MAKERERE UNIVERSITY

QUALITY OF FINANCIAL INFORMATION, INVENTORY MANAGEMENT AND FINANCIAL PERFORMANCE IN SMALL AND MEDIUM ENTERPRISES

BY

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DECLARATION

I, Lovince Akurut declare that this dissertation is my own original work, and has never been presented to any university or institution for the award of any academic qualification. I hereby declare that this dissertation is a result of my own findings and where it is indebted to the work of others, due acknowledgement has been made.

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APPROVAL

This is to certify that this dissertation has been submitted for examination with our approval as university supervisors.

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DEDICATION

This piece of work is dedicated to my beloved parents, friends and everyone involved in ensuring growth and sustainability of Makerere University Business School. I dedicate this piece of work also to my sisters Ann, Anna Grace and Finnella, brothers Junior and Enock , Michael, Kelfa and Ben for all the encouragement in tough times may God bless you.

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LIST OF TABLES AND FIGURES

LIST OF ACRONYMS

SMEs: Small and Medium Enterprises

BOU: Bank of Uganda

IFRS: International Accounting Standards

Ugx: Uganda Shillings

SPSS: Statistical Package for Scientific Research

SAC: Statement of Accounting Concepts

IASC: International Accounting Standards Committee

IAS: International Accounting Committee

ASB: Accounting Standards Board

ACCA: Association of Chartered Certified Accountants

ETQ: Economic Tender Quantity

ABC: Activity Based Costing

JIT: Just in Time

AICPA: American Institute of Certified Public Accountant

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ABSTRACT

This was aimed at establishing the relationship between quality of financial information, inventory management and financial performance of SMEs in Kampala . Despite the continuous production of financial information as required by SMEs as required by IRFS for SMEs (2010) and Accounting Regulations (1998), there has been misuse of resources and poor financial performance. The question would be whether quality of financial information, inventory management had any impact on the financial performance of SMEs in Kampala?

The researcher adopted a blend of cross-sectional and descriptive research designs and a stratified random sampling of SMEs in Kampala. A research questionnaire that addressed quality attributes of financial information was to test and inventory management for validity and reliability and this was administered to collect primary data. Secondary data on financial performance was collected from SMEs in Kampala.

It was discovered that there was no significant relationship between quality of financial information and a significant positive relationship between inventory management and financial performance in SMEs. The effect of quality of financial information, inventory management to financial performance was examined by use of Ordinarily Least Squares (OLS) regression model. Overall, the model explains 11.3% of the variation in financial performance. The model indicates that inventory management was a significant predictor of financial performance in SMEs. The study recommends that SMEs' should put effort on effective inventory management in terms inventory planning; control and monitoring in order improve the financial performance of the enterprise.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Study

Financial performance of Small-Medium Enterprises (SMEs) in Uganda has been a subject of great interest to policy-makers and researchers in that the small-medium enterprises are seen as primary vehicles with a contribution of approximately 90% of the private sector. SMEs contribute approximately 75% of Uganda's Gross Domestic product (GDP) and employ more than 2.5 million people. The employment growth is estimated at 25% per annum and therefore, the SMEs are a prime source of new jobs, (Uganda Investment Authority Report, 2012).

Many Small Scale Medium Enterprises (SMEs) have failed to perform above average in terms of profitability (Maseko & Manyani, 2011) despite the Ugandan government Modalities for financing SMEs in Uganda for financial performance, UNCTAD, (2002). SMEs have been continuously registering declining trend in profits, BoU Report, (2012 and high levels of insolvency due to low levels of liquidity, (Barclay's sustainability review, (2009). According to BoU Report, (2012), the challenge of financial performance by SME's can be attributed to unreliable, up-to-date and timely financial information to enable selection of relevant for management decision-making. There is too unreliable non-relevant financial information for effective management decision (Smart et al., 2004) for better financial performance. There is also mismanagement of scarce resource due to poor inventory management practices and policies adds, Rajeev Narayana Pillai, (2010). At the height of this problem, several empirical studies have been carried out to establish the underlying factors undermining SMEs' financial performance finance. Among other

factors singled out to explain the phenomenon include; insufficient financial disclosure (Okurut F.N, Schoombee, Der Bergs, 2005), entrepreneurial managerial skills and costly bureaucratic processes, poor access roads, limited market and location (Demirguc-Kunt, 2008).

Quality of financial information and effective inventory management are a spinal cord to the success and a big push factor to the failure to any business (Gitman, (2006). Performance information generated basing on Generally Accepted Accounting Principles (GAAP), enable accurate, reliable and relevant information for decision-making regarding operations of the enterprise and inventory management operational procedures to be followed and upheld in inventory management, Cobbold, et al., (2008). This helps in continuous inventory monitoring and planning, analysis and review and decision making to control and manage inventory levels (Cannon, 2008). Inventory management helps by adding value in terms of having control over and maintaining lean inventory, Rajeev Narayana Pillai (2010). Most companies which have always focused on inventory as a principle function and recognize that the inventory effects their sales, as well as the books of accounts and profits, have managed to introduce and improve inventory management processes to have better financial performance levels (Chen et al., 2005) adds. It is crucial for SMEs to control and manage inventories through production of quality financial information regarding inventories because they are a significant portion of the current assets of any business enterprise (Kruger, 2005). Inaccuracies in an inventory creates a range of problems, including loss of productivity the manufacturing

of unwanted items, a reduction in the levels of customer commitment, the accumulation of costly physical inventories and frustration (Meyer, 1991).

Financial performance by SME's however, remains a subject of discussion, (Kamyabi, 2011). However, from the above arguments, there are sufficient theoretical underpinnings linking quality of financial information, inventory management and management decisions to influence financial performance; however there is limited empirical evidence that supports the connection between the three variables.

1.2 Statement of the Problem

Despite the efforts made by the Ugandan Government to increase SMEs' financial performance, many Small Scale Medium Enterprises (SMEs) have failed to perform above average in terms of profitability (Maseko & Manyani, 2011). SMEs have been continuously registering declining trend in profits (BoU Report, 2012) and high levels of insolvency (Barclay's sustainability review, 2009). The poor performance of SMEs could be attributed to quality of financial information and inventory management. This trend of performance has prompted the researcher to carry out a study to establish the extent to which quality of financial information and inventory management affect the financial performance of SMEs.

1.3 Purpose of the Study

The researcher sought to determine the relationship between quality of financial information, inventory management and financial performance of SMEs in Kampala city (Uganda).

1.4 Objectives of the Study

i. To establish the relationship between quality of financial information and financial performance in SMEs.

ii. To establish the relationship between quality of financial information and inventory management in SMEs.

iii. To establish the relationship between inventory management and financial performance in SMEs.

1.5 Research Questions

i. What is the relationship between quality of financial information and financial performance in SMEs?

ii. What is the relationship between quality of financial information and inventory management in SMEs?

iii. What is the relationship between inventory management and financial performance in SMEs?

1.6 Significance of the Study

i. The study will give more insights into the quality of financial information and this will reduce the behavioral aspect of viewing SMEs as highly risk in terms of poor financial performance.

ii. It will be beneficial to the SMEs owners, especially in giving ways and directives in designing better inventory management practices and inventory control techniques.

iii. SMEs owners will be able to improve on their inventory management and policies by reviewing and amending some of the inventory management and financial information system control measures that will yield favorable financial performances.

iv. It will be an academic resource providing solutions to the identified problem and highlighting areas for further research.

1.7 Scope of the Study

The study was to cover specific aspects quality of financial information to include Reliability, Relevancy, Understandability, Accuracy and Timeliness (Barrett, 2004) and how this quality affects financial performance in terms of profitability and liquidity in SMEs in Kampala, Inventory management in terms of inventory planning, Inventory Control and Inventory Monitoring (Buxey, 2009) and how all these two affect financial performance in terms of profitability and liquidity (Eroglu and Hofer, 2011). Financial performance was taken as the dependent variable whilst quality of financial information and inventory management as predictor variables.

1.7.1 Geographical Scope

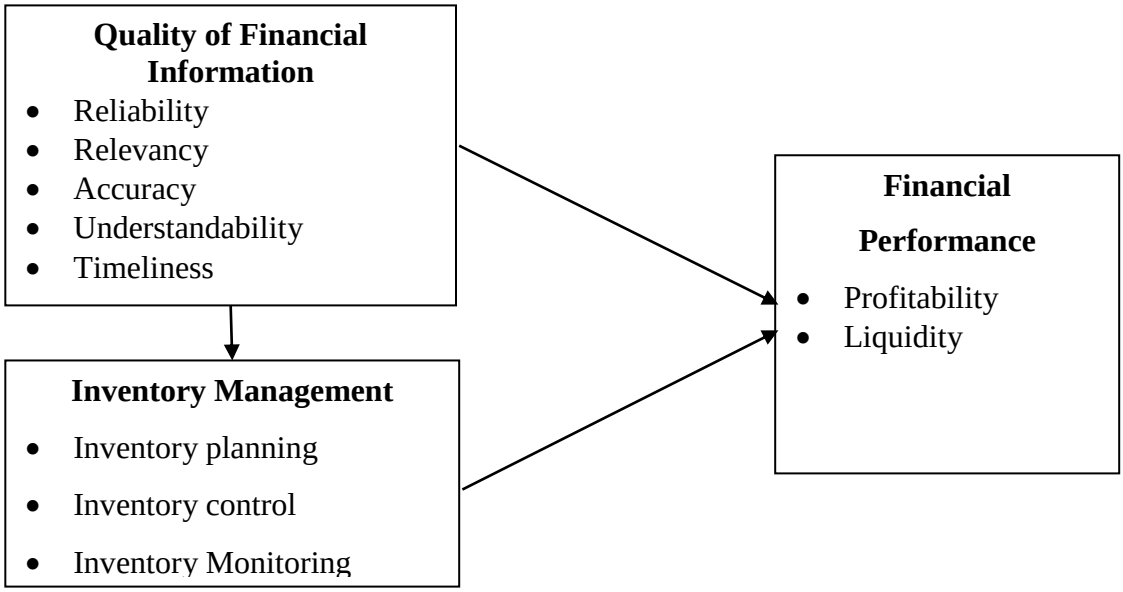
The study was limited to SMEs located within Kampala District of Uganda because it has 29.2% of total SMEs in Uganda (UBOS report, 2012)

1.8 The Conceptual Framework

The conceptual framework below indicates that once quality of financial information and inventory management are good, the resulting decisions (held constant in this research) can affect the levels of financial performance. The conceptual dimensions of financial performance include; profitability and liquidity (Eroglu and Hofer, 2011) , quality of financial information include; Reliability, Relevancy, Accuracy, Understandability and Timeliness for the purpose of this research. The quality attributes are chosen on the basis of what is provided for the in the Statement of accounting concepts (SAC3, 1990), Accounting Standards Board (ASB, 2000) and Barret, 2004). However, materiality and

comparability will not be considered for the purpose of this research because of their complexity and biased assessment depending on the nature of the accounting entity and inventory management include; Inventory planning, Inventory control and Inventory Monitoring (Buxey, 2009)

Figure 1: Conceptual framework



Source: Adopted and modified from (Griffins, 2002; *SAC3, (1990)/ASB, (2000); Martin and Staines 2008)*

The relationship in the conceptual framework if further supported by Binsnow's statement (2004) that quality reporting is critical part of the performance management effort it improves communication with internal and external stakeholders, leads to better decision making and ultimately improves performance

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The purpose of this chapter is to review exiting literature on the quality of financial information, inventory management and financial performance by SMEs. The reason for this is so that the potential contribution of the current study is clearly delineated. The literature review also serves the purpose of identifying any inconsistencies in existing literature.

2.1 Quality of Financial Information

Financial information prepared basing on Generally Accepted accounting principles (GAAP) are termed as quality financial information, IFRS (2009) having qualitative characteristic such as understandability, relevance, reliability, accuracy and timeliness. Relevance necessitates that the financial information ought to be such that the user finds it supporting his business decision. Reliability involves financial information to be true, accurate and fair.

Data quality is a crucial issue for most organizations (AICPA, 1999). The increased demand for information systems reliability assessment led the American Institute of Certified Public Accountants(AICPA) to offer a new service, called SysTrust, where qualified AICPA members, using AICPA guidelines, could certify that an organization's information systems were operating reliably (AICPA,1999).It is almost axiomatic that accrual accounting is able to produce better quality information for decision-makers.

Financial information is significant if it is availed on time; however, in the early phases financial information is vague or irrelevant and for this reason less reliable. Financial information is comparable when accounting standards and policies are practiced without fail throughout every period and in the region. This permits comparisons of financial information with those of former periods and other firms. Understandability is a feature of financial information that makes it explicable by people with reasonable background knowledge in business. Understandability calls for financial information existing in financial reports be concise, complete, and clear (Allen,et al., 2010).

2.1.1 Quality characteristics of financial information

The quality characteristics are the attributes that make the information provided in financial statements useful to others (Goitom, 2003). In its statement of principles for Financial reporting, the Accounting Standards Board (ASD) in the United kingdom out lines reliability, relevance, material, comparability, understandability and timeliness as the qualitative characteristics of accounting information useful to information users (Stein, 2000). For financial information to serve its intended objective, it should be of good quality to enhance good decision-making (Krishnamoorthy, et al, 2002). Below is the discussion of the quality attributes;

Reliability

The ultimate criterion of reliability is one that satisfies conditions that users know precisely the meaning of the information and the limits to the knowledge content of the information provided (Glaucier & Underdown, 1980). Financial information should be

reliable in use and this implies that the user should be able to rely on some basic assumptions about the quality of accounting information produced by accountants. The ultimate criterion of reliability is one, which satisfies the conditions such as: The users know precisely the meaning of the information and are not deceived in their analysis, that the users know precisely the limited to the knowledge content of the information provided (Glaucier & Underdown, 1980). Information is also reliable if: It can be depended upon by users to represent faithfully what it purports to represent or could reasonably be expected to present. It is free from deliberate or systematic bias, it is free from material error, it is complete. Within bounds of materiality and prudence that has been applied in exercising judgment and making the necessary estimates, (Stein, 2000) as quoted by (Kigoma, 2003).

Reliability of financial information will be determined by the degree of correspondence between what the information conveys to the underlying transactions and events that have occurred and have been measured and displayed. Reliable information will, without bias, or undue error faithfully represents those transactions (SAC 3, 1990). It is important that information is reliable. Information may be of a type which bears upon users' decision making.

Relevance

For financial information to be relevant, it must have value in terms of assisting users in making and evaluating decisions about the allocation of scarce resources and in

assessing the rendering of accountability by preparers. Financial information is to assist users in predictions, about future situations and in forming expectations and or it must play a confirmatory role in respect to their past evaluations (SAC 3, 1990).

The information that the board receives must have relevance to their responsibilities and tasks (Stoner et al., 1995). Information is relevant if it is able to influence economic decisions of users and provided in time to influence those decisions. Relevant information has predictive value. Information has predictive value if it helps users to evaluate or asses past present or future events. Information has confirmatory value if it helps users to confirm or correct their past evaluations and assessments.

Accuracy

Information relating to an entity is accurate if all data to that entity have been reflected in its records (Stein, 2000). The more accurate the information is, the higher the quality and the more securely managers can rely on it in making decisions (Stoner et al., 1995).

Timeliness

Information is useful to users if provided in time when required. Impairment of reliability by reporting in time or and delaying reporting to include reliable information are unneeded actions (ASB, 2000). Therefore, the information provided by any information system must be available to the right person at the right time for appropriate action to be taken (Stoner et al, 1995).

Understandability

It is not good having all points attended to if the financial statements are the presented in away difficult for users to understand. And essential quality of information provided in financial statements is that it should be presented in such a way that it is readily understandable y users (IASC, 2000). According to the IASC frame work, users are assumed to have abilities or reasonable knowledge of business and economic activities. Understandability measures text reader interaction and thus ability of users to understand financial information that depends upon their own capabilities and in part on the way in which information is displayed.

Balance between quality characteristics

It may not be possible to reconcile conflicts between the characteristics of relevance, reliability, comparability and understandability and trade off may be necessary (Neil, 2000). In constructing the report; the accountant must combine information elicited from the firm's manager with other information directly observable to the accountant. The manager's information is assumed to be directly observable only by the manager and to be of superior quality to the other information available to the accountant. Reliability-relevance trade-offs arise because as the accountant places more weight on the manager's report, potentially more useful information gets included in the report, at the cost of encouraging the manager to distort his or her information to a greater extent (Ronald and Sridhar, 2004)

2.1.3 Factors Influencing Quality of financial information

Accounting Standards

Compliance with IAS guarantees “true and fair view presentation of financial information” which is equated to quality of financial information (IAS, 1997)

Competences of generators of financial in formation

The generators of financial statements who are supposed to be qualified accountants and competent personnel are also of the important factors in the disclosure process of quality of financial information.

The regulatory requirements and accounting practices

In the developing countries, financial reporting practices are more of a result of “different sources of accounting influence” (Enthoven, 1996 cited by Goitom 2003) and various legal requirements. In Uganda, SMEs have be regulated by; IFRS for SMEs (2010) that states, “SMEs should publish general purpose financial statements as guided by IFRS for SMEs”.

2.1.4 Financial information users and their information requirements

Users of financial information include; investor, lenders, suppliers and other creditors. Employers, customers, government agencies, the public and management (Stein, 2000)

Suppliers are interested in information that not only helps them to decide whether to sell to the entity, but also assess the likelihood that the amount owing to them will be paid when due. Employees are interested in information that enables them assess their employment opportunities, retirement and other benefits. Government and other agencies are interested in not only the allocation of resources but also activities of the entity. The public is interested in information that is useful in assessing the trends and

recent developments in the entity prosperity and the range of its activities that may affect their welfare. Management will be interested in analysis of revenues and expenditure and the cost consequences of a particular course of action to aid their decision- making.

2.2 Inventory management

Inventory Can be said to be a firm's merchandise, raw materials, finished and unfinished products which are in the store and not yet sold. There are various means of valuing these assets, but to be conservative the lowest value is usually used in financial statements (Tharuaplee, 1988)

Inventory management are systems and processes that identify inventory requirements(needs), sets targets, provide replenishment techniques and report actual and projected inventory status. Inventory management is generally recognized to be of sufficient importance to warrant the appointment of a person to carry specific responsibility for it; possibly along with other areas of the distribution function (Horward, 1974).

2.2. 1 Activities of Inventory Management

The main activities of inventory management include; inventory planning, inventory control, inventory monitoring, demand forecasting, balance reconciliation and inventory reporting (Hsu-Hua & Kleiner, 2001). Inventory management is the talent and disciplined

maintenance in essential inventory points of inventory at the right time, amount based on information at hand (Buxey, 2009).

Inventory planning and demand forecasting.

Producers of Inventory planning have direct linkage on the firm's cash flow and profit margin for the most part in SMEs that depend on speedy stocks of goods and materials that warrant and monitoring, Cannon, (2008). A key to inventory planning is accurate demand forecasting. Software systems utilization sophisticated mathematical models can predict future demand from historical usage data. The accuracy of the demand forecasting is largely dependent on how unusual usage is treated in the demand forecasting. It is imperative that historical usage be corrected for any unusual activities. Demand forecasting is an ongoing process.

Inventory control

Inventory control is a laid down guideline(s) or working actions put in place to make best use of a firm's inventory. This aims at balancing the maximum returns from the inventory while maintaining customers' satisfaction levels through inventory planning, (Doyle, et al., 2007). Inventory planning are procedures of establishing best numbers and timing of inventory that support sales and production.

Inventory monitoring and balance reconciliation

Inventory monitoring is the behavior in use to have most advantageous quantities or amount of inventory intended to offer continual production, sales and client services at lowest costs.

Inventory monitoring involves activities of monitoring arrival, use, shipment and disposition of inventory items to ensure the accuracy of inventory management. Items used for special events are common causes that result to count discrepancies. When a discrepancy occurs or the actual quantity physically counted does not match the stock level in the inventory system, staff in charge of inventory management need to reconcile the discrepancy between the physical inventory count results and inventory levels as per system.

Inventory Management Techniques

There are many different techniques used in inventory management. Among others include the following; Economic Tender Quantity (ETQ), Just in Time (JIT) and Activity Based Costing (ABC).

Economic Tender Quantity (ETQ) is the level of inventory that minimizes the total inventory holding costs and ordering costs. The framework used to determine this order quantity is also as Wilson ETQ Model. The model was developed by F.W Harris in 1913. But still R.H Wilson is given credit for this early in-depth analysis for the model with the following assumptions underlie the usage of the ETQ model; the ordering cost is constant, the rate of demand is constant, the lead time is fixed, the purchase price of the item is constant i.e. no discount id available

ETQ is essentially an accounting formula that determines the point at which the combination of other cots and inventory carrying costs are the least. The result is the most

cost effective quantity to order. In purchasing this is known as the order quantity, in manufacturing, it is known as production lot size. The basis Economic Tender Quantity (ETQ) formula is as follows;

$$ETQ = \sqrt{\frac{2 \text{ (Annual usage in units) (Tender cost)}}{\text{(Annual carrying cost per unit)}}}$$

Just-in-time (JIT) is defined in the APICS dictionary as "a philosophy of manufacturing based on planned elimination of all waste and on continuous improvement of productivity". It also has been described as an approach with the objective of producing the right part in the right place at the right time (in other words, "just in time"). Waste results from any activity that adds cost without adding value, such as the unnecessary moving of material, the accumulation of excess inventory or, the use of faulty production methods that create products requiring subsequent rework. JIT (also known as lean production or stockless production) should improve profits and returns on investment by reducing inventory levels (increasing the inventory turnover rate), reducing variability, improving product quality, reducing production and delivery lead times, and reducing other costs (such as those associated with machine setup and equipment breakdown).

ABC analysis is a business term used to define an inventory categorization often used in materials management. ABC analysis provides a mechanism for identifying items which will have a significant impact on overall inventory cost whilst also providing a mechanism for identifying different categories of stock that will require different management and controls.

2.2 .2Challenges of Inventory Management

In actual practice, the vast majority of manufacturing and distribution companies suffer from lower customer service, higher costs and excessive inventories than necessary. Inventory control problems are usually as a result of using poor process, practices and outdated systems.

The inventory management process is much more complex and many firms where the inventory control department is perceived as little more than a clerical function, such functions are probably not very effective. The likely result of this approach to inventory management is lots of material shortage, excessive inventories, high costs and low profits.

2. 3 Financial Performance

Financial performance is the ability to generate and sustain income, stability and growth, (Gitman, 2006). Financial performance has been termed as liquidity and profitability (Eroglu & Hofer, 2011). IASB, (2007) asserts that the Performance is the ability to generate and sustain income, stability and growth. The intent of financial performance is to cause 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. According to Herlfert, (1991), financial performance of individual companies displays markedly different patterns over time. Some companies profits increase, others decrease and some show fluctuating patterns.

Measuring financial performance involves examination of various financial statements to assess the performance of a business based on its profitability and liquidity, (for this

research only). The primary aim is to analyze the business's past and present performance in order to identify strengths and weaknesses to formulate feasible plans for the future (Barry et al., 2000). Financial measures are required by legislation and have been in existence for many years, so all businesses use some form of financial measurement systems (Lynch & Cross, 1995).

Different financial indicators measure various dimensions of financial performance such as; profitability and liquidity, and all of this information is needed to make an informed judgment about the financial health of an organization. For example, profitability indicators may indicate an organization is earning a profit, but liquidity indicators may show it is having difficulty paying its bills and capital indicators may show a lager increase in debt (Gapenski, 1996). Eccles (1998) argued that financial measures are no longer the only leading indicators of business performance. Quality, customer satisfaction, innovation, market share and the like are complementary with the financial indicators and are better metrics that reflect the economic health and grow prospect of a firm.

According to Helfert, (1991) ratios are taken as guides that useful in evaluating a company's financial position and operations and making comparisons with results in previous years or with other companies. Ratios may be used for window dressing to give a favorable picture of the company's financial position for instance reduction in discretionary costs (research, advertising, maintenance, training) can increase net profits while having a detrimental effect on the future earnings potential.

Profitability

Profitability is the most significant part in business that determines financial performance. In the economic point of view, profits are the payback for management. However, in the short run, the business has to earn a reasonable return that can enable it at least meet the operating costs. The statement of comprehensive can be the simplest measure of profits at the lowest level of an SME even though there are other financial methods to measure profitability like ratios (Lai, et al., 2011).

Helfert (1991) describes profitability as effectiveness with which management has employed both the total assets and the net assets are recorded on the statement of financial position. The effectiveness is judged by relating net profit to the assets utilized in generating the profit. The objective of profitability relates to a firm's ability to earn a satisfactory profit so that investors and shareholders will continue to provide capital to it.

Profitability may be measured in absolute terms by net firm's incomes, but this cannot be compared between different types of enterprises (Barry et al., 2000).Therefore, profitability ratios become more useful as general performance indicators. It is always important to use profits on ordinary activities before taxation when calculating profitability because there might be unusual variations in the tax charge from year to year which would not affect the underlying profitability of the enterprise's operations.

The two most frequently employed measures are return on capital and profit margins (return on turnover). The level of profits margins is perhaps a better indicator of market power (Helfert, 1991). It is important that operations, management and control systems

are efficient. Profit as a performance measure can only reveal that there is a problem, but provides little about the nature and the reasons for that problem (Hell &Morris, 1991).

Liquidity

Liquidity relates to having an adequate cash flow that allows the company to make necessary payments and ensure the continuity of operations (Celec, &Icerman, 1980). The liquidity of a business is measured by its ability to satisfy its short- term obligations as they come due. This implies that a liquid firm is one that is able to raise cash when it is needed (Steinhoff, & Burgess, (2001). Cash flow or liquidity and profitability are inseparable aspects in business much as they are never equal. Cash flows are sale from produced goods and assets, borrowed money, equity, which are not necessarily profits. Contrary profits include concepts like; asset value appreciation and depreciation or losses. Finally liquidity is reflected in statement of cash flow and budgets (Thompson et al, 2009).

Liquidity can be analyzed both structurally and operationally. Structured liquidity refers to the statement of financial position (assets and liabilities) and operational liquidity refers to cash flow measures (Salmi et, al., 1983)

Having enough liquidity allows the business manager to contrite on other more enjoyable aspects of the business' growth, development, new customers, new products and new processes. Not having sufficient cash forces the business manager to fixate on

getting more cash any way possible, sometimes to the occlusion of effective management and proper growth and development for the firm (Reider, & Heyler, 2005).

Every business needs adequate liquid resources to meet its financial obligations (Kakaru, 2001). It needs liquid (cash) for transactions, precautionary and speculative motives and be able to meet financial obligations on time. It also requires being solvent to meet future obligations. The firm's liquidity position can be assesses by use of ratios majorly; the current asset ratio (current assets/current liabilities) and the acid- test ratio (Quick assets (current assets less inventory)/current liabilities). The current ratio is calculated dividing total current assets by total current liabilities (current assets/current liabilities).

2.4 The relationship between Quality of financial information, inventory management and financial performance

The key components of effective financial management include; access to relevant information; use of that information to enhance management standards; and assurance that the information is accurate, relevant, reliable, and understandable and secure (Barrett, 2004). Financial information systems maintain and produce the data (e.g., financial statements containing information about accounts and financial position (Peter et al., 2001), therefore, the aim of the managers should be to make accounting system that gives a maximum benefit in the financial performance. If the quality of financial information is good, then greater the possibility for a business success (Goitom, 2003).This is because financial information can be viewed as an information measurement and communication system to serve macro and macro-economic activities (Entheroven, 1982).

Most often, decision-makers may be fed with irrelevant and unreliable financial information than they can use, they may overlook information on serious problems (Stoner et al, 1995). Financial reporting that does not reflect economic reality will result in improper decision-making. This requires managers and accountants to appreciate the quality of financial information in order to improve on management objectives. It's further noted that that quality of financial information is critical part of the performance management effort it improves communication with internal and external stakeholders, leads to better decision-making that and ultimately improves financial performance (Bisnow, 2004).

Inventory management is the function that supports business financial performance and efficiency. A number of inventory management components are involved at each stage of the production process which include; inventory planning, controlling and monitoring (Roumiantsev & Netessine, 2007). SMEs that support inventory planning expressly associate it on the company's cash flows, liquidity and profit margin in nearly all SMEs that deal with quick stocks of goods and materials that call for inventory monitoring. It avails recurrent production, sales and service at the lowest cost that ensure that the organization remain liquid, without stock outs through inventory control for better financial performance. Inventory management perfection is expected to cause mutually indirect and direct financial savings to the firm. Inventory management therefore can be of the crucial determinants of operational financial performance of SMEs, (Rajeev NarayanaPillai, 2010).

2.5 Conclusion

The review of the literature conducted has been very instrumental to the research study and the research exercise as well. The issues raised in the literature review indicate that financial performance is likely to be affected by quality of financial information and inventory management. This revelation through the literature review has provided the researcher with more understanding of the research problem to be studied. The review has further given the researcher confidence to proceed and conduct actual research in the field.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This section describes the research design, population and methodes of data collection to be used in the study as well as measurement of variables of the study.

3.1 Research Design

The study employed cross-sectional and quantitative research designs. This has been considered appropriate because it is useful when one wants to conduct a research study whereby one relationship is studied at a time.

3.2 Study Population

The study used a population of 205 legally registered with USSIA operating SMEs in Kampala district (USSIA report, 2012).

3.3 Sample size

A sample of 132 SMEs was selected from the population of 205 SMEs which were legally registered and operating in Kampala in the divisions of Kawempe, Lugaba, Makindye, Nakawa and Central division. The sample size was determined using Krejcie & Morgan (1970) table for determining a sample size

3.4 Sampling method

Stratified sampling method was used to divide the population into four respective divisions of Kampala City. The technique was used to ensure that each division is registered in the sample. Simple random sampling was used to select re132SMEs from the entire population. The sampling method was used because it gave an equal chance for each SME to be selected into the sample. The respondent from each SME were

purposively selected on behalf of these enterprises and these included senior managers, store managers and accountants. The unit of analysis was SMEs in Kampala City.

Table 1: Population and Sample size

Stratum	Sample size	Response rate(Freq)	Response rate (%)
Nakawa	32	23	32.4
Makindye	15	9	11.3
Kawempe	32	9	11.3
Central	41	23	3.4
Rubaga	12	9	12.7
Total	**132**	**73**	

3.5 Data collection sources

Primary data were collected from staff of SMEs by using questionnaire.

3.6 Data Collection Instruments

Structured questionnaire was used to collect the primary data from the respondents. The questionnaire was the most appropriate instrument for collecting data because the target population was literate and capable of filling it. It was designed based on the variables of the study and consisted of structured questions.

3.7 Measurement of Variable

The study variables were measured using a five –point Likert scale ranging from Strongly disagree, Disagree, Not sure, agree and Strongly agree (Raaijmakers et al., 200) as ranking for the questions in the questionnaire.

The questions were set on the sub constructs of each variables. That's Quality of financial information was measured using reliability, relevancy**,** accuracy, understandability, and timeliness, (Cannon, 2008), inventory management was measured by inventory planning,

control and monitoring as described by; (Buxey, 2009) and financial performance was measured using profitability and liquidity, (Eroglu and Hofer, 2011).

3.8 Data processing and analysis

The questions answered were ranked and codified to obtain quantitative data which was edited, coded and classified according to the attributes. The statistical package for social scientists was used to analyze and process data. Frequency distribution, factor analysis, correlations and regression analysis were the methods used to determine the relationship between the variables.

3.9 Validity and Reliability of instruments

The research instrument was tested for validity using the Content Validity Index (CVI) and reliability using Cronbach Alpha Coefficient and the internal consistency of the instrument was emphasized to find out whether it consistently measures the study variables on the scales used (Anastasi, 1982 & Nunnally, 1978), as seen in table-1 below. This was to ensure that CVI and alpha coefficients were above 0.5, for data collection instrument, which is a cut for validity and reliability of research instrument.

Table 2: Validity and Reliability analysis

Variable constructs	Cronbach's Alpha	CVI	No of items
Quality of financial information	0.888	0.741	49
Inventory management	0.748	0.720	21
Financial performance	0.742	0.700	17

Source: Primary data.

Cronbach's Alpha test for reliability of research questionnaire was done and according to the results in table 1, all of the variable items were found to have to be reliable since they had a coefficient above 0.70. This implies that the items would guarantee consistent responses when administered to the same respondents multiple times.

3.10 Data Processing and Analysis

The collected data were edited, coded and entered into the computer using the statistical package for social Scientifics (SPSS) and was scored. The analysis involved correlation and regression analysis. Pearson correlation analysis was used to determine the relationship between the study of variables; quality of financial information, inventory management and financial performance. Regression analysis was used to determine the extent to which the independent variables (quality of financial information and inventory management) predicted the dependent variable (financial performance). Factory analysis was used to examine the components that measured the study variables

3.10.1 Demographic characteristics of the respondents

This section presents information about the demographic characteristics of the respondents from various SMEs. The demographic characteristics of the respondents analyzed include; gender, position held, education level, location, nature of business, duration, capital, number of employees and annual turnover

Table 3: Descriptive characteristics of the respondents

Variable (N=73)	Description	Frequency	Percent
Gender	Male	42	59.2
	Female	29	40.8
Position of the respondent	Managing director	8	11.3
	Accountant	44	62.0
	Store manager	19	26.7
Education level	Certificate	10	14.1
	Diploma	20	28.2
	Degree	37	52.1
	Others	4	5.6

Source: Primary Data

Regarding the background characteristics of the respondents, table 2 indicates that the study was male dominated because, out of the 71 respondents constituting a percentage of 59.2%, 42 were males while 29 were females. It also revealed that most of the respondents 62.0% were accountants; followed by 26.7% who were store managers and the least percentage (11.3%) were managing directors.

Regarding the respondents' education level was such that the biggest percentage (52.1%) had a University degree, which implies that they could articulately read and understand the questions posed in that questionnaire, followed by diploma holders (28.2%), certificate holders (14.1%), and other (5.6%).

3.10.2 Background Characteristics of the registered SMEs

This section presents information about the background characteristics of the registered SMEs. These characteristics of the SMEs analyzed include; their location, nature of business, duration of operation, capital of business, their number of employees and turnover

Table 4: Background characteristics of the SMEs

Variable (N=73)	Description	Frequency	Percent
Location of the enterprise	Nakawa	23	32.4
	Makindye	8	11.3
	Kawempe	8	11.3
	Central	23	32.4
	Rubaga	9	12.7
Type of the business	Partnership	25	35.2
	Limited company	23	32.4
	Sole entrepreneurship	23	32.4
Duration of operation	Less than 1 yr	3	4.2
	1-5 yrs	25	35.2
	6-10 yrs	35	49.3
	Above 10 yrs	8	11.3
Capital of the business	0-5M	9	12.7
	6-10m	14	19.7
	11-20M	22	31.0
	20-50M	14	19.7
	Above 51M	12	16.9
Number of the employees	0-5	16	22.5
	5-50	41	57.7
	50-100	11	15.5
	Above 101	3	4.2
Annual turnover	0-5M	9	12.7
	6-9M	16	22.5
	10-50M	31	43.7
	Above 51M	15	21.1

Source: Primary Data

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the analysis, interpretations and discusions of findings of the study based on primary and secondary sources of data. It presents the findings guided by the following objectives; establishing the relationship between quality of financial information and financial performance,establishing the relationship between inventory management and financial performance and establishing the relationship between quality of quality of financial information, inventory management and financial performance in the chosen SMEs in Kampala City.The chapter contains frequency distributions of data of the respondents and the background characteristics of the SMEs, factor anlysis and descritive satistical anlysis of all the variables, correlations anlysis between the variables and regression anlysis

4.1 Factor analysis

A factor analysis was employed to determine the salient features that explain the behavior of each of the variables.

The factor structure of quality of financial information

Table 5: Factor structure of the quality of financial information

Variable\Factor	Relevancy	Accuracy	Understandability	Reliability	Timeliness
The enterprise's financial information predicts future financial performance	0.68				
The enterprise's financial information confirms expenditures	0.65				
The enterprise's financial information confirms future financial performance	0.65				
The enterprise's financial information predicts expenditures	0.63				
In this enterprise information corrects past evaluations of planned activities	0.63				
The information predicts the revenue levels in the enterprise	0.61				
Enterprise assets are not over/understated in the financial statements		0.62			
The enterprises' liabilities are not over/understated in the financial statements		0.62			
In this enterprise there is no bias in items presented in the financial reports		0.61			
Our expenditures are not over/understated in the financial statements		0.52			
In this enterprise financial information is consistent			0.53		
Our enterprise's outflows are clear and concise			0.53		
Our enterprise's cash inflows are easily understood by various users			0.49		
In this enterprise financial information is easily understood by users			0.48		
The accountants in the enterprise include all outflows information in the financial statements				0.67	
The enterprise ensures consistency in financial statements				0.67	
In this enterprise assets values are presented in the financial statements				0.66	
The enterprise's financial information represents all annual expenditures				0.65	
In this enterprise financial statements show all annual revenue collection				0.64	
In this enterprise present annual reports before the year end					0.64
In this enterprise financial reports are given on time					0.54
In this enterprise there are no delays in preparation of financial reports.					0.50
In this enterprise there is no coercion for accountants to provide financial statements on time					0.43
Eigen Values	10.56	6.59	3.05	2.42	2.25
Variance (%)	21.55	13.44	6.23	4.94	4.59
Cummulative Variance (%)	21.55	34.99	41.22	46.17	50.75

Source: Primary Data

Table 5 above shows significant differences in quality of financial information. The highest significant was relevancy that explains 21.55% of the quality of financial information implying that financial information provided to decision-makers was relevant for decision-making, accuracy, explains 13.44%, understandability, 6.23% reliability 6.23%, reliability 4.94% and timeliness, 4.94%. The important features of each the factors includes the following;

Relevance involves; financial information; predicting future financial performance (.68), confirming expenditures (.65), confirming future financial performance (.65), predicting expenditures (.63), correcting past evaluations of planned activities (.63) and predicts the revenue levels in the enterprise (.61).

Accuracy involves; enterprise assets not being over-understated in the financial statements (.62), the enterprises' liabilities are not over-understated in the financial statements (.62), there being no bias in items presented in the financial reports (.61) and expenditures not being over/understated in the financial statements (.52).

Understandability involves; the enterprise financial information being consistent (0.53), enterprise's outflows being clear and concise (.53), the enterprise's cash inflows being

easily understood by various users (.49) and the enterprise financial information is easily understood by users (.48).

Reliability involves; the accountants in the enterprise including all outflows information in the financial statements (.67), the enterprise ensures consistency in financial statements (.67), the enterprise assets values being presented in the financial statements (.66), the

enterprise's financial information represents all annual expenditures (.65), and the enterprise financial statements show all annual revenue collection (.64).

Timeliness involves; the enterprise present annual reports before the yearend (.64), the enterprise financial reports being given on time (.54), there being no delays in preparation of financial reports (.43) and there being no coercion for accountants to provide financial statements on time.

The table 5 above show significant mean values in relevancy of quality of financial information among SMEs in Kampala City. It implies that financial information provided to the decision makers was generally free from systematic or deliberate bias, material errors, not fraudulent and was in terms of presentation of transactions facts relating to the incomes, assets and expenditures and cash flows of SMEs as provided for in (SAC, 1900) This was in line with the requirements in Stein,(2000) and therefore implied high quality financial information that can securely be relied upon in making decisions as provided by Stoner et al., (1995) that would ultimately lead to financial performance.

4.1.2 The factor anlysis structure of inventory management

The factor analysis of inventory has three constructs and important issues under each is identified by their factor loading

Factor loading of planning, control and monitoring of inventory management

Table 6: Factor structure of inventory management

Variable\Factor	Inventory Control	Inventory Planning	Inventory Monitoring
Stock records are generated and documented	.78		
Regular stock taking is always done	.77		
We have regular material audits	.76		
We reconcile physical stock with records	.71		
We file and keep stock records	.62		
The enterprise has a purchasing manual		.73	
The enterprise has proper procedure for selecting suppliers for materials		.62	
User departments submit stock requisitions to the store.		.47	
The enterprise has a team to oversee stock levels			.84
Stock records are updated			.64
Materials from the stores are released on stock order requisition levels			.49
Physical materials are reconciled with records			.47
Eigen Values	*3.60*	*2.45*	*2.40*
Variance (%)	*15.00*	*10.21*	*10.01*
Cummulative Variance (%)	*15.00*	*25.21*	*35.22*

Source: Primary Data

Table 6 indicates that inventory control explains 15.0%, inventory planning, explains 10.21% and inventory monitoring 10.01%. The important features of each the factors includes the following;

Inventory control involves; Stock records being generated and documented (.78), Regular stock taking is always done (.77), having regular material audits (M.76), reconciling physical stock with records (.71) and filing and keeping stock records (.62).

Inventory planning involves; SMEs having a purchasing manual (.73), having proper procedure for selecting suppliers for materials (.62) and user departments submitting stock requisitions to the store (.47).

Inventory monitoring involves; SMEs having a team to oversee stock levels (.84), Stock records being updated (.64) and materials from the stores being released on stock order requisition levels (.49)

4.1.3 The factor anlysis structure of financial performance

The factor analysis of financial performance has two constructs and an important issue under each is identified by their factor loading

Factor loading of profitability and liquidity

Table 7: Factor structure of financial performance

	Profitability	**Liquidity**
Enterprise's sales to operating expense	.778	
The Return on Debt ratio	.767	
The enterprise's Net Profit Margin	.741	
Enterprise's Return on Investment	.673	
Enterprise's Accounts payable period		.797
Enterprise's Inventory turnover period		.689
Enterprise's Accounts receivable period		.686
Enterprise's Debtors' turnover		.673
Enterprise's Working capital ratio		.561
Enterprise's Quick ratio		.540
Eigen Value	*6.338*	*1.969*
Variance (%)	*35.208*	*10.937*
Cumulative Variance (%)	*35.208*	*46.145*

The factor analysis of Financial performance as per table 7 showed that profitability was the most important factor (Eigen value = 6.338, Variance = 35.208%), followed by liquidity (Eigen value = 1.969, Variance = 10.937%). This is an indication that profitability and liquidity explained the variance in financial performance by 35.208% and 10.937% respectively.

The most significant items underlying profitability included; Enterprise's sales to operating expense (.778), The Return on Debt ratio (.767) and The enterprise's Net Profit Margin (.741).

On the other hand the measure of liquidity was underscored by; Enterprise's Accounts payable period (.797), Enterprise's Inventory turnover period (.689) and Enterprise's Accounts receivable period.

4.2 Relationships between the Variables

The Pearson correlation coefficient was employed to examine the relationships between the variables.

Table 8: Correlation analysis

Variables (N=73)	(1)	3(2)	(3)
Quality of financial information(1)	1		
Inventory management(2)	.386**	1	
Financial performance(3)	.251*	.351**	1

** Correlation is significant at the 0.01 level(2-tailed)

Source: Primary Data

The results in table 8 further revealed that quality of financial information and financial performance were positively correlated (r=.251, p<.01). This implies high quality of

financial information corresponds with good financial performance in SMEs. Precisely; the level of relevancy, reliability, accuracy, understandability and timeliness of financial information directly corresponds with the level of profitability or liquidity of SMEs.

The findings in table 6 also revealed that inventory management was positively correlated with financial performance (r=.351, p<.01). This means that better financial performance is associated with high quality financial information and good inventory management and vice-versa

4.3 Multiple Linear regressions analysis

In order to determine how the variance in financial performance was influenced by the variance in quality of financial information and inventory managemnt, regression analysis was employed.

Table 9: Multiple Linear regression analysis

	Unstandardized Coefficients		**Unstandardized Coefficients**	t	Sig.
Variable	B	Std. Error	Beta		
(Constant)	.534	.422		1.267	.209
Quality of financial information	.133	.119	.136	1.118	.268
Inventory management	.196	.080	.298	2.443	.017
Dependent Variable: Financial performance					
R Square	0.139		F Statistic	5.475	
Adjusted R Square	0.113		Sig.	0.006	

Source: Primary Data

4.3.1The effect o quality of financial information on financial performance

The study revealed that quality of financial information did not have a significant effect on financial performance (beta=.136, P>.05). This implies that practices for SMEs regarding quality of financial information, does not influence financial performance

4.3.2The effect of quality of financial information on inventory management

Results in table 8 indicate that quality of financial information was positively correlated with inventory management (r=.386, p<.01). This implies that good quality financial information corresponds with good inventory management. Precisely; Information that is reliable, relevant, understandable, accurate and timely for inventory management by the staff are tandem with good inventory planning, control and monitoring.

4.3.3The effect of inventory management on financial performance

Results further showed that inventory management had a significant positive effect on financial performance (beta=.298, p<.05), implying that existence of good inventory management guaranteed good financial performance of SMEs. Specifically inventory planning, control and monitoring in SMEs would translate into good financial performance. The study also showed that quality of financial information did not have a significant effect on financial performance (beta=.136, P>.05). This implies that the practices of the SMEs regarding quality of financial information do not influence their financial performance.

4.3.4Discusion

Quality of financial information was not a significant predictor of financial performance to SMEs in Kampala. Majority of SMEs in Kampala are set up with very broad business objectives and thus need finances to execute the objectives and are therefore eager to exploit opportunities of formal financing to guarantee their survival even when they are not sure of the intentions of the banks. From the findings it can be asserted that quality of financial information is not a requirement if SMEs and to have good financial performance. This contradicts the study of (Cannon, 2008). This explains why the SMEs are increasingly adopting the IFRS in the preparation of financial statements

Inventory management was found to have a significant effect on the enterprises' ac financial performance, implying that if enterprises believe that having effective inventory management is vital than they need to adopt good inventory management to improve on their financial performance. This proves the works of (Buxey, 2009)

4.3.5 The model

The results in table 9 also revealed that the combined variance of quality of financial information and inventory management combined, for up to 11.3% variance in financial performance (Adjusted R square =.113), thus the remaining variance of 88.7% can be attributed by other factors outside the scope of this study. The model was also found to be well specified ($F=5.475$, $p<.01$), implying that the two independent variables; quality of financial information and financial information were appropriate predictors of financial performance.

CHAPTER FIVE

DISCUSSION OF RESULTS, RECOMMENDATIONS AND CONCLUSION

5.0 Introduction

This chapter presents the discussion of results, conclusions and recommendations and suggested areas for further research

5.1 Relationship between quality of financial information and financial performance among SMEs

The findings in table 9 indicate that quality of financial information has no significant effect on financial performance, and that the existence of best practices regarding preparation of financial accounting information following GAAP does not influence the financial performance of SMEs. This was not in line with study of (Goitom, 2003).

5.2 Relationship between inventory management and financial performance among SMEs

Results from the study in table 8 indicate that inventory management has a significant positive effect on financial performance. Positive significant correlation between inventory management and financial performance meant positive contribution of inventory planning, control and monitoring of inventory management. Inventory management helps in the process that identifies inventory requirements or needs, sets, inventory replenishment techniques such as Just in Time, Activity Based Costing, Economic Order Quantity and reporting and projecting inventory status s as a seen effect management indicator (Howard, 1974)

Once SMEs maintain good inventory management practices such effective inventory control, they will be able to provide better profitability and liquidity levels to various stakeholders for various better decision-making This implies that once inventory is

managed well, then there will be minimum inventory waste and timely production increasing on production sales enhance, profits (Cannon, 2008)

SMEs that support inventory planning expressly associate it on the company's cash flows, liquidity and profit margin in nearly all SMEs that deal with quick stocks of goods and materials that call for inventory monitoring. It avails recurrent production, sales and service at the lowest cost that ensure that the organization remain liquid, without stock outs through inventory control for better financial performance. Inventory management perfection is expected to cause mutually indirect and direct financial savings to the firm. Inventory management therefore can be of the crucial determinants of operational financial performance of SMEs, (Rajeev Narayana Pillai, 2010).

SMEs need to maximize returns from inventory through efficient inventory management through inventory planning, control and monitoring (Doyle, et al., 2007). The aspect of inventory planning supports sales and production that will ultimately affect the financial performance of an enterprise in terms of profitability and liquidity.

Inventory management is an indicator of effective management and a discipline. It involves demand forecasting balance reconciliation and inventory planning (Hsu-Hua & Kleiner, 2001). It's essential to have the right amounts of inventory at the right time so that good inventory management practices such as Just in Time can be practiced to satisfy customer's needs and amount based on information at hand about inventory (Buxey, 2009)

5.3 Relationship between quality of financial information, inventory management and financial performance among SMEs

The finding in table 8 revealed that combined with quality of financial information & inventory managemnt has an effect on financial performance of upto 11.3%. The findings indicate quality of financial information and inventory management play a big role in making financial performance in SMEs. SMEs must prepare their financial statemements in accordance to GAAP & IFRS for SMEs and also following National accounting standarnds so that they able to know how tne enterprise is performing in terms of profitability and liquidity as a result they require quality information that would d result into relevant decision- making by various stakeholders

Efficient inventory management will strengthen the financial performance and this can be achieved through having proper records documented for inventory for proper inventory control, having regular stock counts and performing inventory reconcilations. This would help in reducing inventory costs due stock losses that affects the levl of financial performance since inventory is a very element in financial statements (Roumiantsev & Netessine, 2007)

Most companies which have always focused on inventory as a principle function and recognize that the inventory effects their sales, as well as the books of accounts and profits, have managed to introduce and improve inventory management processes to have better financial performance levels (Chen et al., 2005) adds. It is crucial for SMEs to control and manage inventories through production of quality financial information regarding inventories because they are a significant portion of the current assets of any business enterprise (Kruger, 2005). Inaccuracies in an inventory creates a range of problems, including loss of productivity the manufacturing of unwanted items, a

reduction in the levels of customer commitment, the accumulation of costly physical inventories and frustration (Meyer, 1991).

5.4 Conclusion

The study provides a unique finding on the relationship between quality of financial information, inventory management and financial information which has not been widely studied in Kampala.

Inventory management was found to be a significant and positive predictor of financial performance of SMEs especially inventory control which explains 15% as seen in table 5 above. This implies that it deserves adequate focus in examining inventory management to have better financial performance in an enterprise. It calls for having effective inventory control techniques in order to manage inventory effectively for better financial performance.

The results indicated no significant effect of quality of financial information on financial performance meant that there was no positive contribution of relevance, reliability, accuracy, understandability and timeliness of financial information to the financial performance. Finally, Inventory management and quality of financial information cause a variation of 11.3% in financial performance implying that there are other micro and macro factors

5.5 Recommendations

In view of the above findings and discussion, the researcher hereby suggests the following recommendations to be implemented by the SMEs regarding their financial

performance if they are to attain greater levels of trust from their stakeholders and going concept in the enterprise

5.5.1 Inventory management and financial performance

The findings from the study indicated that inventory management have a positive significant effect on financial performance, implying that the existence of efficient inventory management practices guaranteed good financial performance of the SMEs. Therefore, the researcher recommends that;

A participatory approach should be used in attaining effective inventory management in SMEs. There should be involvement for all staff in inventory management in all departments to attain inventory plan since inventory management is a continuous process that needs concentrated efforts but not to be solely handled at the operations levels.

SMEs should employ mostly highly skilled and competent cost management accountants to help in managing inventory planning, control and monitoring and generating information concerning inventory. These are generally believed to be responsible for the pricing, costing and documentation of inventory.

SMEs should create compliance policies for inventory management. There should be standards operations procedure for day-to-day operations with a uniform process for inventory management. SMEs should develop inventory management policies that staff can adhere to such as stock instructions and billing guidelines.

5.5.2 Recommendations for further research

Since the correlation coefficient revealed that quality of financial information and inventory management determines 11.3% of the level of financial performance, further

studies should be carried out to determine the impact of other factors that affect financial performance in SMEs such legal and regulatory framework and other micro and macro economic factors. Macro-environmental factors like regulations that govern business operations, political factors, etc., be studied to determine access to finance by SMEs

The same study can also be extended to other areas of the country to determine the level of consistence in the finding. The sample was composed of legally registered operating SMEs found in Kampala District and leaving out SMEs in other districts in Uganda. The findings cannot therefore be generalized across the entire country. Studies in future can extend to other parts of the country, because the results may vary.

The study concentrated on reliability, relevancy, understandability, timeliness and accuracy to measure quality of financial information, a similar research could be carried out looking at other facets of quality of financial statements like: compliance, transparency and completeness (Nkundabanyanga,et al., 2011)

5.5.3 Limitations to the Study

The research was limited by time, but this was overcome by employing a strict timeframe and utilizing a number of data collection assistants. The research required a great deal of financial resources to carry out comprehensive study as planned by the researcher. However, the researcher tried to work with in the budget to make the study a success.

5.5.6 Ethical issues

Research suspicion and reluctance by some respondents were problems that were overcome by assuring the respondents of total confidentiality and value of the research.

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APPENDIX I: QUESTIONNAIRE

MAKERERE UNIVERSITY BUSINESS SCHOOL

MASTER OF SCIENCE IN ACCOUNTING AND FINANCE

RESEARCH QUESTIONNAIRE FOR THE REGISTERED SMALL AND MEDIUM ENTERPRISES' MANAGEMENT AND EMPLOYEMEES IN KAMAPALA

Dear Respondent;

This questionnaire is intended to facilitate research on '**Quality of financial information, Inventory Management and Finance Performance' a Study of Small and Medium Enterprises in Kampala.**

Your organization has been selected as one of the key respondents in this study. You are kindly requested to answer the following questions honestly to facilitate this study, which is purely for academic purposes

All the information provides will be treated with utmost confidentiality required of the accounting profession.

Please kindly fill this form with the response that you think is most appropriate by ticking in the box or filling in the contribution

Thank you for your participation and if you have any questions please do not hesitate to contact me directly on Tel.No. (0702-362 762)

Yours faithfully,

Lovince Akurut (STUDENT)

SECTION A: **GENERAL INFORMATION**

This section captures the information concerning you and the enterprise. Please tick the best option and provide an answer where the options do not exist.

1. Name of the enterprise…….

2. Location of the enterprise…….

3. Gender: Male ☐ Female ☐

4. Position of the respondent

   Managing director ☐ Accountant ☐ Store Manager ☐

5. Education level

   Certificate ☐ Diploma ☐ Degree ☐ Others ☐

6. What is the type of the business

   Partnership ☐ Limited company ☐ entrepreneurship ☐

7. For how long has the business been in existence?

   Less than 1 year ☐ 1-5 years ☐ 6-10 years ☐ above 10 years ☐

8. Capital of the business

   0-5M ☐ 6-10M ☐ 11-20M ☐ 20-50M ☐ above 51M ☐

9. Number of employees

   0-5 ☐ 5-50 ☐ 51-100 ☐ above 101 ☐

10. What is the approximate annual turnover of the business

0-5M ☐ 6-9M ☐ 10-50M ☐ above 51 ☐

SECTION B:

QUALITY OF FINANCIAL INFORMATION

This section has statements about Quality of Financial Information. You are provided with a scale of five option that is**; 1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree**

Kindly tick (√) one choice that best suits the statement in the space provided.

	RELIABILITY	**Strongly disagree**	**Disagree**	**Not sure**	**Agree**	**Strongly agree**
1	The enterprise ensures that financial information is unbiased	1	2	3	4	5
2	Accountants take caution when preparing financial information	1	2	3	4	5
3	The enterprise ensures consistency in financial statements	1	2	3	4	5
4	In this enterprise auditors check financial statements	1	2	3	4	5
5	In this enterprise financial statements show all annual revenue collection	1	2	3	4	5
6	The enterprise's financial information represents all annual expenditures	1	2	3	4	5
7	The enterprise includes all cash inflows information in the financial statements	1	2	3	4	5

8	The accountants in the enterprise include all outflows information in the financial statements	1	2	3	4	5
9	In this enterprise assets values are presented in the financial statements	1	2	3	4	5
B	**RELEVANCE**					
1	In this enterprise financial information helps users to make decisions	1	2	3	4	5
2	The accountants provide financial information on time	1	2	3	4	5
3	The enterprise's financial information predicts future financial performance	1	2	3	4	5
4	The enterprise's financial information confirms future financial performance	1	2	3	4	5
5	In this enterprise financial information helps in resources planning	1	2	3	4	5
6	The enterprise's financial information predicts planned activities	1	2	3	4	5
7	The enterprise's financial information confirms planned activities	1	2	3	4	5
8	The information predicts the revenue levels in the enterprise	1	2	3	4	5
9	The information confirms the revenue levels in the enterprise	1	2	3	4	5
10	In this enterprise information corrects past evaluations of planned activities	1	2	3	4	5
11	The enterprise's financial information predicts expenditures	1	2	3	4	5
12	The enterprise's financial information confirms expenditures	1	2	3	4	5
13	In this enterprise the information predicts the assets	1	2	3	4	5
15	In this enterprise the information confirms the assets	1	2	3	4	5
16	The information predicts the indebtedness of the enterprise	1	2	3	4	5
17	The information confirms the indebtedness of the enterprise	1	2	3	4	5
18	The information predicts cash inflows performance of the enterprise	1	2	3	4	5
19	The information confirms cash inflows performance of the enterprise	1	2	3	4	5
20	The information predicts cash outflow performance of the enterprise	1	2	3	4	5
21	The information confirms cash outflow performance of the enterprise	1	2	3	4	5
C	**ACCURANCY**					
1	Accountants in the enterprise ensure consistency of financial information	1	2	3	4	5
2	In this enterprise there are no errors in financial statements	1	2	3	4	5

3	The enterprise's incomes are not over/understated in the financial statements	1	2	3	4	5
4	Our expenditures are not over/understated in the financial statements	1	2	3	4	5
5	Enterprise's assets are not overstated/understated in the financial statements	1	2	3	4	5
6	In this enterprise there is no bias in items presented in the financial reports	1	2	3	4	5
7	The enterprise's liabilities are not over/understated in the financial statements	1	2	3	4	5
D	**UNDERSTANDABILITY**					
1	In this enterprise financial information is easily understood by users	1	2	3	4	5
2	Accountants in the enterprise ensure that financial information is clear and concise	1	2	3	4	5
3	In this enterprise financial information is consistent	1	2	3	4	5
4	Our enterprise's cash inflows are easily understood by various users	1	2	3	4	5
5	Our enterprise's outflows are clear and concise	1	2	3	4	5
6	In the enterprise expenditures items are easy to understand	1	2	3	4	5
7	In this enterprise liabilities are easily known in terms of value and nature	1	2	3	4	5
8	In this enterprise indebtedness is easily known in terms of value and nature	1	2	3	4	5

INVENTORY MANAGEMENT

This section has statements about Quality of Financial Information. You are provided with a scale of five option that is**; 1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree**

Kindly tick (√) one choice that best suits the statement in the space provided.

A	**INVENTORY CONTROL**	**Strongly disagree**	**Disagree**	**Not sure**	**Agree**	**Strongly agree**
1	In this enterprise we have regular material audits	1	2	3	4	5
2	In this enterprise we generate and document stock records	1	2	3	4	5
3	In this enterprise we file and keep stock records	1	2	3	4	5
5	In this enterprise materials are inspected when received	1	2	3	4	5
6	In this enterprise regular stock taking is always done	1	2	3	4	5
7	In this enterprise we reconcile physical stock with records	1	2	3	4	5
8	In this enterprise there are proper stock storage facilities provided	1	2	3	4	5
9	Our enterprise classifies stock	1	2	3	4	5
10	The enterprise's stock is coded	1	2	3	4	5
11	In this enterprise stock is protected against fire, theft and damage	1	2	3	4	5
12	In this enterprise has material audits	1	2	3	4	5
13	In this enterprise has duties and responsibilities segregated for staff in charge of inventory	1	2	3	4	5
B	**INVENTORY PLANNING**					
1	In this enterprise stock levels are forecasted	1	2	3	4	5
2	The enterprise has one purchasing department for materials	1	2	3	4	5
3	In this enterprise user departments have re-order levels of stock	1	2	3	4	5
4	The enterprise has proper procedure for selecting suppliers for materials	1	2	3	4	5
5	In this enterprise user departments submit stock requisitions to the store departments of time	1	2	3 3	4	5

C	INVENTORY MONITORING					
1	In this enterprise we have regular stock counts	1	2	3	4	5
2	In this enterprise physical materials are reconciled with records	1	2	3	4	5
3	In this enterprise accountants and store managers use automated systems to check stock levels	1	2	3	4	5
4	The enterprise has a team to oversee stock levels	1	2	3	4	5
5	In this enterprise stock record are update	1	2	3	4	5
7	The enterprise's materials from the stores are released on stock order requisitions basis	1	2	3	4	5

FINANCIAL PERFORMANCE

This section has statements about financial performance. Kindly tick (√) one choice that best suits the statement in the space provided.

PROFITABILITY

1. Enterprise's Gross Profit Margin:1-5% ☐ 6-10% ☐ 11-15% ☐ 16-20% ☐ 21%above ☐

2. The enterprise's Net Profit Margin:1-5% ☐ 6-10% ☐ 11-15% ☐ 16-20% 21% above ☐

3. Enterprise's Return on Capital Employed:1-5% ☐ 6-10% ☐ 11-15% ☐ 16-20% ☐ 21% above ☐

4. Enterprise's Return on Equity:1-5% ☐ 6-10% ☐ 11-15% ☐ 16-20% ☐ 21% above ☐

5. Enterprise' Return on Investment:1-5% ☐ 6-10% ☐ 11-15% ☐ 16-20% ☐ 21%above ☐

6. The Return on Debt ratio:1-5% ☐ 6-10% ☐ 11-15% ☐ 16-20% ☐ 21% above ☐

7. Enterprise's Sales to Operating expense:1-5% ☐ 6-10% ☐ 11-15% ☐ 16-20% ☐ 21% above ☐

8. Enterprise's Net asset turnover over:1time ☐ 2times ☐ 3times ☐ 4times ☐ 5times above ☐

9. Enterprise's Fixed Asset turnover:1time ☐ 2times ☐ 3times ☐ 4times ☐ 5times above ☐

10. Enterprise's Stock turnover:1time ☐ 2times ☐ 3times ☐ 4times ☐ 5times above ☐

LIQUIDILITY

1. Enterprise's Working capital ratio: 0:1 ☐ 1.5:1 ☐ 1:1 ☐ 2:1 ☐ 2:2 above ☐

2. Enterprise's current ratio: 0:1 ☐ 1.5:1 ☐ 1:1 ☐ 2:1 ☐ 2:2 above ☐

3. Enterprise Quick ratio: 0:1 ☐ 0.5:1 ☐ .7:1 ☐ 1:1 ☐ 2:2 above ☐

4. Enterprise's Cash inflows to liabilities:1-5% ☐ 6-10% ☐ 11-15% ☐ 16-20% ☐

21%above ☐

5. Enterprise's Cash inflows to urgent liabilities:1-5% ☐ 6-10% ☐ 11-15% ☐ 16-20% ☐

21% above ☐

6. Enterprise's Inventory turnover period: 1week ☐ 2weeks ☐ 3weeks ☐ 4weeks ☐

Over a month ☐

7. Enterprise's Debtors' turnover: 1time ☐ 2times ☐ 3times ☐ 4times ☐

5times above ☐

8. Enterprise's Accounts receivable period: 1week ☐ 2weeks ☐ 3weeks ☐ 4weeks ☐

s ☐

Over a month

9. Enterprise's Accounts Payable period: 1week ☐ 2weeks ☐ 3weeks ☐ 4weeks ☐

Over a month ☐

Thank you

APPENDIX II: TIME FRAME WORK

Activity	Five month	Two months	Two months	Two months	Two months	One month
Proposal writing						
Making Questionnaire						
Pilot Tests						
Data Collection						
Data Analysis						
Report Writing & Manuscript						

APPENDIX III: PROPOSED BUDGET OF THE STUDY

Item	**Estimated cost (UGX)**
Stationery and printing	500,000
Transport from within Kampala	600,000
Telephone calls	50,000
Research Assistants	500,000
Secretarial	100,000
Analysis	400,000
Photocopying	100,000
Binding	40,000
Miscellaneous	100,000
Total	**2,390,000**