percentage %)
Interviews	11	9	16.7%
Questionnaires	45	45	80.3%
Total	56	54	100.0

Source: Primary data(2017)

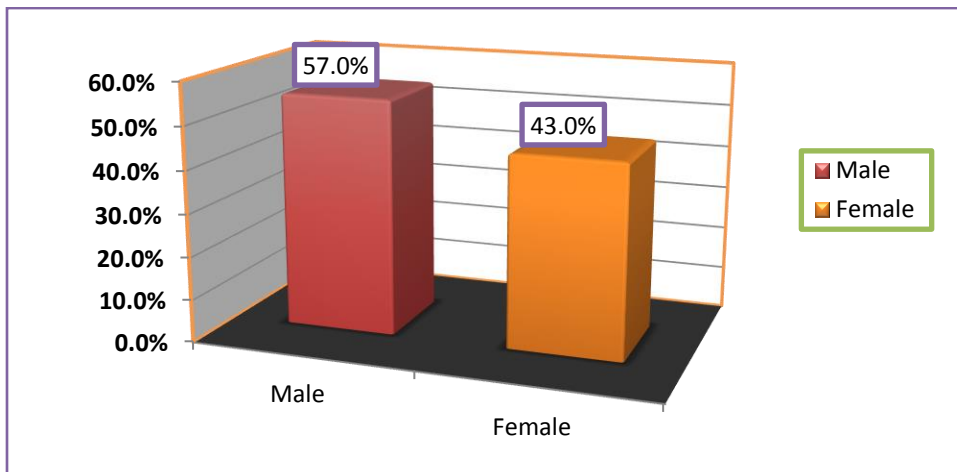
Table 4.1 demonstrated the distribution of the respondents according to the instruments used by the researcher that, 80.3% of the targeted respondents participated by answering the questionnaires whereas 16.7% participated by giving responses during the interview. The outcome from the table shows that the level of participation was absolutely effective as shown by the number of the respondents in relation to the research instrument employed as shown. From the study, 45 questionnaires were filled and 9 interviews were carried out to the respondents; which were returned and passed the data response cleanup process for acceptance for data analysis.

4.2 General information

In this section, efforts were made to document the background information of the respondents which included gender, age group, marital status and academic qualification

4.2.1 Gender of the Respondents

Figure 4. 1 Showing the Gender of the Respondents



Source: Primary data(2017)

From figure 4.1 above, it was showed that the majority (57.0%) of the respondents were males while the minority (43.0%) of the respondents were females. This showed that there was gender imbalance in the study though the involvement of both sex helped the research to obtain unbiased data that was used in the compilation of the final report. This helped the study to obtain views from different sex thus producing information that is not biased.

4.2.2 Age group of the Respondents

Table 4. 2 Showing the Age group of the Respondents

Age(Years)	Frequency (F)	Percent (%)
Below 20	3	6.7%
21 – 30	13	28.9%
31– 40	17	37.8%
Above 40	12	26.7%
Total	45	100.0

Source: Primary data (2017)

According to the results in table 4.1 above, it was indicated that the majority (37.8%) of the respondents were in the age group of 31-40 years, those were followed by (28.9%) who were in the age group of 21-30 years, then (26.7%) were above 40 years while the minority (6.7%) of the respondents were below 20 years. This implied that the study constituted of respondents distributed among different age groups and all these contributed differently to the topic under investigation. This evidenced that the study consisted of respondents with different ages therefore with different views that were relevant to this study on the impact of accounting services on the financial performance of SMEs

4.2.3 Education Level of the Respondents

Table 4. 3: Showing Education Level of the Respondents

Age(Years)	Frequency (F)	Percent (%)
Certificate	10	22.2%
Diploma	12	26.7%
Degree	19	42.2%
Masters	4	8.9%
Total	45	100.0%

Source: Primary data (2017)

Results from table 4.2 showed the majority (42.2%) of the respondents were degree holders, those were followed by (26.7%) who had attained a diploma, (22.2%) had a certificate whereas the minority (8.9%) had masters. This helped the researcher to quickly collect data since the respondents were able to read, write and interpret the questionnaire.

4.2.4 Time in organization

Table 4. 4: Time in organization

Time in organization	Frequency (F)	Percent (%)
1-5 years	15	33.3%
6-10 years	11	24.4%
11-15 years	12	26.7%
16-20 years	6	13.3%
21 years and above	1	2.2%
TOTAL	45	100.0%

Source: Primary data (2017)

According to table above, the majority (33.9%) of the respondents had been in the organization for 1- 5 years, (23.2%) of the respondents for 6 – 10 years, (26.8%) who had been in the business for 11 – 15 years, (14.3%) for 16 – 20 years whereas the minority (1.8%) of the respondents for 21 years and above. This implied that the respondents had vast experience working in the entities and therefore possessed reliable information on the impact of accounting services on the financial performance of SMEs

4.3 Tax planning and financial performance of SMEs

The first objective of the study was to examine the effect of Tax planning and financial performance of SMEs. The findings were presented, analysed and interpreted in percentages and frequencies as indicated below.

Table 4.5 Showing Tax planning and financial performance of SMEs

We Plan for all the taxes that we pay					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.2	2.2	2.2
	Disagree	1	2.2	2.2	4.4
	Not Sure	2	4.4	4.4	8.8
	Agree	16	35.6	35.6	44.4
	Strongly Agree	25	55.6	55.6	100.0
	Total	45	100.0	100.0	

Source: Primary data (2017)

According to the findings of the study, the majority (55.6%) of the respondents strongly agreed that they Plan for all the taxes that they pay, those were followed by (35.6%) who agreed, (4.4%) were not sure whether they Plan for all the taxes that they pay though this was noted under employees Since They are not sure whether taxes are paid or not whereas (2.2%) disagreed and strongly disagreed respectively. This also implies that it is important for SMEs to ensure that they ensure that they plan ahead of time for the taxes that they are to pay and can use advisory services in case the SME must find someone else to do plan for their taxes.

We have been able to reduce tax burdens without additional investments in tax planning

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	0	0.0	0.0	0
	Disagree	0	0.0	0.0	0
	Not Sure	5	11.1	11.1	11.1
	Agree	18	40.0	40.0	51.1
	Strongly Agree	22	48.9	48.9	100.0
	Total	45	100.0	100.0	

Source: Primary data (2017)

In relation to the findings of the study, the majority (48.9%) of the respondents strongly agreed that they have been able to reduce tax burdens without additional investments in tax planning, those were followed by (40.0%) who agreed whereas the minority (11.1%) were not sure if the profits are determined by whether have been able to reduce tax burdens without additional investments in tax planning. This shows that the decreasing trend in effective tax rates may not be solely due to aggressive tax management but Rather, firms' modifications to their business models resulting from changing economic trends potentially enabling them to reduce tax burdens

without additional investments in tax planning which is in agreement Blouin, and Larcker (2011).

We have also encountered misunderstanding, punishment and censor from some basic taxation law enforcement agencies

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	5	11.1	11.1	11.1
Disagree	4	8.9	8.9	20
Not Sure	5	11.1	11.1	31.1
Agree	17	37.8	37.8	68.9
Strongly Agree	14	31.1	31.1	100.0
Total	45	100.0	100.0	

Source: Primary data (2017)

With considerations to the findings of the study, the majority (37.8%) of the respondents agreed that profits are determined by the results from their contractual obligations, those were followed by (31.1%) who strongly agreed, (11.1%) were not sure whether profits are determined by the results from their contractual obligations whereas (8.9%) and (11.1%) disagreed and strongly disagreed respectively. This is because taxes are a compulsory charge imposed by a public authority on the income of individuals and companies as stipulated by the government decrees, acts or case laws irrespective of the exact amount of services rendered to the payer in return. These taxes normally affect the profits of the small and medium entities.

Our SMS has Also been able to fight for the legitimate tax interests

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	2	4.4	4.4	4.4
Disagree	3	6.7	6.7	11.1
Not Sure	4	8.9	8.9	20
Agree	11	24.4	24.4	44.4
Strongly Agree	25	55.6	55.6	100.0
Total	45	100.0	100.0	

Source: Primary data (2017)

From the study findings, the majority (55.6%) of the respondents strongly agreed that the SME has Also been able to fight for the legitimate tax interests, those were followed by (24.4%) who agreed, (8.9%) were not sure whether the SMS has Also been able to fight for the legitimate tax interests, (6.7%) disagreed whereas the minority (4.4%) of the respondents strongly disagreed the vast majorities SME have not yet started or are considering carrying out tax planning, which cannot fight for the legitimate tax interests and ruin financial interests leading to a large number of emerging additional tax burden (Fjeldstad and Rakne, 2003).

We also pay tax in accordance with the law

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	0	0.0	0.0	0
Disagree	3	6.7	6.7	6.7
Valid Not Sure	5	11.1	11.1	17.8
Agree	23	51.1	51.1	68.9
Strongly Agree	14	31.1	31.1	100.0
Total	45	100.0	100.0	

Source: Primary data (2017)

In addition to the above, the study findings showed that the majority (51.1%) of the respondents agreed that they also pay tax in accordance with the law, those were followed by (31.1%) who agreed-, (11.1%) were not sure whether they also pay tax in accordance with the law whereas the minority (6.7%) of the respondents disagreed. This implied that tax planning has enabled the SMEs to be able to be able to adhere to what is required of them to follow the law. This was in line with interview findings where one of the respondents stated that;

“We make sure that we follow all the regulations regarding the taxes so that we are not fined by the tax authorities”

4.4 Advisory services and financial performance of SMEs

The first objective of the study was to examine the role of Advisory services and financial performance of SMEs. The findings were presented, analyzed and interpreted in percentages and frequencies as indicated below.

We have accountants who help advise us on what to do in case the business is not doing well

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	1	2.2	2.2	2.2
Disagree	2	4.4	4.4	6.6
Not Sure	5	11.1	11.1	17.7
Agree	24	53.3	53.3	71
Strongly Agree	13	29	29	100.0
Total	45	100.0	100.0	

Source: Primary data (2017)

From the study findings, the majority (53.3%) of the respondents agreed that they have they have accountants who help advise us on what to do in case the business is not doing well, those were followed by (28.9%) who strongly agreed, (11.1%) were not sure about this, (4.4%) disagreed whereas the minority (2.2%) of the respondents strongly disagreed. This implied that presence of accountants in an SME would help the SMEs get advisory services on what to do in case the business is not doing well. Therefore they will be equipped with information on how to acquire finances in case they needed them as agreed by Chimucheka and Rungani (2011)

Advisory services have provided us better management control

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	0	0.0	0.0	0
	Disagree	3	6.7	6.7	6.7
	Not Sure	4	8.9	8.9	15.6
	Agree	19	42.2	42.2	57.8
	Strongly Agree	19	42.2	42.2	100.0
	Total	45	100.0	100.0	

Source: Primary data (2017)

According to the study findings, it was indicated that (42.2%) of the respondents strongly agreed that Advisory services have provide them better management control, (42.2%) agreed, (8.9%) were not sure whether advisory services have provide them better management control whereas the minority (6.7%) of the respondents disagreed. This is because these advisory services enable the SMEs to be able to control their business activities or non-business activities which require money and other economic resources; accounting is required to account for these resources.

Advisory services have also helped us access new market and maximize profits

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	0	0.0	0.0	0
	Disagree	0	0.0	0.0	0
	Not Sure	9	20.0	20.0	20
	Agree	24	53.3	53.3	53.3
	Strongly Agree	12	26.7	26.7	100.0
	Total	45	100.0	100.0	

Source: Primary data (2017)

In consideration to the findings of the study, it was indicated that the majority (53.3%) of the respondents agreed that Advisory services have also helped us access new market and maximize profits, those were followed by (26.7%) strongly agreed whereas the minority (20.0%) were not sure whether they have also helped us to access new market and maximize profits. This implies better decisions can be made which are aimed at maximizing profits. This was supported by the interview findings where one of the respondents pointed out that:

“This is because accounting services and functions is a very important role to SMEs because it can provide them better management control and assist in decision-making, helping them to access new market and maximize profits in the corporate world

we make better decisions as a result of Advisory services

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	0	0.0	0.0	0.0
Disagree	1	2.2	2.2	2.2
Not Sure	2	4.4	4.4	6.6
Agree	14	31.1	31.1	37.7
Strongly Agree	28	62.3	62.3	100.0
Total	45	100.0	100.0	

Source: Primary data (2017)

According to the study findings, it was indicated that (62.3%) of the respondents strongly agreed that they make better decisions as a result of Advisory services , (31.1%) agreed, (4.4%), were not sure whether Advisory services have also assisted in decision-making whereas the minority (2.2%) of the respondents disagreed. This is because Poor accounting and reporting and

decisions based upon inaccurate or incorrect financial information can actually cause problems which may threaten the solvency of the business.

Advisory services and financial performance of SMEs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.2	2.2	2.2
	Disagree	1	2.2	2.2	4.4
	Not Sure	5	11.1	11.1	15.5
	Agree	24	53.3	53.3	68.8
	Strongly Agree	14	31.2	31.2	100.0
	Total	45	100.0	100.0	

Source: Primary data (2017)

In addition to the above, the study findings presented that the majority (53.1%) of the respondents agreed that Accountants have also provided us with advice in terms of health and safety issues, those were followed by (31.1%) who strongly agreed, (11.1%) were not sure whether Accountants have also provided us with advice in terms of health and safety issues whereas (2.2%) and (2.2%) disagreed and strongly disagreed respectively. This was in agreement with findings by Jarvis and Rigby (2011) who discussed different models used by accountants to provide advisory services about human resource management and employment issues, while Hasle et al. (2010) look at accountants' provision of advice in terms of health and safety issues.

4.5 Financial reporting and financial performance

The third objective of the study was to examine the financial reporting and financial performance. The findings were presented, analyzed and interpreted in percentages and frequencies as indicated below. They are categorized on how the respondents strongly agree, (SA), agree (A), neutral (N), disagree (D) and strongly disagree (SD)

Table 4. 6 showing financial reporting and financial performance

		We keep our financial records properly			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	0	0.0	0.0	0
	Disagree	3	6.7	6.7	6.7
	Not Sure	8	17.8	17.8	24.5
	Agree	19	42.2	42.2	66.7
	Strongly Agree	15	33.3	33.3	100.0
	Total	45	100.0	100.0	

Source: Primary data (2017)

In consideration to the findings of the study, it was indicated that the majority (42.2%) of the respondents agreed that they keep financial records properly, those were followed by (33.3%) strongly agreed, (17.8%) were not sure whether they keep our financial records properly while the minority (6.7%) of the respondents disagreed. This showed that accounting services have come key in financial reporting. This was supported by the interview findings where one of the respondents mentioned that:

“A good financial record keeping enables business organizations to plan properly and also check for misappropriations of resources of the organization.

Cash flow difficulties have reduced as a result of financial records

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	2	4.4	4.4	4.4
Disagree	2	4.4	4.4	8.8
Not Sure	6	13.3	13.3	22.1
Agree	14	31.1	31.1	53.2
Strongly Agree	21	46.8	46.8	100.0
Total	45	100.0	100.0	

Source: Primary data (2017)

According to the findings of the study, it was revealed that the majority (46.7%) of the respondents strongly agreed that Cash flow difficulties have reduced as a result of financial records whereas (31.1%) of the respondents agreed, (13.3%) were not sure, the minority (4.4%) disagreed and strongly disagreed. This implies that accounting firms offer audit and business valuation services, monitor depreciation of assets, and help clients determine cash flow needs. This was in line with the interview findings where one of the respondents mentioned that:

“Cash flow difficulties are significantly reduced in firms that kept a cash book, kept a record of debtors, practiced active debtor management and controlled inventory

Financial reporting has been useful for decision making

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.2	2.2	2.2
	Disagree	2	4.4	4.4	6.6
	Not Sure	5	11.1	11.1	17.7
	Agree	22	48.9	48.9	66.6
	Strongly Agree	15	33.3	33.4	100.0
	Total	45	100.0	100.0	

Source: Primary data (2017)

In relation to the findings of the study, it was presented that the majority (48.9%) of the respondents agreed that Financial reporting has been useful for decision making, those were followed by (33.4%) who strongly agreed, (11.1%) were not sure whether Financial reporting has been useful for decision making in our organization. (4.4%) disagreed while the minority (2.2%) of the respondents strongly disagreed. Bookkeeping alone without preparing reports is likely not to be fundamental in aiding decision making unless proper reports are prepared and analyzed to attach a meaning so as to help decision makers as agreed by Orford *et al.*, (2003)

We have also been Able to easily calculate our financial position.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	0	0.0	0.0	0
	Disagree	3	6.7	6.7	6.7
	Not Sure	0	0.0	0.0	6.7
	Agree	33.3	33.3	33.3	40
	Strongly Agree	60	60.0	60.0	100.0
	Total	45	100.0	100.0	

Source: Primary data (2017)

In addition to the above, findings of the study revealed that the majority (60.0%) of the respondents strongly agreed that they have also been able to easily calculate financial position. those were followed by (33.3%) who agreed while the minority (6.7%) of the respondents disagreed. This is because they have useful tools to investigate financial position, performance and SMEs future predictions. The study revealed that financial reporting has an effect on financial performance of SMEs

4.6 Findings on Financial performance

The findings on performance and the findings were presented, analyzed and interpreted in percentages, and frequencies as indicated below. They are categorized on how the respondents Strongly Agree, (SA), Agree (A), Not Sure (N), Disagree (D) and Strongly Disagree (SD).

Table 4.7: Financial Performance

		We have enough working capital			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	8.9	8.9	8.9
	Disagree	7	15.6	15.6	24.5
	Not Sure	5	11.1	11.1	35.6
	Agree	13	28.9	28.9	64.5
	Strongly Agree	16	35.5	35.5	100.0
	Total	45	100.0	100.0	

Source: Primary data (2017)

According to the study findings, it was indicated that the majority (35.5%) of the respondents strongly agreed, that they have enough working capital, (28.9%) agreed whereas the other

(11.1%) were not sure and the minority (15.6%) disagreed and (8.9%) strongly disagreed. This implied that accounting services have enabled SMEs have been able to properly utilize the accounting services so as to improve on their working capital.

We make enough profits for the year

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	13.3	13.3	13.3
	Disagree	8	17.8	17.8	31.1
	Not Sure	7	15.6	15.6	46.7
	Agree	14	31.1	31.1	77.8
	Strongly Agree	10	22.1	22.2	100.0
	Total	45	100.0	100.0	

Source: Primary data (2017)

In relation to the study findings, it was presented that the majority (31.1%) of the respondents agreed that they make enough profits for the year those were followed by (22.1%) who strongly agreed, (15.6%) were not sure, (17.8%) disagreed and the minority (13.4%) strongly disagreed. This implied that accounting services have helped SMEs to access new market and maximize profits in the corporate world

The leverage ratio is low enough and in our favour hence operating the business successfully

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	0	0.0	0.0	0
	Disagree	10	22.2	22.2	22.2
	Not Sure	7	15.6	15.6	37.8
	Agree	8	17.8	17.8	55.6
	Strongly Agree	20	44.4	44.4	100.0
	Total	45	100.0	100.0	

Source: Primary data (2017)

From the findings of the study, it was shown that the (44.4%) of the respondents strongly agreed that The leverage ratio is low enough and in favour hence operating the business successfully and the majority (17.8%) agreed, (15.6%) were not sure and the minority (22.2%) disagreed this also implied that with adoption of accounting services the business operations of the SMEs has improved.

We have enough customers hence increase in receivables

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	0	0.0	0.0	0
	Disagree	2	5.7	5.7	5.7
	Not Sure	0	0.0	0.0	5.7
	Agree	18	51.4	51.4	57.1
	Strongly Agree	15	42.9	42.9	100.0
	Total	45	100.0	100.0	

Source: Primary data (2017)

It was indicated that the majority (51.4%) of the respondents agreed, (42.9%) strongly agreed that they have enough customers hence increase in receivables, whereas (5.7%) disagreed. This is because accounting services involve the day-to-day processing of payables, receivables, payroll, general ledger processing, costing, cashier, internal audit, bank and other reconciliations and the preparation of accounts and financial reports.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary of findings observed and inferred from the data presented in chapter four and it also provides the discussions, conclusions, recommendations and suggested areas for further study.

5.1 Summary of the Findings

5.1.1 Tax planning and financial performance of SMEs

From the study, it was reported that most respondents (91.2%) agreed that Plan for all the taxes that they pay. It was also revealed that they have been able to reduce tax burdens without additional investments in tax planning, have also encountered misunderstanding, punishment and censor from some basic taxation law enforcement agencies and that the SME has Also been able to fight for the legitimate tax interests in addition to paying tax in accordance with the law.

5.1.2 Advisory services and financial performance of SMEs

It was revealed from the study that most of the respondents (92.2%) agreed that they have accountants who help to get advisory services on what to do in case the business is not doing well. It was also revealed that Advisory services have provide them better management control and that they have also helped them to access new market and maximize profits. It was also found out that Advisory services have also assisted in decision-making and that Accountants have also provided us with advice in terms of health and safety issues.

5.1.3 Financial reporting and financial performance

From the study, it was identified that most respondents (75.5%) agreed that they keep financial records properly. It was also revealed that Cash flow difficulties have reduced as a result of financial records, financial reporting has been useful for decision making in our organization and that they are also able to compare information of different entities because they use the same accounting principles. It was also noted that they have also been able to easily calculate our financial position.

5.2 Conclusion

In conclusion, there is a strong relationship between Financial Performance of SMEs and accounting services through Tax planning, advisory services and financial reporting. This is because the SMEs are able to keep proper records of the business transactions. The advisory services have also provided SMEs with better management control and that they have also helped them to access new market and maximize profits. Further financial reporting has been useful for decision making in SMEs and have been able to compare information of different entities because they use the same accounting principles.

5.4 Recommendations

It is recommended that the managers should aim at producing a good quality and reliable financial records that will assist and equip them with accurate accounting information. Thus, this will guide them to make a quick and precise decision.

The tax authorities should address the lack of formal tax planning as this may be a way of evading taxation in the name of tax avoidance. The small scale enterprises should also be ready to open up to advice on tax planning to make savings rather than playing a hide and seek game

with tax authorities.

It is recommended that SMEs keep detailed accounting records and audit their financial statements on an annual basis. This will enable the banks to make a proper evaluation of SMEs, which should improve their accessibility to credit

This study though confined to investigate the influence of accounting services on financial performance of small scale enterprises has established that little tax planning take place among the small enterprises and therefore tax Authorities and the chamber of commerce should write a position paper to address the awareness and use of tax planning by small scale enterprises. This would improve the growth rate of the small enterprises and there after the growth of the economy

5.5 Areas for further Study

More study and research should be made on the following areas and topics

- 1) Contribution of financial records on performance of SMEs
- 2) Strategies that can be adopted to improve the financial status of SMEs in Uganda

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Appendices

Appendix I: Questionnaire

Dear Respondent,

I am **AINOMUGISHA AGATHA** a student of Uganda Martyrs University Nkozi carrying out a study on “**accounting services and financial performance of SME’s**” using this institution as a case study. I kindly request you to spare a few minutes of your busy schedules to fill this questionnaire to enable me accomplish this task. Your honest and sincere responses are highly appreciated for academic purposes and shall be treated with utmost priority and confidentiality. I thank you very much for your cooperation. Questions may be answered by ticking [√] the response that best suits your opinion or fill in the answers you feel are right for any given question with a dash and where necessary add any information you feel will be of added value to the research.

SECTION A: BACKGROUND INFORMATION

This section seeks to elicit the basic personal information of the respondents.

❖ Gender:

1. Male
2. Female

❖ Respondent’s age

- Below 21 years
- 21-30 years
- 31-40 years
- Above 40 years

❖ Level of education

- i. Primary Level
- ii. ordinary level
- iii. Advanced Level
- iv. Diploma
- v. Degree

vi. Others specify

❖ For how long have you worked with this organization?.

- 1-5 years
- 6-10 years
- 11-15 years
- 16-20 years
- 21 years and above

*For responses in SECTION B, C, D and E, please tick one of the alternatives given in the appropriate box in the column bearing the number on the scale that most closely represents your opinion based on your own views. The scale gives you opportunity to show your level of agreement or disagreement using the **strongly Disagree (SD)**, **Disagree (D)**, **uncertain (U)**, **Agree (A)**, **Strongly Agree (SA)**.*

SECTION B: Tax Planning

B	Tax Planning	SD	D	U	A	SA
1	We Plan for all the taxes that we pay					
2	We have been able to reduce tax burdens without additional investments in tax planning					
4	We have also encountered misunderstanding, punishment and censor from some basic taxation law enforcement agencies					
5	Our SMS has Also been able to fight for the legitimate tax interests					
6	We also pay tax in accordance with the law					

SECTION C: Advisory services

B	Advisory services	SD	D	U	A	SA
1	We have accountants who help advise us on what to do in case the business is not doing well					
2	Advisory services have provided us better management control					
4	Advisory services have also helped us access new market and maximize profits					
5	we make better decisions as a result of Advisory services					
6	Accountants have also provided us with advice in terms of health and safety issues.					

SECTION D: Financial Reporting

B	Financial reporting	SD	D	U	A	SA
1	We keep our financial records properly					
2	Cash flow difficulties have reduced as a result of financial records					
3	Financial reporting has been useful for decision making.					
4	We have also been Able to easily calculate our financial position.					

SECTION E:financial performance

B	Financial performance	SD	D	U	A	SA
1	We have enough working capital					
2	We make enough profits for the year					
4	The leverage ratio is low enough and in our favour hence operating the business successfully					
5	We have enough customers hence increase in receivables					
6	The assets turnover is high enough to enable increase in sales					

Appendix II: Interview Guide

Questions for the manager (owner of the business)

- 3) What is the financial structure of this business?
- 4) Which services does this firm offer?
- 5) How many employees do you have?
- 6) How much are employees paid?
- 7) What one thing would you want to change about the business?
- 8) Which challenges do you face during your operations?
- 9) How do you finance your business? (Savings, retained earnings, or loans)
- 10) How often do you prepare books of accounts?

Appendix III: Sample Size Determination

Note: “N” is population size and “S” is sample size.

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	275	159	750	256	2600	335	100000	384

Source: Krejcie, R. V., & Morgan, D.W. (1970).