

**ACCOUNTING SYSTEM AND FINANCIAL REPORTING IN MICROFINANCE  
INSTITUTIONS: A CASE STUDY OF MASAKA MICROFINANCE &  
DEVELOPMENT COOPERATIVE TRUST (MAMIDECOT)**

**BY**

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS  
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UNIVERSITY**

**SEPTEMBER, 2019**

**DECLARATION**

I, Tayebwa Simon, declare that the information presented in this research report is my original work and that has never been presented anywhere in any institution of high learning for any award

SIGNATURE.......... DATE ..........



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**APPROVAL**

This is to certify that Tayebwa Simon carried out his research and as a result, a report has been prepared under my supervision and is now ready for examination and approval.

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## **DEDICATION**

This research report is dedicated to the almighty God who is the source of all wisdom, knowledge and strength. Special thanks go to my beloved parents Mr. Tayebwa Gyederera and Mrs. Kansime Sylvia support throughout my education career. In a special way I would like to dedicate this research report to my parents for giving life to me.

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## LIST OF ACRONYMS

MAMIDECOT:	Masaka Microfinance and Development Cooperative Trust
RFID:	Radio Frequency Identification
FDB:	Financial Database
LEAs:	Local Education Agencies

## ABSTRACT

The researcher investigated “Accounting system and financial reporting in microfinance institutions”. The study was guided by three research objectives which were; to find out the accounting systems used by the microfinance institutions, to find out the procedures involved in financial reporting in microfinance institutions and lastly, to find out the effect of accounting system (computerized) on finance reporting in microfinance institutions.

The methodology involved the use of a cross sectional research design where data collected once from a cross section of respondents was selected. Both qualitative and quantitative approaches were used in data collection and analysis. The study population constituted of the managers and accountants from MAMIDECOT. The data collection instruments involved the use of questionnaires and Interviews.

The findings revealed that the Accounting systems used in MAMIDECOT are Managerial accounting systems, computerized accounting system, Inventory accounting systems, Industry-specific accounting systems. The Procedures used in financial reporting includes entering data into the financial database (FDB) and into the Account, Data is read and merged, the results are obtained after merging, determination of the balance method. Lastly, financial statement items are obtained. The effects of computerized accounting system on financial reporting in MAMIDECOT include but not limited to increasing speed of carrying out routine financial transactions, ensuring timeliness that leads to timely delivery of financial reports to the top managers and facilitation of quick analysis of financial reports. The researcher recommended that organizations which undertake the use of Computerised accounting systems should create back up of all their operations to limit the possibility of total loss in case of virus attacks.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

This chapter contains the background of the study, statement of the problem, purpose of the study, research objectives, research questions, scope of the study, significance, and operational definitions of terms.

#### **1.1 Background of the study**

Accounting is an essential part of any business, large or small owners, profit making or not for profit organizations. Many small enterprises do their accounting manually and they are satisfied. Others may be considering using a computerized system, since accounting software is much affordable. Manual and computerized accounting systems perform basically the same processes, the accounting principles and concepts are the same with differences lying in the technicalities of the process. Although computerized accounting system is expensive, its advantages lie on speed and being able to store information.

Financial report is a means of portraying financial accountability, in order for an organization to review the financial activities of the past year and make plans for the future it prepares and publishes annual accounts or financial reports Collins and Collins

(1978). Saleemi (1981) defined financial reporting as the process of supplying financial information which is reliable, accurate and complete to the various stakeholders for making economic decisions. This is always in form of financial statements such as statement of comprehensive income, statement of financial position and cash flow statement and other financial annually reports which provide an overview of the company's current financial strength According to Samuel (1991), financial reports are outputs of an accounting system and they are prepared at the end of the year, hence the name final accounts.

MAMIDECOT (2013), Masaka Microfinance and Development Cooperative Trust (MAMIDECOT) is a small microfinance institution located in Masaka-Uganda that has collaborated with J-PAL affiliates on a study of the impact of savings accounts on households in Uganda, with address Box 918 Masaka-Uganda. MAMIDECOT is a financial institution operating in southwestern Uganda aiming at providing a mechanism through which its members could save and borrow at low interest rates to meet their socio-economic needs. It provides services to the following districts that comprise the "greater Masaka" sub-region: Masaka, Rakai, Bukomansimbi, Kalungu, Lwengo, Sembabule, Kalangala and Lyantonde. The institution was established in 1999 after a total collapse of the social service delivery system in Uganda, brought about by many years of political turmoil and terror. It began as a financial cooperative organization to voluntarily unite people in order to meet their common economic, social, and cultural needs. MAMIDECOT is able to meet these needs through the promotion of saving,

extension of credit facilities, and provision of business and agricultural advisory services to its members. At its inception, MAMIDECOT began with 34 members with a net equity of UGX 6.4 million and two employees. The institution has grown steadily to 16,285 members. Deposits have grown to UGX 2,666,068,306 while the loan portfolio has grown to UGX 3,622,455,000. The share capital holding stands at UGX 867,755,000. Other measures of performance stand as follows: Portfolio at risk 11%, Operational self-sufficiency 158%, Operating cost ratio 27%, Repayment rate 90%, Liquidity ratio 18% and Portfolio yield 31% (Data as at 31/07/2013).

MAMIDECOT is registered in the Cooperative Department of the Government of Uganda's Ministry of Trade, Industry and Cooperatives with the registration number 6317. Being a members' cooperative, the shareholders are the owners. The current 16,285 members are therefore the owners. Their powers are however delegated to the Board of Directors elected by the Annual General Meeting that is elected every two years. The institution started its operations in rented premises but now has its own two-storey building at Nyendo. It is this building that houses the Head Office-the coordinating unit of the establishment and Nyendo, the main branch. MAMIDECOT now operates with five branches in Nyendo, Lukaya, Kalungu, Bukomansimbi and Bukunda-the newest that was opened on 30/06/2012.

The vision of MAMIDECOT is to become a sustainable financial institution alleviating poverty amongst its members and providing quality financial services, and the main objective is to eradicate poverty among the population in Masaka and the neighboring



districts. To foster its vision, mission and accounting goals, MAMIDECOT uses accounting system which has just been introduced of recent to ensure that the transactions performed within the microfinance are accounted for. MAMIDECOT uses a computerized financial system, which involves the application of the computer based software used to input, process, store, and output accounting information. This application is in support of the ever advancing technology that enables firms to use computer programs to perform tasks that were previously done manually. A computerized accounting system therefore involves the computerised accounting systems of accounting information systems which is established in order to facilitate decision making. These are associated with a number of benefits like speed of carrying out routine transactions, timeliness, quick analysis, accuracy and reporting.

However, such a system has affected financial reporting of MAMIDECOT in the following ways; Theoretically it is expected that a computerized accounting system would result to quality financial reports. Through studies done by Carol (2002), it is easy to do accounting functions using computerized accounting systems, like posting transactions to the ledger, the principle of double entry can largely be automated when done through the use of computerized accounting system. Evidence from academic studies suggests that donors respond to accounting information in making their decisions (Parsons, 2007; Buchheit and Parsons, 2006). In 2010, Gordon and colleagues outlined five best practice recommendations for annual reports in the non-profit sector completeness, accessibility and transparency in financial reporting, full disclosure and

relevance. McBride (2000) stated that managers cannot easily satisfy statutory and donor reporting requirements such as profit and loss account, balance sheet and customized reporting without using computerized accounting systems. With the system in place, this can be done quickly and with less effort. Computerized accounting systems ease auditing and have better access to required information such as cheque numbers, payments, and other transactions which help to reduce the time needed to provide this type of information and documentation during auditing.

According to European Union audit in 2003, it was noted that organizations are not enjoying the benefit of Computerised accounting systems of accounting system as they have continued to be inaccurate due to increased number of interruptions due to system failure or breakdown and un-timeliness with its reliability left in question. In other studies, Computerised accounting systems saves time on transaction hence leading to quality of financial reporting for instance timely, accurate and reliable information can be generated (Lewis 1999).

Therefore, the study seeks to find out the various ways in which the accounting system has affected financial reporting in Masaka Microfinance & Development Cooperative Trust (MAMIDECOT).

## **1.2 Statement of the problem**

Masaka Microfinance and Development Cooperative Trust (MAMIDECOT) is currently facing a number of problems such as inefficiency of financial reporting, poor communication of financial reports, high labour turnover, poor budgeting, inconsistency in the financial reports, low savings, inadequate capital, late submission of financial reports, incomplete financial information and poor saving culture. These problems which have affected the microfinance performance can be addressed by the accounting system since it has a direct relationship with the problems that have been sighted herein. This therefore calls for a need to conduct a research to establish the various ways in which the financial accounting system affects the financial reporting of accounting information in MAMIDECOT.

## **1.3 Purpose of the study**

The main purpose of the study was to find out the various ways in which the accounting system affect financial reporting in MAMIDECOT.

## **1.4 Objectives of the study**

- (i)** To find out the accounting systems used by the microfinance institutions.
- (ii)** To find out the procedures involved in financial reporting in microfinance institutions.
- (iii)** To find out the effect of accounting system (computerized) on finance reporting in microfinance institutions.

## **1.5 Research questions**

- (i)** What accounting system does MAMIDECOT employ?
- (ii)** What procedures are involved in financial reporting in microfinance?
- (iii)** What is the effect of accounting system on the financial reporting in microfinance institutions?

## **1.6 Scope of the study**

### **1.6.1 Content scope**

The study was carried out to find out the various accounting systems used in microfinance institutions so that the problems associated with financial reporting in microfinance institutions can be mitigated to ensure better performance of microfinance institutions. In this study, the variables are; independent and dependent. The independent variable is the accounting system and the dependent variable was the financial reporting in microfinance institutions. This is because the structure of financial reporting is based upon the performance of accounting system.

### **1.6.2 Geographical scope**

The research for the study was conducted in Masaka Microfinance Development Cooperative Trust LTD in Masaka South Western Uganda. Since MAMIDECOT has several braches, the study was mainly be carried in MAMIDECOT Nyendo main branch.

### **1.6.3 Time scope**

Duration wise, the research was carried out from 2018 to 2019. This duration defines the time limit within which the research should be executed.

### **1.7 Significance of the study**

- 1) The findings of the research helped microfinance institutions to choose the best accounting system based on performance that may lead to perfect financial reporting. This is because majority of the problems that microfinance institutions face result from behaviour and performance of the accounting system used in a given microfinance institutions.
- 2) The findings of the study provided a platform upon which financial reporting was done. This is because the research findings clearly showed rightful procedures through which financial reporting should be done.
- 3) The findings of the study also help younger researchers who would like to do more research on the study. This is because the findings revealed secondary information to their research.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter presents the review of the work and articles by other researchers which has been acknowledged by the researcher herein in line with the main theme of the study.

#### 2.2 Accounting systems used in microfinance institutions

Carolyn Gray (2009), accounting systems provide reporting for auditors as well as important management information to run a business. Accounting systems are comprised of manual or computerized records of financial transactions for the purpose of recording, categorizing, analyzing and reporting timely financial management information. When selecting an accounting system, understand your needs and the categories of accounting systems and features available to you. Therefore, the following are the various forms of accounting systems used in microfinance institutions;

##### 2.2.1 Computerized Accounting System

A computerized accounting system which MAMIDECOT involves the computerised accounting systems of accounting information systems which is established in order to facilitate decision making. These are associated with a numbers of benefits like speed of carrying out routine transactions. timeliness, quick analysis, accuracy and

reporting. Effective and efficient information flow enhances managerial decision-making, thereby increasing the firm's ability to achieve corporate and business strategy objectives. This in turn, may increase the prospects of the firm's survival (Platt and Platt, 2012). This can be evaluated by the procedures, accounting records and tools used (Keating and Frumkin (2003)).

### **2.2.2 Managerial Accounting System**

Carolyn Gray (2009), the purpose of managerial accounting is to provide managers with information to plan, control and manage the operations of a business using managerial accounting system. It provides management with the information needed to make important decisions about the business. One type of managerial accounting system is cost accounting system which serves to record actual costs incurred in delivering a product or service, comparing those costs to standard or planned costs and highlighting variances for investigation and follow up. Another managerial accounting system is Lean Accounting System which involves the examination of processes and related results to determine how to create more value for less cost, and eliminating waste of resources.

### **2.2.3 Inventory Accounting System**

Inventory accounting systems are used to plan and track inventory levels and inventory related activities. One common inventory system is bar code tracking. Each inventory item is tagged with a bar code. As inventory items are brought into a warehouse or moved out of a warehouse, the bar codes are scanned to add to or subtract from inventory. Bar code systems can also be used to track for and account

for items as they are moved around in a warehouse. Another type of inventory accounting system is RFID, a new technology that will see expanded use. This type of system, more advanced than bar coding, has a device on each inventory item that emits a signal. Readers can detect the signal and track the inventory. Unlike bar coding, this system can track the actual movement of inventory in real time as it moves around a warehouse (Carolyn Gray, 2009).

#### **2.2.4 Industry-specific Accounting System**

Accounting systems also include industry-specific applications. A retail accounting system, for example, has different requirements than in other industries. Sales are captured at the point of sale using computerized point-of-sale cash registers. When items go on sale, the retail accounting system must track and properly report on merchandise markdowns. Legal accounting software has other specific requirements as well, including the tracking of time spent by attorneys, dollar amount of time billed out based on an hourly rate and the utilization rate of each attorney. Utilization rate is the percent of a person's time spent that is billable as opposed to administrative (Carolyn Gray, 2009).

#### **2.2.5 Not-for-profit Accounting System**

Not-for-profit accounting system has its own specific set of reporting requirements. For example, funds must be tracked so that donations designated for specific purposes are properly spent. The software/system should also be able to produce donation statements that report on amounts contributed by individual donors (Carolyn Gray, 2009).



## 2.3 Financial reporting

### 2.3.1 Financial reporting process/procedure

A financial report is a set of documents prepared usually by government agencies at the end of an accounting period. It generally contains summary of accounting data for that period, with background notes, forms, and other information (BusinessDictionary.com, 2015).

The financial reporting process is a sequence of different programs that generate data for a financial statement (balance sheet, profit and loss statement) for external accounting. These financial statements can include:

- Year-end closing
- Month-end closing
- End-of-quarter closing

BusinessDictionary.com (2015), there can be several financial reporting processes for each financial statement. A distinction is made between standard runs and correction runs. The first financial reporting process for a balance sheet is also known as an initial run and is always a standard run. The other financial reporting processes for a balance sheet are usually correction runs. Financial reporting processes can extend over a period of several weeks until the final statements have been created, accepted, and published. A financial reporting process is always assigned to a balance sheet. A balance sheet created by Balance Analyzer has the following attributes:

- Legal entity
- Accounting system

- Fiscal year, period
- Value type

### **2.3.2 Corrections in the Financial Reporting Process**

Corrections can be made in Balance Analyzer and in the Financial Database (FDB). To process the corrections and include them in financial reporting, a new process has to be started after corrections have been entered. Depending on the type of correction (correction to FDB objects, results data), the financial reporting process can be executed using a different flow definition. The flow definition used must contain the steps required to process the effects of the corrections completely (BusinessDictionary.com, 2015).

Correction functions are not included in flow definitions, because the flow definitions contain only the steps that are required AFTER corrections have been made and which process the effects of the corrections. The actual corrections are made manually and result in the financial reporting process being repeated either in full or partially. The correction functions themselves are not part of the financial reporting process. The diagram below shows a typical financial reporting process (full run) intended to obtain financial statements (financial statement items (FSIs)) for use either internally or externally to the microfinance (BusinessDictionary.com, 2015);

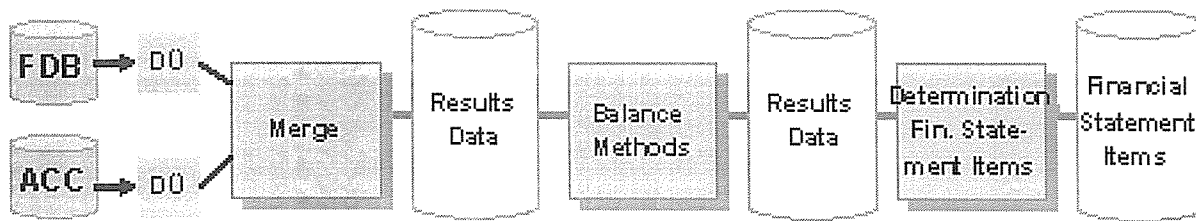


Fig 3.1 financial reporting process (full run)

### Correction runs in a financial reporting process

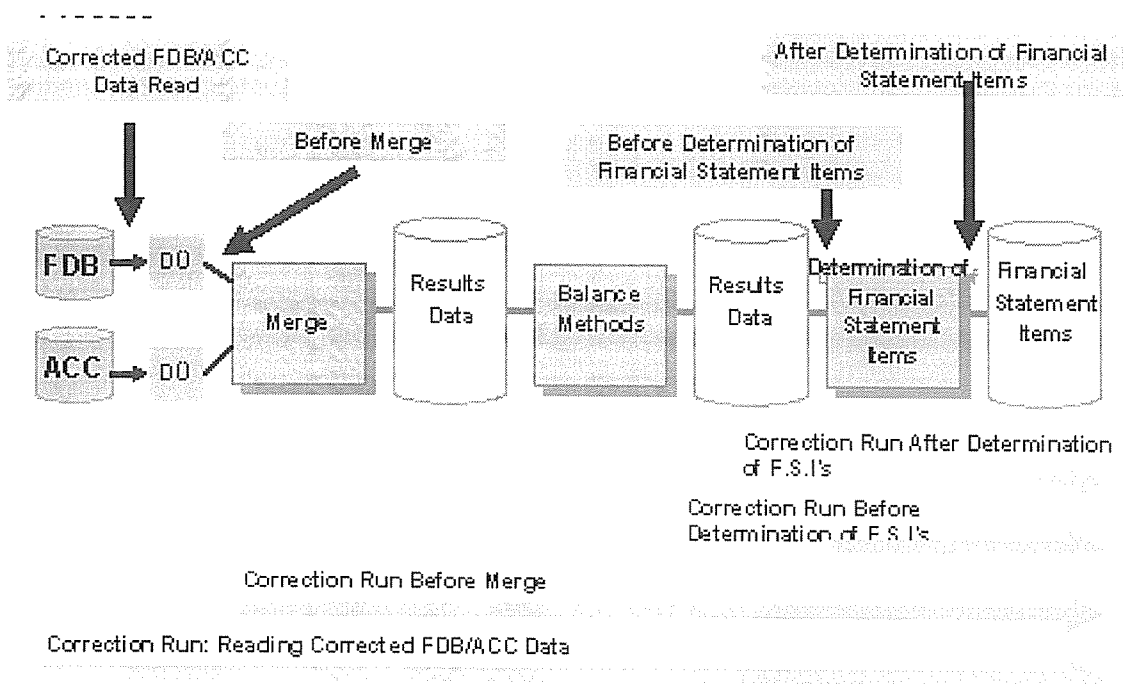


Fig 3.2 Correction runs in the financial reporting process

### 2.3.3 Prerequisites

The FDB data-population process has been completed. If a master data transfer, external business transaction postings and internal business transactions updates are necessary, the processes must be run as sub-processes of a financial reporting pre-

process.

#### **2.3.4 Process Flow**

A financial reporting process always starts with the creation of a financial reporting process and finishes by closing the financial reporting process. When the financial reporting process has been closed, programs within it can no longer be started. You first have to create a new financial reporting process, in which you can start programs again. The previous process for the same balance sheet has been closed. When a financial reporting process is complete, the system displays an application log (To run a financial reporting process, you can schedule programs in a flow definition in the Schedule Manager or you can start the individual steps of the financial reporting process in the individual transactions)

#### **2.3.5 Result of the financial reporting process**

When all the financial reporting processes for a financial statement are finished, data is available for the balance sheet, profit and loss statement, and appendix.

#### **2.3.6 Financial statement**

Jackie Lohrey (2009), the results of financial reporting are reflected as financial statements, and therefore, a financial statement summarizes the financial position and health of a business at a specific point in time. Each of the three main financial statements such as the balance sheet, income statement and cash flow statement use elements of accounting to provide information useful to both the business and other interested parties such as lenders and potential investors as explained below;

### **2.3.7 Balance Sheet**

The balance sheet reflects the financial condition of a business at the end of a specific reporting period. Each of the business's assets, liabilities and equity is recorded, totaled and used to prove the accounting equation, which states that assets equal liabilities plus owner's equity. On the balance sheet, however, assets include only tangible business resources such as cash, supplies and equipment, accounts receivable and unexpired portions of prepaid expenses. In addition, the balance sheet reports the value of assets at their original purchase regardless of fair market value increases or decreases over time. Liabilities include debts and obligations, such as payables and unearned revenues, owed to others as of the balance sheet reporting date. Owner's equity represents the book value of the business as of the reporting date (Jackie Lohrey, 2009).

### **2.3.8 Income Statement**

The income statement uses revenue which is the amount earned over a reporting period, and expenses incurred to earn revenue as determinants of profitability. In accrual basis accounting, revenues and expenses are recorded when they're earned or incurred rather than when the business receives or pays out money. As a result, revenues include both sales and accounts receivables, while expenses include any obligations incurred during the reporting period, regardless of whether they've been paid. Profitability is determined by subtracting cost of goods sold and expenses from revenue to arrive at either a net profit or a loss. A main point about an income statement is that doesn't show either when revenues are collected or when expenses

are paid. Its objective is only to project a net profit or a net loss for the business for the reporting period (Jackie Lohrey, 2009).

### **2.3.9 Cash Flow Statement**

The cash flow statement uses accounting elements from both the balance sheet and income statement to report on cash flowing into and out of the business during the reporting period. A cash flow statement ultimately determines short-term viability, or whether the business had funds available to pay daily operating expenses and short-term debt obligations. Unlike the balance sheet, the cash flow statement identifies the source of revenues, separates them according to whether they're generated from operational, investing or financing activities. It also separates cash outflows according to whether they're used to pay daily operating expenses, loan payments or business purchases (Jackie Lohrey, 2009).

### **2.3.10 Types of financial reporting**

There are two types of financial reporting according to Financial Reporting for Public School Systems (2005); interim and annual reporting as explained below;

#### **1. Interim reporting**

Interim financial reports are prepared primarily for the use of management or for governmental oversight. It is rare that these reports was issued to the general public. These are reports prepared on a monthly or quarterly basis that show financial position, operating results, and other pertinent information. These reports may also be utilized to compare budget to actual financial data. The key criteria by which the

interim financial reports are evaluated are relevance and usefulness for management control and planning.

## **2. Annual reporting**

LEAs must also comply with requirements to report financial information on an annual, fiscal year basis. These documents are made available to the public as a matter of course and are also scrutinized by governmental oversight agencies.

### **2.4 The objectives and features of financial reporting**

According to Moses L. Pava (2015), the following are the objectives and characteristics of financial reporting; the overarching objective of financial reporting, which includes the production and dissemination of financial information about the company in the form of financial statements, is to provide useful information to investors, creditors, and other interested parties. Ideally, accounting information provides company shareholders and other stakeholders (e.g., employees, communities, customers, and suppliers) with information that aids in the prediction of the amounts, timing, and uncertainty of future cash flows. In addition, financial statements disclose details concerning economic resources and the claims to those resources.

In recent years, there has been a growing demand on the part of stakeholders for information concerning the social impacts of corporate decision making. Increasingly, companies are including additional information about environmental impacts and risks, employees, community involvement, philanthropic activities, and consumer

safety. Much of the reporting of such information is voluntary, especially in the United States.

In addition, quantitative data are now supplemented with precise verbal descriptions of business goals and activities. In the United States, for example, publicly traded companies are required to furnish a document commonly identified as “management’s discussion and analysis” as part of the annual report to shareholders. This document summarizes historical performance and includes forward-looking information.

To accountants, the two most important characteristics of useful information are relevance and reliability. Information is relevant to the extent that it can potentially alter a decision. Relevant information helps improve predictions of future events, confirms the outcome of a previous prediction, and should be available before a decision is made. Reliable information is verifiable, representationally faithful, and neutral. The hallmark of neutrality is its demand that accounting information not be selected to benefit one class of users to the neglect of others. While accountants recognize a tradeoff between relevance and reliability, information that lacks either of these characteristics is considered insufficient for decision making.

In addition to being relevant and reliable, accounting information should be comparable and consistent. Comparability refers to the ability to make relevant comparisons between two or more companies in the same industry at a point in time. Consistency refers to the ability to make relevant comparisons within the same company over a period of time.



In general, financial reporting should satisfy the full disclosure principle—meaning that any information that can potentially influence an informed decision maker should be disclosed in a clear and understandable manner on the company’s financial statement.

## **2.5 The effect of accounting system on financial reporting**

Since the MAMIDECOT utilizes a computerized accounting system, the following presents different ways in which this system affects the financial reporting in such a microfinance, and the emphasis is put on the quality of financial reports;

Theoretically it is expected that a computerized accounting system would result to a quality financial reports. Through studies done by Carol (2002), it is easy to do accounting functions using computerized accounting systems. Posting transactions to the ledger, the principle of double entry can largely be automated when done through the use of computerized accounting system. Evidence from academic studies suggests that donors respond to accounting information in making their giving decisions (Parsons, 2007; Buchheit and Parsons, 2006). In 2010, Gordon and colleagues outlined five best practice recommendations for annual reports in the non-profit sector completeness, accessibility and transparency in financial reporting, full disclosure and relevance. McBride (2000) stated that managers cannot easily satisfy statutory and donor reporting requirements such as profit and loss account, balance sheet and customized reporting without using computerized accounting systems. With the system in place, this can be done quickly and with less effort. Computerized accounting systems ease auditing and have better access to required information such

as cheque numbers, payments, and other transactions which help to reduce the time needed to provide this type of information and documentation during auditing.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the research design, population of the study, sample selection methods and size, data sources, data collection methods, data collection procedures, and data analysis.

#### **3.1 Research design**

The study used a cross sectional research design where data collected once from a cross section of respondents was selected. Both qualitative and quantitative approaches were used in data collection and analysis.

##### **3.1.1 Quantitative design**

Quantitative method of data collection was used in the study which involved putting some gathered data into numerical analysis. This helped in the collection of a sizeable amount of information about views, opinions, attitudes and suggestions from the respondents that were later analyzed using tables and figures.

##### **3.1.2 Qualitative design**

Qualitative design provided data that was based on peoples' perceptions of a given phenomenon in this case "Accounting System and Financial Reporting in Microfinance Institutions."

### **3.3 Study population**

The study population was constituted of the managers and accountants from MAMIDECOT as illustrated in table 3.1.

### **3.4 Sampling technique and procedure**

#### **3.4.1 Sampling technique**

The researcher used purposive sampling technique to choose specific respondents basing on their familiarity with the subject and their ability to give information readily since the study

Required specific information. This sampling technique helped the researcher to economize the little time that is available to carry out the research study.

#### **3.4.2 Sampling procedure**

The researcher purposively selected the top managers in both branch managers and branch accountants of MAMIDECOT. This is because accounting systems and financial reporting are common in microfinance institutions, and therefore, rightful information is most likely to be obtained using this procedure.

#### **3.4.3 Sample size and Composition**

The study involved 2 branch managers and 2 branch accountants from MAMIDECOT Nyendo main branch, making a total of 4 respondents.

**Table 3.1: Distribution of sample size**

<b>Respondent category</b>	<b>Actual sample size</b>
Branch managers	5
Branch accountants	5
Clients	40
<b>Total</b>	<b>50</b>

### **3.5 Data Sources**

The researcher used various data sources and these were both primary and secondary data sources.

#### **3.5.1 Primary data sources**

Primary data source is the original information collected from the respondents, this is the information collected by use of structured questionnaire that was designed and administered by the researcher to the targeted respondents.

#### **3.5.2 Secondary data sources**

The researcher reviewed existing works which was done by early scholars in line with the study to be able to construct a powerful study.

## **3.6 Data collection methods**

### **3.6.1 Questionnaire**

The questionnaires consisted of both open and close-ended questions that focused on the objectives of the study. The questionnaires were administered to select the respondents. This method was useful in saving time and other resources, and it also helped the researcher to collect secretive information which cannot be gotten through interviews. In addition, clarification on some questionnaires that may not be clearly understood by the respondents was done by the researcher.

### **3.6.2 Interview**

Interviews were given to respondents who had time to fill them. The interview guide was organized in form of research questions. The importance of using interview guides is that non-response are eliminated for respondents since the researcher can ask all the necessary questions about the subject matter.

## **3.7 Data collection procedure**

A letter of introduction was obtained from the University to seek permission to conduct the study. The introductory letter was presented to managers in their respective sectors (public and private) to seek permission for carrying out the study in their respective areas of leadership. After the permission, the researcher proceeded to make appointment with the selected respondents. Thereafter, the researcher administered questionnaires and the required data was collected. The researcher personally

administered questionnaires to the respondents in order to avoid delay, avoid collecting wrong data, ensure completeness, accuracy and the confidentiality of data collected.

### **3.9 Ethical considerations**

Confidentiality was granted to all the respondents, and as such respondents were not be required to provide their names in the questionnaires, but instead were tasked with answering questions in line with the subject matter in the study.

The introductory letter from the University was used to reduce suspicions from both public and private microfinance institutions managers and also eased access to information. All the information collected was treated with utmost confidentiality.

### **3.10 Data processing, analysis and presentation**

#### **3.10.1 Data processing**

Data collected from the study was carefully edited, sorted, and coded to eliminate the inconsistencies and errors that were made during data collection.

#### **3.10.2 Data analysis**

After data processing, data was subjected to descriptive analysis to create meaning of what had been collected from the field and to find out the relationship that supports or contradict with original or new hypothesis.

### **3.10.3 Data presentation**

The collected data was presented in form of percentages, frequencies, tables, and diagrams by using Microsoft Office Word.

### **3.11 Limitation and delimitations of the study**

**Financial constraints:** Costs was involved during the research which included; transport, communication and stationary since the study had to be funded by the researcher himself. This was overcome by soliciting funds from parents, guardian and friends to facilitate the funding of the study.

**Poor respondents' attitudes:** Some of the respondents thought that the researcher was making a study so as to be paid by some organizations. This caused the respondents to demand for some money from researcher to be able to carry out the study. However, this was overcome by using the introductory letter obtained from the University to help in explaining to the respondents why the researcher is conducting the study.



## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

#### 4.0 Introduction

This chapter presents the data collected from the field. The first section presents the sample characteristics with respect to the sex, age brackets of the respondents and level of education. The second section presents frequencies and on the “factors affecting the success of small scale businesses in Kampala.” This section also discuss the finding in relation to the following research question

- (i) To find out the accounting systems used by the microfinance institutions.
- (ii) To find out the procedures involved in financial reporting in microfinance institutions.
- (iii) To find out the effect of accounting system (computerized) on finance reporting in microfinance institutions.

#### 4.1 Sample characteristics

This presents the demographic characteristics of the respondents. It encompasses the age group of the respondents, sex of respondents, marital status, education level, and the duration of the various respondents. Only 50 respondents participated in the study.

**Table 4.1: Sex of respondents**

<b>Sex of respondents</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Male	31	62
Female	19	38
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: Primary data, 2019**

According to the table 4.1 above, 62% of the respondents were male while the least were the female with 38%. This implies that the majority of the respondents in Britania were male because they are believed to suit in the profession more appropriately compared to the female counterparts.

**Table 4.2: Respondents level of education**

<b>Level of education</b>	<b>Frequency</b>	<b>Percentage (%)</b>
A' level	06	13
Graduate	20	40
Diploma	10	20
Post graduate	12	24
Others	02	3
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: Primary data, 2019**

The table 4.2 above presents that the majority of the respondents represented by 40% were graduates, 24% were post graduates, 20% obtained Diplomas and the least where Others with 3%. This implies that the researcher obtained valid and reliable data since the respondents were in position to read and translate the questionnaires.

Table 4.3: Age group of respondents

Age group	Frequency	Percentage (%)
15-25	13	26
26-35	25	50
36-45	10	20
46 and above	07	14
<b>Total</b>	<b>50</b>	<b>100%</b>

**Source: Primary data, 2019**

The findings in the table 4.3 above indicate that the majority of the respondents were between the age group 26-35 represented by 50%. Those between 15-25 and those above 46 years scored 26 and 14% respectively. The findings imply that the data was obtained from mature employees in Britania were well versed with information the factors that affect the growth of small scale business in Kampala specifically Britania

#### **4.2 Accounting systems used in MAMIDECOT**

This objective sought to find out the accounting systems used in MAMIDECOT this data presented in the table below was collected from 50 respondents. This data presented in the table below was collected from 50 respondents

Table 4.4: Showing the Accounting systems used in MAMIDECOT

No	Accounting system used by MAMIDECOT(SECTION B)	Agree	Strongly Agree	Disagree	Strongly Disagree	Not sure
	Managerial accounting system	20(40%)	30(60%)			
	Computerized accounting system	25(50%)	25(50%)			
	Inventory accounting system		35(75%)			15(30%)
	Industry-specific accounting system		35(75%)	15(30%)		
	Not-for-profit accounting system	10(20%)	40(80%)			

Source: Primary data, 2019

The finding from the table 4.4 above present the different accounting systems used by MAMIDECOT where 40% agreed that MAMIDECOT uses computerized accounting and 60% who were the majority strongly agreed , 50% agreed that **MAMIDECOT uses Computerised accounting similarly 50% strongly that MAMIDECOT** uses computerized accounting.

In addition, 75% of the respondents strongly agreed that Industry-specific accounting system while 30% of the respondents disagreed that MAMIDECOT uses Industry-specific accounting system. Lastly 20% agreed that MAMIDECOT uses Not-for-profit

accounting system while 80% strongly agreed that MAMIDECOT uses Not-for-profit accounting system.

Majority of the respondents advocated for Managerial accounting system this is because MAMIDECOT employees qualified accounting staff that is conversant with managerial accounting systems in addition, the respondents had an even response to Computerized accounting system this is because they are user friendly and they are chances of making error as these systems avail accounting work.

Further findings also revealed that Industry-specific accounting system are adopted by MAMIDECOT this is because Industry-specific accounting systems help to reduce on the chances of fraud within the microfinance as the accounting systems used cannot easily tally with the other accounting systems in other organization.

#### **4.3 Procedures used in financial reporting**

This objective seeks to find out and present the procedures used in financial reporting used in MAMIDECOT. Data was collected the researcher had targeted 60 respondents however only 50 questioners were retrieved back meaning that only 50 respondents were in position to answered the questions

**Table 4.5: Showing the procedures used in financial reporting**

No	Procedures used in financial reporting	Agree	Strongly Agree	Disagree	Strongly Disagree	Not sure
1.	<b>Steps;</b> (i) Entering data into the financial database (FDB) and into the Account (ACC)	30(60%)	20(40%)			
	(ii) Data is read and merged	10(20%)	40(80)			
	(iii) The results are obtained after merging	35(75%)	15(30%)			
	(iv) Determination of the balance method	45(90%)	5(10%)			
	(v) Results data are obtained	50(100%)				
	(vi) Results data are obtained	40(80%)	10(20%)			
	(vii) Lastly, financial statement items are obtained.	25(50%)	25(50%)			
	(viii) All the steps don't include the correction runs.				30(60%)	20(40%)

**Source: Primary data, 2019**

The finding from the table above present the procures used in financial in MAMIDECOT where 60% agreed that Entering data into the financial database (FDB) and into the

Account (ACC) while 40% strongly agreed that Entering data into the financial database (FDB) and into the Account (ACC)

20% of the respondents agreed that Data is read and merged while 80% strongly agree that Data is read and merged. This could be attributed to the fact that before accounting information is fed in the computer it is imperative that one should read and merge the information so as to make better sense.

75% of the respondents agreed that the results are obtained after merging while 25% of the respondents strongly agreed that the results are obtained after merging. This is because this entails summing up of various expenses and costs

90% of the respondents agreed that determination of the balance method, comes after the results are obtained after merging while 10% strongly agreed that determination of the balance method

100% of the respondents agreed that after these processes are reached, results from the data are obtained it is from this that the financial statement items are obtained. Where the respondents equally agreed and strongly agreed with 50% agreeing and strongly agreeing respectively

Lastly, 60% of the respondents strongly disagreed that all the steps don't include the correction runs. While 40% were not sure on this take. This is because accounting process is subject to errors due to wrong arithmetic computation and these errors are subject to change once the error is detected before submission of the final piece of work.



#### 4.4 Effects of computerized accounting system on financial reporting in MAMIDECOT

The researcher presents the findings pertaining to the effects of computerized accounting system on financial reporting in MAMIDECOT. The respondent's views and opinions are Presented in the table below.

table 4. 6: Showing the effects of computerized accounting system on financial reporting in MAMIDECOT

No	Effects of computerized accounting system on financial reporting in MAMIDECOT(SECTION D)	Agree	Strongly Agree	Disagree	Strongly Disagree	Not sure
1.	Increased speed of carrying out routine financial transactions	40(80%)	10(20%)			
2.	It has ensured timeliness that has led to timely delivery of financial reports to the top managers.	30(60%)	20(40%)			
3.	It facilitates quick analysis of financial reports.	30(60%)	20(40%)			
4.	High degree of accuracy which ensures quality financial reports.	40(80%)	10(20%)			

Source: Primary data, 2019

The table above presents the Effects of computerized accounting system on financial reporting in MAMIDECOT where 80% of the respondents agreed that Increased speed of carrying out routine financial transactions while 20% of the respondents strongly agreed to Increased speed of carrying out routine financial transactions

60% if the respondents were agreed that comprised accounting ensures timeliness that has led to timely delivery of financial reports to the top managers while 40% of the respondents strongly agreed that computerized accounting ensures timeliness that has led to timely delivery of financial reports to the top managers. This is because the computations are always done in time with the use of ICT equipment used for accounting computation.

In addition, 60% of the respondents were in strong agreement that computerized accounting systems facilitate quick analysis of financial reports. this is because the formula are in built in the systems and this makes it for accounts to recall formulas while computing the financial figures however 40% strongly agreed that computerized accounting systems facilitates quick analysis of financial reports

Further findings also revealed that 80% of the respondents agreed that computerized accounting High degree of accuracy which ensures quality while 20% strongly agreed that High degree of accuracy which ensures quality this could be attributed to the fact

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computers have accurate and fast capacity to compute figures that may look complicated provides they are fed in accurately.

## CHAPTER FIVE

### DISCUSSION OF FINDINGS, SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

After Data presentation, Analysis and Interpretation, Discussion, Summaries Conclusion and Recommendations are arrived at and presented. As previously indicated, the study's main aim was to assess “**Accounting system and financial reporting in microfinance institutions**”

##### 5.1.1 Accounting systems used in MAMIDECOT

Table 4.4 Shows the Accounting systems used in MAMIDECOT. The exhibited that the accounting systems used by MAMIDECOT were computerized accounting. In addition, 75% of the respondents strongly agreed that Industry-specific accounting system while 30% of the respondents disagreed that MAMIDECOT uses Industry-specific accounting system. Lastly 20% agreed that MAMIDECOT uses Not-for-profit accounting system while 80% strongly agreed that MAMIDECOT uses Not-for-profit accounting system.

In addition, Majority of the respondents advocated for Managerial accounting system this is because MAMIDECOT employees qualified accounting staff that is conversant with managerial accounting systems in addition, the respondents had an even response to Computerized accounting system this is because they are user friendly and they are

chances of making error as these systems avail accounting work. Further findings also revealed that Industry-specific accounting system are adopted by MAMIDECOT this is because Industry-specific accounting systems help to reduce on the chances of fraud within the microfinance as the accounting systems used cannot easily tally with the other accounting systems in other organization.

### **5.1.2 Procedures used in financial reporting**

Table 4.5 Showing the procedures used in financial reporting were; Entering data into the financial database (FDB) and into the Account (ACC) while 40% strongly agreed that Entering data into the financial database (FDB) and into the Account (ACC). 20% of the respondents agreed that Data is read and merged while 80% strongly agree that Data is read and merged. This could be attributed to the fact that before accounting information is fed in the computer it is imperative that one should read and merge the information so as to make better sense. 75% of the respondents agreed that the results are obtained after merging while 25% of the respondents strongly agreed that the results are obtained after merging. This is because this entails summing up of various expenses and costs. 90% of the respondents agreed that determination of the balance method, comes after the results are obtained after merging while 10% strongly agreed that determination of the balance method

100% of the respondents agreed that after these processes are reached, results from the data are obtained it is from this that the financial statement items are obtained. Where the

respondents equally agreed and strongly agreed with 50% agreeing and strongly agreeing respectively

Lastly, 60% of the respondents strongly disagreed that all the steps don't include the correction runs. While 40% were not sure on this take. This is because accounting process is subject to errors due to wrong arithmetic computation and these errors are subject to change once the error is detected before submission of the final piece of work.

### **5.1.3 Effects of computerized accounting system on financial reporting in MAMIDECOT**

Table 4.6 showed the effects of computerized accounting system on financial reporting in MAMIDECOT where 80% of the respondents agreed that Increased speed of carrying out routine financial transactions while 20% of the respondents strongly agreed to Increased speed of carrying out routine financial transactions. In addition, 60% if the respondents were agreed that comprised accounting ensures timeliness that has led to timely delivery of financial reports to the top managers while 40% of the respondents strongly agreed that computerized accounting ensures timeliness that has led to timely delivery of financial reports to the top managers. This is because the computations are always done in time with the use of ICT equipment used for accounting computation. In addition, 60% of the respondents were in strong agreement that computerized accounting systems facilitate quick analysis of financial reports. this is because the formula are in built in the systems and this makes it for accounts to recall formulas while computing the financial figures however 40% strongly agreed that computerized accounting systems facilitates

quick analysis of financial reports. Further findings also revealed that 80% of the respondents agreed that computerized accounting High degree of accuracy which ensures quality while 20% strongly agreed that High degree of accuracy which ensures quality this could be attributed to the fact computers have accurate and fast capacity to compute figures that may look complicated provides they are fed in accurately.

### **5.3 Summary of findings**

Having discussed the findings the researcher summarizes the major findings as presented below;

Table 4.4 Showing the Accounting systems used in MAMIDECOT being Managerial accounting systems, Computerized accounting system, Inventory accounting systems, Industry-specific accounting systems, Not-for-profit accounting system. In addition, the Procedures used in financial reporting include; entering data into the financial database (FDB) and into the Account, Data is read and merged, the results are obtained after merging, determination of the balance method , results data are obtained, results data are obtained, Lastly, financial statement items are obtained.

The effects of computerized accounting system on financial reporting in MAMIDECOT include but not limited to increasing speed of carrying out routine financial transactions, ensuring timeliness that leads to timely delivery of financial reports to the top managers and facilitation of quick analysis of financial reports.

## **5.4 Conclusions**

In conclusion, the Accounting systems used in MAMIDECOT are Managerial accounting systems, Computerized accounting system, Inventory accounting systems, Industry-specific accounting systems. The Procedures used in financial reporting includes entering data into the financial database (FDB) and into the Account, Data is read and merged, the results are obtained after merging, determination of the balance method , results data are obtained, results data are obtained, Lastly, financial statement items are obtained. The effects of computerized accounting system on financial reporting in MAMIDECOT include but not limited to increasing speed of carrying out routine financial transactions, ensuring timeliness that leads to timely delivery of financial reports to the top managers and facilitation of quick analysis of financial reports.

## **5.5 Recommendations**

Having discussed, summarized and concluded the findings, the researcher recommends that;

- 1) The Government and all the other stake holders should fully support the use of Computerised accounting systems and this involves investing in the sector to improve on the quality of service delivery in the county.
- 2) Organizations which undertake the use of Computerised accounting systems should create back up of all their operations to limit the possibility of total loss in case of virus attacks.



3) Further training and education should be undertaken such that all staff and employees are knowledgeable about the use of Computerised accounting systems to limit the problem of the limited workforce who are competent about the use of computers.

### **5.6 Areas for further research**

The researcher recommends that further investigations should be conducted pertaining to the role of Enterprise Risk Management Strategies on the Growth of financial institutions in Kampala.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE FOR THE RESPONDENTS

Dear Respondent,

The researcher by names of Tayebwa Simon is carrying out a study about the “Accounting System and Financial Reporting in Microfinance Institutions,” a case study of Masaka Microfinance & Development Cooperative Trust. As a stakeholder thought to have knowledge relating to the Accounting System and Financial Reporting in Microfinance Institutions, you have been humbly selected as one of the respondents for the study and the information you will give will be treated with utmost confidentiality and used purely for academic purposes. The outcomes of the study will benefit the Masaka Microfinance and Development Cooperative Trust and other microfinance institutions countrywide.

Please kindly spare some of your valuable time to answer these questions.

Thank you.

#### **Instructions;**

Where there are boxes, **Tick** appropriately, and where there dashes, please **Write** your responses depending on your knowledge about the questions.

**SECTION A: BIODATA**

1. What is your sex?

Male

Female

2. Who are you?

Branch manager

Branch accountant

3. What is your Age?

18-28

29-39

40-50

51 and Above

**SECTION B: ACCOUNTING SYSTEM USED BY THE MICROFINANCE**

**INSTITUTIONS**

Which one of the above (Question 2) accounting systems does Masaka Microfinance & Development Cooperative Trust (MAMIDECOT) employ in its accounting operations

Tick the appropriate space provided. The following abbreviations are used

<b>Strongly agree</b>	<b>Agree</b>	<b>Not sure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
5	4	3	2	1

No	Accounting system used by MAMIDECOT(SECTION B)	Agree	Strongly Agree	Disagree	Strongly Disagree	Not sure
1	Managerial accounting system					
2	Computerized accounting system					
3	Inventory accounting system					
4	Industry-specific accounting system					
5	Not-for-profit accounting system					

No	section C Procedures used in financial reporting	Agree	Strongly Agree	Disagree	Strongly Disagree	Not sure
1.	<p><b>Steps;</b></p> <p>(ix) Entering data into the financial database (FDB) and into the Account (ACC)</p> <p>(x) Data is read and merged</p> <p>(xi) The results are obtained after merging</p> <p>(xii) Determination of the balance method,</p> <p>(xiii) Results data are obtained</p> <p>(xiv) Determination of the financial statement items</p> <p>(xv) Lastly, financial statement items are obtained.</p> <p>(xvi) All the steps don't include the correction runs.</p>					
2	<b>Steps;</b>					

	<p>timeliness, the donors can always rely on accounting information in the financial reports to enhance their giving decisions to the organization.</p>					
<p>6.</p>	<p>Makes auditing easy and easy access to required information such as cheque numbers, payments, and other transactions has been made easy which helps to reduce the time needed to provide this type of information and documentation during auditing.</p>					

*-End-*

*“Thanks a lot for your response”*