ACCOUNTING INFORMATION SYSTEMS AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN MOMBASA COUNTY, KENYA

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DECLARATION

This research project is my original work and has not been awarded a degree at any university.

Sign……..Date……..……

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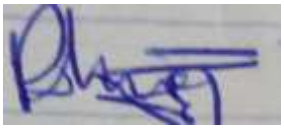
SUPERVISOR'S APPROVAL

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



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DEDICATION

This research project is dedicated to my late father, Paul Kirigha Kipande and my mother, Amina Philisia Wawuda Maganga, whom have been my guiding light all through my life.

ACKNOWLEDGEMENT

I want to express my sincere thanks to my supervisor, Dr Peter Ng`ang`a, for his continued support, guidance and patience throughout this journey. I am indebted to you.

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ABBREVIATIONS AND ACRONYMS

AIS	Accounting Information Systems
ANOVA	Analysis of Variance
CBD	Central Business District
CMA	Capital Markets Authority
DTPB	Decomposed Theory of Planned Behaviour
GDP	Gross Domestic Product
LAIFOMS	Local authorities integrated financial operations management systems
ICPAK	Institute of Certified Public Accountants
IT	Information Technology
KRA	Kenya Revenue Authority
OECD	Organization for Economic Co-operation and Development
PU	Perceived Usefulness
ROI	Return on Investments
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
TAM	Technology Acceptance Model
TPB	Theory of Planned Behaviour
TPS	Transaction Processing System

OPERATIONAL DEFINITION OF TERMS

Accounting Information Systems	Data processing system that collects, stores, and processes financial and accounting data.
Budgetary Control Systems;	A system of organizing expenses including planning budgets, organizing the work of departments, comparing actual output, and acting on the results.
Cash Management Systems;	A cash management system is a system that maintains control over the inflow and outflow of funds.
Financial Performance;	This is the Organization's ability to generate income by utilizing available resources.
Financial Reporting Systems;	A reporting system that keeps track of written reports that measure a company's financial status, success, and liquidity.
Small and Medium Enterprises;	Firms, industries, or business that hires 10-49 people while a medium enterprise hires 50-99 people.
Record-Keeping Systems;	A system that records a company's everyday transactions.

ABSTRACT

Manually entering and documenting everyday business transactions has become impractical; organisations have realised the usefulness of adopting accounting information systems to improve their performance. An accounting information system is a data management and processing system that provides managers with the information they need to plan, manage and run a business. The study aimed to examine the effect of accounting information systems on the financial performance of small and medium enterprises in Mombasa County, Kenya. The study's objectives were to see how record-keeping systems, financial reporting systems, budget control systems, and cash management systems affected the financial performance of small and medium enterprises in Mombasa County, Kenya. The Technology Acceptance Model, Agency Theory and Decomposed Theory of Planned Behaviour were used to drive the study. This study adopted a descriptive research design and targeted 1640 small and medium enterprises located in Mombasa central business district that have been in operation for more than five years. 268 small and medium enterprises managers/owners were chosen using stratified random sampling. Data was gathered via questionnaires. A pilot test was conducted to ensure the tool's validity and reliability. Statistical Packages for the Social Sciences version 24 was used to analyse data using descriptive analysis and inferential statistics. Ethics were followed before, during and after the study was completed. The study concluded that there is a strong significant relationship between record-keeping systems and financial performance of small and medium enterprises in Mombasa County, Kenya. The study also concluded that a strong significant relationship exists between financial reporting systems and financial performance of small and medium enterprises in Mombasa County, Kenya. The study went further to conclude that a strong significant relationship exists between budgetary control systems and financial performance and finally a strong significant relationship exists between cash management systems and financial performance of small and medium enterprises in Mombasa County, Kenya. As a result of the clear relationships established between variables the study was able to conclude that a clear relationship exists between accounting information systems and financial performance of small and medium enterprises in Mombasa County, Kenya. The study recommends the Government to develop policies and guidelines that will encourage small and medium enterprises to adopt accounting information systems, as well as Institute of Certified Public Accountants of Kenya to offer free consultation services to small and medium enterprises on choosing appropriate accounting systems, financial management and reporting.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The emergent economic developments in the world, which are characterized by fast innovations in production processes, advancements in information technology, stiff competition, increased consumption patterns, and uncouth, unscrupulous activities of companies in an effort to ensure the composite and prompt changes in the business environment, have made it unavoidable for organizations to adopt an accounting information system (AIS) hereafter since it relates to management effectiveness (Khan, 2017). Recording organization data and transactions in books has proved to be inefficient in the 21st century. Many company activities and organization performance issues are caused by incorrect data entry, which results in errors; unsatisfactory work performance; and excessive use of paper products. . The accounting system arose as a result of these inefficiencies. A framework that can more effectively gather, analyse, and generate reports (Saira, Zariyawati & Annuar, 2014).

Globally, organizations have realized the effectiveness of adopting AIS in the organization's performance. In the United Arab Emirates, use of computers has increased the rate of AIS usage in organizations to deal with customers and suppliers. Use of AIS has aided organizations to save quality time and money (Alnajjar, 2017). According to Al-Dalabih (2018), accounting information systems used in Jordanian service companies are capable of achieving financial data quality and confirming its accuracy and correctness, suggesting that Jordan's service sector is growing. This is due to the fact that the existence of financial data entered into accounting information systems determines the output. The

higher the standard of the financial data entered, the easier it is for the system to keep it in the same format.

According to Uddin, Biswas, Ali, and Khatun (2017), 80% of Small Medium Enterprises (SMEs) in Rangpur, Bangladesh, used accounting systems, but they used it without knowing. They used vouchers, prepared financial statements such as income and cash flow statements, and employed a double-entry system without realizing they were utilizing AIS. Adequate information is available to demonstrate that proper accounting systems in small-medium enterprises significantly affect their performance. Inadequate record-keeping contributed to the failure of many small enterprises in Nigeria (Udoh, 2013). Many companies keep track of their purchases using notebooks and clerical workers. Many people involved with record management are untrained, which has serious implications for record management.

Small-medium enterprises greatly contribute to Kenya's economic development through offering job opportunities to many citizens and provision of products and services (International Trade Centre, 2019). However, the performance of a firm determines how much they contribute to the economy’s growth and development. The establishment and implementation of system controls by business managers and the proper record keeping of business transactions, that informs the manager/owner about the business's performance, are critical variables that influence a company’s success and profitability (Mbroh, 2013).

1.1.1 Accounting Information Systems

Accounting information systems are software programs that assist managers/owners plan and regulate processes by providing accurate and relevant data for decision-making (Romney & Steinbart, 2010). It goes hand in hand with creative and contemporary accounting practices for which many enterprise owners, especially in third world nations, are unprepared or find difficult to implement; however, organizations are developing ever more complicated accounting information systems to achieve strategic objectives and improved results. When it comes to computerised accounting, small and medium enterprises (SMEs), particularly in developing countries, confront a number of issues, including lack of capital and technical outmodedness, insufficient cash, management knowledge, and management's inexperience (Marriot & Marriot,2000).

An accounting information system is composed of subsystems. According to Hall (2008), the transaction processing system (TPS), management reporting systems, financial reporting system, and fixed asset system are four key subsystems of the AIS. This study focused on three of the subsystems that is TPS (record keeping systems), Financial reporting system and finally the management reporting systems (budgetary control systems and cash management systems).

Record keeping systems are systems that support daily business transactions of the enterprise that serve the operational level of the organization. It has been reported by studies (Magloff, 2015) that computerized record keeping systems offer many advantages over manual record keeping for small businesses. Besides allowing immediate reporting of stock evaluations, profits and losses, customer accounts, payroll, and sales analysis, it also allows your accounting system to be adjusted quickly.

Financial reporting system helps businesses automate the collection of financial data and improve tracking of trends that impact business goals. This system generates standard financial reports such as income statement, statement of financial position and many more statements. These financial reports offer business owners greater visibility and insight into the inner workings of their company. The financial reporting system help organizations cut costs and use a few numbers of workers while at the same time assist organizations complete accounting tasks in an accurate and orderly manner.

In a budget control system, the expenses are organized by planning budgets, organizing work within departments, comparing actual output, and analysing the results. Manual data entry is highly prone to human error, and errors can have a domino effect on budget forecasting. If data isn't properly collected, recorded, or processed, forecasting becomes inaccurate, resulting in inaccurate decisions within the business. High quality reports lead to more accurate forecasting and more informed business decisions within the company.

In order to manage working capital effectively, a cash management system is used to forecast, track, and report cash flow. As a result, it is objectively used to manage and determine the optimal level of cash required for business operations and investments (Gitman, 2009). The list of subsystems is not limited to the ones mentioned above; subsystems are designed to manage organizations to meet their daily accounting needs; hence, more and more will be designed soon.

Accounting information systems, according to Nzomo (2013), are essential tools for efficient management, policymaking, and monitoring of organizational activities. Odero (2014) discovered that the type of accounting systems used, accounting information, and the degree of regulations in place all affected SMEs' financial output as calculated by

changes in return on investment. The challenge of low accounting system acceptability among Kenyan SMEs, according to Nyathi, Nyoni, and Bonga (2018), could be attributed to the initial purpose of IT adoption, which was to replace the manual accounting approach, which has now inhibited further use and investigation of the system's benefits. To explain why SMEs, need to embrace innovative technological solutions like AIS to fulfil their business goals of maximising profits, this study uses the Decomposed Theory of Planned Behaviour and Technology Acceptance model.

1.1.2 Financial Performance of SMEs in Kenya

The productivity and attainment of measurable goals are used to evaluate an organization's performance (Armstrong, 2015). Performance can also be described as the value derived by an organization's operations and processes (Muhammad, 2014). In the literature review by Fiori, Di'Donato and Izzo (2009), financial performance is measured by examining the company's solvency, repayment capacity, profitability, efficiency, and liquidity. Traditionally, the financial ratio method has been used to measure a firm's performance because it provides a simple description of the firm's financial performance in comparison to previous periods and helps to improve management performance.

Glautier and Underdoon (2009), on the other hand, maintained that two aspects of a company's financial performance are of interest to investors. First, its financial performance can be evaluated in terms of its ability to generate profit. This is consistent with Pandey (2004), who claims that profit maximization leads to the efficient allocation of resources under competitive market conditions, and profit is regarded as the most

appropriate measure of a firm's performance. Therefore, in this study, the researcher looks at how well SMEs use their available resources and capital to generate profits.

A survey report carried out by the Capital Markets Authority of Kenya (2020) on the level of corporate governance on SMEs showed a significant decline in SMEs' profitability in the year 2019. The survey pointed out that in the year 2018, the percentage of firms that recorded profits was 69%, while in 2019, only 63% of the SMEs recorded profits; this showed a 6% decline. The decline in SMEs' profits was echoed by Kenya Small and Medium Enterprises performance index survey (2019). See table below

Table 1.1: SME Performance Index

Turnover	**2019**	**2018**	**Percentage change**
500,001-1,000,000	17%	21%	4% decline
1,000,001-5,000,000	9%	13%	4% decline

Source: Kenya SME performance Index Survey (2019)

In this study, Net profit is used to assess Small Medium Enterprises' financial performance in Mombasa County.

1.1.3 Accounting Information Systems and Financial Performance

Accounting Information Systems use organization’s financial data combined with accounting techniques using technology to record, analyse, and submit financial statements, thus impacting an organization’s performance (Grande, Estebanez & Colomina 2010). In principle, allocating more resources in information technology can result in significant long-term benefits for an enterprise as a whole (Odero, 2014).

The relationship between accounting information systems and performance measurements has received little attention in the literature (Amyx, 2005). Some researchers have found a connection between AIS and performance measures. Today's contemporary business environment necessitates managers to consider more advanced management strategies aimed at improving decision making in organizations as a result of the ever-growing need for business development, growth, and expansion.

The strategies are designed to sustain businesses in the face of rapid technological advancements, increasing customer awareness, and challenging customer demands. A report by National baseline survey pointed out that investment in AIS have widened the scope of operation for SMEs in Kenya, allowing them to save time dealing with banks and general administration while also lowering operating costs. Given the scarcity of studies, it is crucial to analyse the effect AIS has on small and medium-sized enterprises. This will create a competitive advantage for companies and solid financial performance.

1.1.4 Small and Medium Enterprises in Mombasa County

According to the World Bank report on SMEs (2015), a small and medium enterprise is an enterprise that employs 10–49 staff for small enterprise and 50–249 staff for medium-sized organization but Organizations for Economic Co-operation and Development (2014) considers SME as a business which employ just a handful of citizens. Businesses are classified according to the staff hired and annual profits in Kenya. The KRA definition will be used in this study whereby a small business will be described as a company that employs between 10-49 and a medium enterprise as one which has employed 50-99 people.

SMEs in Mombasa County are distributed across the six sub-counties: Mvita, Nyali, Kisauni, Likoni, Changamwe and Jomvu. Mombasa County had 54,607 registered small and medium enterprises, according to the Local Authorities Integrated Financial Operations Management Systems (LAIFOMS) Business Activity Code 2019. The study focuses only on SMEs in the Central Business District (CBD) that have been in business for the past five years. Records obtained from the Mombasa county government show that one thousand six hundred and forty (1640) SMEs operated within the Mombasa CBD for the last five years. This study focuses on business financial performance for five years (2015-2019).

1.2 Statement of the Problem

Organizations today use information technology systems to boost their profit, market share and quality. AIS offers a lot of promise for improving decision making, which is regarded as the most important enabler for accomplishing organizational objectives (Soudani, 2012). Considering the significant contribution of SMEs as the largest proportion of economics pillar in a country and based on the vital role that can be played by SMEs in creating employment and supporting economic growth, small and micro enterprises perform a crucial economic obligation in various nations (OECD, 2017).

In Kenya, SME industry created more than 50% of employment opportunities established in 2015 (Koech, 2016). In 2019 SMEs contributed over 30% to the GDP; despite this contribution, the SME sector still face challenges that impede their growth. In 2020 a survey carried out on 200 SMEs in Nairobi and Mombasa County by Capital Markets Authority (CMA) pointed out that there was a decline in profits; in 2018, the proportion of

SMEs that reported profits was 69%, while in 2019, it was 63% which showed a 6% decline. This raises concerns about the effect that accounting information systems have on the performance of SMEs.

The effect of accounting information systems on financial performance was studied by Amos I. Ganyam and John A. Ivungu (2019). In this literature review, the author describes accounting information systems as an essential tool managers can use to maintain a competitive advantage despite rapid technological advancements, increased awareness, and challenging customer demands. In Ali, Bakar and Omar (2016), success factors for accounting information systems (AIS) were examined as a factor in organizational performance. The findings indicate that high quality service, high quality information and high-quality system are the most significant AIS success factors for increasing organizational performance. The study concluded that organizations involved in the banking industry can improve their performance by adopting and implementing AIS success factors.

Only a few studies have been conducted locally to investigate the link between accounting information system and financial performances of businesses. In a study by Muhindo, Mzuza and Zhou (2014) on the impact of accounting information system on small-scale enterprises' performance, it was discovered that businesses that did not use accounting information systems performed poorly. In a study conducted by Nzomo (2013) to determine the relationship between accounting information system and performance in the automotive industry, it was revealed that most organizations use accounting information

systems to assist management in making informed decisions and improve communication. A significant correlation between computerised accounting systems and auditing in state corporations was observed in Otieno and Oima (2013) study on the impact of computerised accounting systems on audit risk. Rotich (2017) investigated the influence of accounting information systems on the efficiency of manufacturing enterprises in Kenya, finding that AIS has an impact on organisation productivity in Kenya in terms of efficient management, decision making, and regulated operations.

Although various factors have been established to determine SMEs performance, the influence that AIS has on performance has not been conclusively established, according to these reviewed studies. In light of this, the purpose of this study is to establish if there is a link between the accounting information system and financial performance of SMEs in Mombasa County, Kenya.

1.3 Objectives of the Study

The study aimed to determine the effect of accounting information systems on the financial performance of SMEs in Mombasa County, Kenya.

1.3.1 Specific Objectives

The study was guided by the following specific objectives:

i. Determining effect of record-keeping systems on the financial performance of SMEs in Mombasa County, Kenya.
ii. Examining effect of financial reporting systems on the financial performance of SMEs in Mombasa County, Kenya.

iii. Establishing effect of budgetary control systems on the financial performance of SMEs in Mombasa County, Kenya.

iv. Assessing effect of cash management systems on the financial performance of SMEs in Mombasa County, Kenya.

1.4 Research Hypotheses

H_{01}: There is no significant relationship between record-keeping systems and financial performance of SMEs in Mombasa County, Kenya.

H_{02}: There is no significant relationship between financial reporting systems and financial performance of SMEs in Mombasa County, Kenya.

H_{03}: There is no significant relationship between budgetary control systems and financial performance of SMEs in Mombasa County, Kenya.

H_{04}: There is no significant relationship between cash management systems and financial performance of SMEs in Mombasa County, Kenya.

1.5 Significance of the Study

SMEs Managers and Owners; The findings of this study may help in hastening SMEs' efforts to improve their accounting practices which may assist the managers/owners in supervising, planning and making suitable decisions therefore ensuring that they survive in turbulent business environment. This study may also assist entrepreneurs because it shows the advantages of adopting computerized accounting practice that may lead to their businesses' profitability.

Policymakers; the study may help formulate policies that may strengthen policy consideration in the SME sector. The study may help regulators and tax authorities formulate policies to improve SMEs' regulation and the tax code. While for financial Institutions, AIS may help financial institutions assess SMEs' credibility quickly through the information available in the business accounting information systems. Adopting AIS may also save time that financial institutions would use to peruse various accounting documents recorded on paper and enhance quick processing of loans lend to the SMEs.

Finally, this research would be a great addition to the current literature on accounting information systems and SMEs. As a result, it would be of interest to scholars and academicians who want to look into the impact of accounting systems on the performance of small and medium businesses in Kenya or elsewhere.

1.6 Scope of the Study

The study's focus is on the effect of accounting information systems (record-keeping systems, financial reporting systems, budgetary control systems and cash management systems) on SMEs financial performance in Mombasa County, Kenya. The study was carried out in Mombasa CBD. The target populace was 1640 SMEs that have been in existence for 5 or more years as per the Local Authorities Integrated Financial Operations Management System (LAIFOMS) summary 2019 of the county of Mombasa.

1.7 Limitations of the Study

Due to the sensitize nature of the data, the study anticipated challenges in acquiring financial data from managers/owners. To overcome this, the researcher assured the managers/owners of the data's confidentiality and that it would only be used for academic purposes. To validate the study, the researcher was also accompanied by an introduction letter from the institution and a research permit.

1.8 Organization of the Study

The research project is divided into five chapters. The first chapter contains the study's background, a statement of the problem, general study objective, specific objectives of the study, research hypothesis, significance of the study and scope. A theoretical framework, a review of the literature, a summary of research gaps, and a conceptual framework make up chapter two. Chapter three covered the research design, target population, sample design, data collection instruments, data collection procedures, data analysis and presentation, and ethical considerations. The data analysis and presentation of findings are covered in chapter four. A summary of findings, a conclusion, recommendations and suggestion for further areas of study are all included in chapter five.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter provides literature from previous studies on the effect of accounting information systems and organizational performance. It also covers research studies on the effects of record-keeping systems, financial reporting systems, budgetary control systems and cash management systems on financial performance, as well as theories and conceptual frameworks. Finally, the chapter includes a summary of the literature review and the research gap.

2.2 Theoretical Framework

The study was anchored on three theories: the technology acceptance model, the decomposition theory of planned behaviour, and agency theory.

2.2.1 Technology Acceptance Model

Davis' (1986) proposed the Technology Acceptance Model (TAM). This model describes why people acknowledge or dismiss technology advancement. Davis (1986) identified two distinctive beliefs relating to information systems and generally accepted computer applications: the innovation’s perceived usefulness and simplicity of use. The theory noted there was a link between the adoption of innovation and perceived convenience, the usability of progress, the individual inclination towards innovation and the user's behavioural intentions.

Davis (1989) further developed this theory as the most widely used theory to explain technology acceptance by consumers. TAM is inclined to the field of social psychology.

TAM is a stable, solid and cost-effective theory for predicting the adoption of information technology by consumers. TAM is used to study user acceptance of various information systems. TAM constructs are suited for understanding the acceptability of AIS because it encompasses the utilization of information systems that run on computer applications.

Fu, Farn and Chao (2013) study in Taiwan on the taxpayer's decision to adopt e-tax applied technology acceptance theory and perceived usefulness (PU) was the most vital determinant of technology adoption. Accounting information systems, according to Adebayo, Idowu, Yusuf, and Bolarinwa (2013), are a vital tool for decision making in today's quickly changing environment since firms must keep up with evolving technologies. TAM explores behavioural intents of using technology by drawing up relations between behavioural intention, adoption, and system usage. The theory has been applied in many empirical studies and proves high quality and statistically reliable. The TAM theory's main limitation is given by Van and Cavaye (1999), who indicated that the effect and personal control factors on behaviour are not taken into account by TAM. TAM does not take into account other factors such as economic factors, pressures from manufacturers, consumers, and rivals.

In this study, TAM explained why organisations adopt accounting information systems. TAM suggests that the growth (performance) forces SMEs to embrace more effective and innovative technological solutions to achieve their business goals of realising maximum profits. SMEs would intend to accept and implement technology in their daily activities if

the owners/managers perceive it is easy to use the information accounting systems. Then it would be of great benefit to the business.

2.2.2 Decomposed Theory of Planned Behaviour

The Decomposed Theory of Planned Behavior (DTPB) (Azjen, 1988) was created by combining the technology acceptance model and the theory of planned behaviour. Its goal was to improve understanding of behavioural intents by focusing on the aspects that can impact system use. According to the Theory of Planned Behaviour (TPB), people's intent to conduct a specific behaviour, such as adopting AIS, are influenced by three major categories of factors: our attitude toward the behaviour, the influence of our social circle, and our perceived degree of control over the behaviour (Azjen, 1988). By splitting these three forces into more comprehensive dimensions, DTPB expands on TPB's theory.

According to the DTPB model, technology attitudes have three dimensions: relative benefit, sophistication, and compatibility (Shimp & Kavas, 1984). The comparative benefit factor describes how a new product or service outperforms current alternatives. Complexity refers to how innovation is perceived as easy to use by potential users. Compatibility, on the other hand, refers to how well an idea blends with a would-be user's existing beliefs, prior knowledge, and current needs.

In this study, AIS is considered an innovation, which is more beneficial than the manual accounting system. AIS helps by improving the organisation's performance, easing the workload, performing tasks faster, and minimising errors. The capacity of an invention to fit into the adopter's existing values, prior knowledge, and the current needs is referred to

as compatibility (Rogers 1995). As a result, the willingness of SMEs to adopt AIS can be affected by their current needs, such as improving efficiency.

2.2.3 Agency Theory

In 1976, Jensen and Meckling championed the agency's theory. Agency theory, according to Jensen and Meckling (1976), describes the authority provided to agents (managers) by the principals (owners) to run the company on behalf of the principal (owner) with the owner's interest reliant on the manager. Agency theory centres on disputes between Principal and Advocate over information inequalities (Ezzamel and Watson, 1993). Agrawal and Knoeber (1996) noted that the agency conflict between the Principal and Agent is brought up by Managers motive to follow their interests at the expense of the shareholders. The Agency theory addresses the potential conflict of interests that may arise between the Principals and Agents.

Agency theory suggests that an agent will act to protect and progress the interests of their principal. Any firm's objective is to maximise shareholders' wealth; this means that the agents' activities should match the shareholders' interests and the firm's financial growth. According to this theory, when agents prioritize their personal interests over the interests of the principals, they may engage in activities that profit them at the expense of the owners. As a result, the firm's profitability and SME's overall performance will suffer (Acaravci & Calim, 2013).

In this study agency theory will explain the management's interests where their primary role is implementing AIS in the company, which should be aligned with the principal's

objectives. The primary goal of a company is to maximize shareholder wealth. This aim is the responsibility of the managers. As a result of managers' usage of accounting information systems, the firm's profitability rises, and managers' organizational obligations to their respective owners are fulfilled.

2.3 Empirical Literature

2.3.1 Record-keeping Systems and Financial Performance

Maseko and Manyani (2011) investigated whether small and medium enterprises in Zimbabwe practiced computerized record-keeping and targeted 100 SMEs. Structured questionnaires were used. The researchers revealed that many business owners/ managers did not keep account records and lack of accounting knowledge caused this. The study went further to state lack of accounting records resulted in poor usage of accounting information systems to measure performance. The recommendations were that accounting guidelines be developed and Record-keeping be made mandatory. This study looked at record-keeping practices, while the current study addressed the record-keeping systems.

Adekunle and Adejare (2014) studied how keeping records affected performance of enterprises accounts. The study used interview guides and questionnaires. It was found that there was a strong positive relationship between bookkeeping and performance. The study also found that accounting record-keeping is critical for making sounds decisions, which have a direct impact on small business performance. However, the computerisation of record-keeping systems and their impact on financial performance were not addressed in this study.

Boateng (2015) studied how carried a study on computerisation on Record-keeping in Offinso rural banks limited. A case study approach was adopted and used a sample size of 60 respondents. Findings revealed that computerisation of accounting systems have positively impacted the record-keeping of the banks. The study, however, did not address how effect accounting information system affect financial performance and this study addressed how record keeping systems.

Anokyewaa (2015) examined how computerised record-keeping affect SMEs' performance in Ghana. The research used a case study approach. The majority of entrepreneurs utilized manual accounting, according to the study, while those that used computerized accounting systems recorded improved performance. There was a significant effect of computerized accounting on SMEs' operations but failed to address how it affected financial performance. The current study addressed how record-keeping systems affect business performance.

Aladejebi and Oladimeji (2019) investigated the effect of record-keeping on the performance of Nigerian small and medium-sized enterprises. A total of 200 owners were included in the study. Questionnaires were used to collect data. According to the study, keeping accurate records assist managers in better understanding the company's performance, which improves its success. Findings further revealed that since majority on entrepreneurs did not have general accounting skills and dislike the expense of preparing financial statements, they hold their records manually. This study, however, addressed the manual record-keeping and not computerised record-keeping systems.

2.3.2 Financial Reporting Systems and Financial Performance

Ploybut (2014) investigated the nexus between financial reports and business performance in Thailand. This research used secondary data sources. The SME financial information was generated from the computer systems used by managers for statutory reporting. The findings established widespread use of computerized accounting systems, especially accounting software packages. The study also revealed that Thai SMEs prepare and publish their financial reports to comply with legal requirements. However, there was little awareness of financial reporting problems among SMEs. This study however did not bring out the link between financial reporting systems and financial performance, current study addressed this gap.

Otieno (2016) studied how financial reports influenced public high school performance in Homabay County, Kenya. The study employed a descriptive research approach with 102 participants. This study used a census sample approach and used questionnaires as a data gathering tool. Findings from the study concluded that financial reporting practices adopted in public schools' influence performance. This study concentrated on financial reporting practices and the current study focused on financial reporting systems of SMEs in Mombasa County, Kenya.

Odhiambo (2018) investigated the impact of financial reporting practices on the financial performance of non-governmental organizations (NGOs) in Narok County, Kenya. Primary data was employed, as well as a census sample technique. The study concluded that the disclosure of financial reporting instruments had a substantial impact on the

financial performance of NGOs in Narok County. This study focused on financial reporting practices, and not the influence of financial reporting systems on financial performance.

Suhail (2019) investigated the impact of the quality of financial reports on a company's performance. The study focused on listed cement producing companies in Pakistan. Secondary data was used for the period 2006-2017. The study concluded that a company with better reporting systems enjoys a high level of performance and that a sound financial reporting system is also linked with better earning. This study, however, did not address the effect financial reporting systems has on financial performance.

2.3.3 Budgetary Control Systems and Financial Performance

Ghimire and Abo (2013) examined effect of budgetary control and SMEs' performance in the Ivory Coast. The study deployed a descriptive survey design. Budgetary regulation affected the success of SMEs, according to the report. Lack of budgeting skills and knowledge irregularity were also identified as key factors influencing SMEs' success in the report. This current study focused on determining if a relationship exists between budgetary control systems on financial performance.

Marcormick and Hardcastle (2014) investigated the impact of budget control on the performance of Europe state-owned companies. Purposive sampling was employed to sample 40 government parastatals. A panel data of 10 years was used. The results showed a strong link between budget control systems and the performance of state owned agencies. The study looked at how well government entities performed. The study was conducted in

a first world, but the current study focused on the financial performance of SMEs in emerging countries.

Badu (2015) investigated budgeting and budgetary control amongst pharmacy outlets in Ghana. The study's findings revealed that the pharmacy's budgets were prepared using a suitable budgeting and budgetary control framework. However, there were challenges associated with staff ethics. Findings also revealed that pharmacies that used computerised budgetary systems recorded stable growth. The study relationships between budgetary control systems and financial performance were not clearly exposed in the study.

Mulani (2015) studied the effect of budgets on company performance in India. A simple random technique was used to obtain 286 SMEs. The findings revealed that in the SME sector, structured and strict budgetary management systems boost business efficiency. The formalized budgeting process has a significant effect on Indian SMEs. Businesses who used a more organized budgeting preparation process had higher revenue and profit growth. The relationship between budgetary control systems and financial performance was not explored in this study.

Maduekwe and Kamala (2016) determined how SMEs use budgetary systems in the Cape Metropolis, South Africa. Budgets were primarily used for tracking, assessing market efficiency, future planning, and control, according to the findings. Budgets were also found to be successful, however SMEs were unable to implement budgetary control systems due

to lack of managerial assistance and skilled workers. However, the study didn't show the effect of budgetary control systems on financial performance.

Mbuthia (2019) conducted a study in Kenya to determine the impact of budget control on banks financial performance. Data from both secondary and primary sources was used. The findings found that budget planning had the greatest impact on financial institution performance, with budget execution, review, and control having a minor impact. This study was conducted amongst financial institutions in Kenya; hence the results cannot be generalised.

2.3.4 Cash Management Systems and Financial Performance

Hamza (2015) looked into the impact of cash management practices on the performance of SMEs in Ghana. Questionnaires was used to collect data. The study targeted 1000 respondents, while 300 were sampled. The study discovered that SMEs' financial performance is influenced by cash management practices. To improve their financial performance and prosper in an unstable market setting, SME managers must embrace effective cash management practices. The study focused on cash management practices, while the current study focused on cash management systems.

Amin (2016) investigated the impact of cash management techniques on performance in Mogadishu, Somalia. A desk research approach was used by the researcher. The researcher found that cash management methods affect SME performance. Internal controls on cash management were practised at every organisation department that handled

cash. This research looked at cash management techniques, whereas the current research looked at cash management systems.

Niwemutoni (2018) investigated the impact of cash management practices on SME performance in Rwanda's Kicukiro District. The targeted populace comprised of 300 SMEs. Data was collected using interview guides and questionnaires. The findings indicated significant correlation between cash management practices and financial performance. The findings also revealed that digital cash management controls assure an enterprise's optimal cash flow. This study did not address cash management systems.

Oteyo (2018) investigated the impact of cash management on SME performance in Nakuru County, Kenya. In this study, 45 medium-sized and 28 small enterprises were examined. The majority of SMEs in Nakuru County did not conduct formal cash management practices. In contrast, some SMEs formalized some of their cash management practices despite the lack of written policy declarations. However, this investigation was not focused on cash management systems.

2.4 Summary and Research gap

Table 2.1 Summary and Research Gap

Author &Year	**The focus of the study**	**Methodology and findings**	**Focus of the Study**
Aladejebi & Oladimeji (2019)	Recordkeeping and performance of SMEs in Lagos Metropolis	In this study, a descriptive research design was used. The study revealed that Keeping proper records helps the managers know the business's performance and that recordkeeping is key to its success.	The impact of computerized record-keeping systems on financial performance, however, was not examined in the study.
Mbuthia (2019)	Budgetary Controls and the Financial Performance of Commercial Banks in Kenya	A descriptive cross-sectional design was used in this study. Budgeting was determined to have the greatest impact on the financial performance of a group of Kenyan commercial banks.	The findings cannot be generalized because the study only looked at commercial banks in Kenya.
Oteyo (2018)	Cash management and financial performance of SMEs in Nakuru county, Kenya.	The study used a cross-sectional survey research design. According to the findings, the majority	The study, however, was unable to find a link between cash management systems

		of SMEs do not have proper cash management practices in place.	and financial performance.
Odhiambo (2018)	Determine the impact of financial reporting practices on the financial performance of NGOs in Narok County, Kenya.	The study adopted a census sampling method. It was concluded from the study that disclosure of financial reporting tools has a significant impact on performance.	Financial reporting systems and their impact on financial performance, however, were not addressed in the study.
Amin (2016)	cash management techniques and performance of SMEs in Mogadishu, Somalia	The study relied on desk research. The study found that cash management techniques have an impact on SMEs performance, and that internal cash management controls exist at all levels of the business, impacting SMEs' performance in Mogadishu, Somalia.	The study, however, focused on cash management techniques and not cash management systems.
Badu (2015)	Budgeting and budgetary control amongst pharmacies in Ghana.	The study found that an appropriate budgetary control system was used to	The study failed to address the nexus between budgetary

		prepare the pharmacy's budgets, and pharmacies that used computerised budgetary systems recorded stable growth.	control systems and financial performance.
Boating (2015)	Effect of computerized record-keeping in banks	A case study technique was used in the research. Computerization of accounting processes has a good impact on bank record keeping, according to the study.	The impact of record-keeping systems on financial performance is not addressed in the study.
Ploybut (2014)	Nexus between Monetary reports and SME performance in Thailand	Thai SMEs largely prepare and publish their financial reports, although there was little awareness of the problems of SME financial reporting	The impact of financial reporting systems on financial performance was not examined in this study. This study relied on secondary data, while the current study will rely on primary data.
Marcormick & Hardcastle (2014)	Budgetary control and organisational performance in government parastatals in Europe	The study discovered a link between budgetary control systems and government parastatal organizational performance.	The study was done in developed countries and did not look into the impact of budgetary control systems on financial performance.

2.5 Conceptual Framework

The link between the study variables is depicted in Figure 1;

Independent Variables **Dependent Variable**

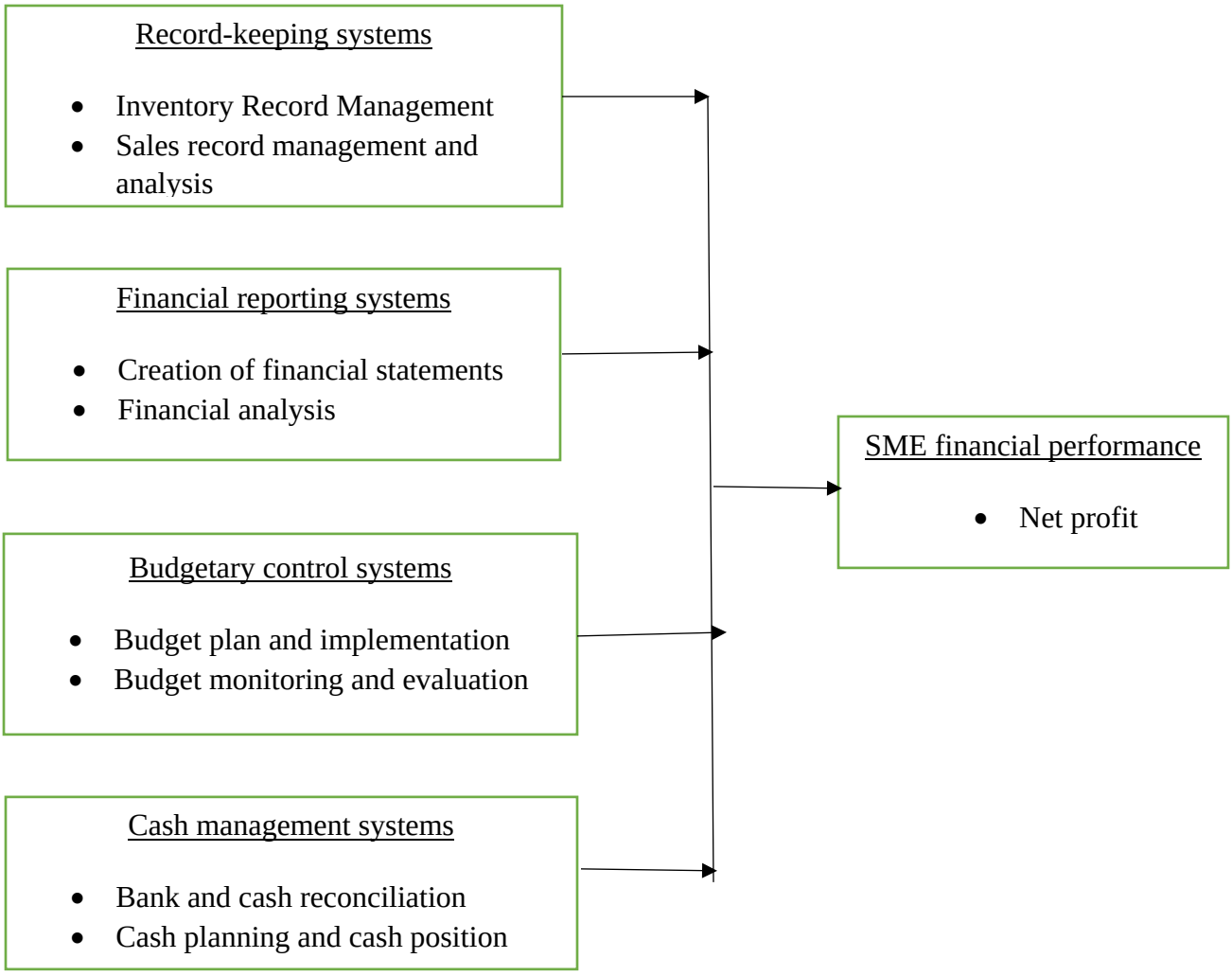

Figure 2.1 Conceptual Framework

Source: Researcher (2021)

Financial performance is the dependent variable, whereas record-keeping systems, financial reporting systems, budgetary control systems and cash management systems are

the independent variables, as shown in the figure above. This means that net profit was used determine the financial performance of SMEs, which is dependent on record-keeping systems, financial reporting systems, budgetary control systems and cash management systems.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The research design, target population, sample size and design, instrumentation (piloting, validity and reliability of research tools), data collection instruments, data analysis, and ethical considerations are all discussed in this chapter.

3.2 Research Design

A descriptive research design was adopted in this study. According to Mugenda and Mugenda (2008), descriptive statistics provide for a detailed description of measures while using a small number of statistics. Using a descriptive research approach, the researcher was able to understand the association between AIS and financial performance. The researcher used a quantitative research methodologies to enhance the content of the findings in this design. Furthermore, the researcher was able to analyse the occurrence in a natural setting because to this research methodology.

3.3 Target Population

The study targeted 1640 SMEs/Owners in Mombasa CBD in operation for more than 5 years as per the LAIFOMS summary 2019 of the county of Mombasa.

3.4 Sampling Design

SME managers and owners were chosen using a stratified random sampling method in this study. Kothari (2004) recommends stratified random sampling because it enhances comparison across the strata. The SMEs were stratified according to six categories, i.e. Retail sector, Pharmaceuticals and health services sector, Hospitality sector, Catering sector, Transport sector and technology sector. Stratified random sampling ensures that every member of the strata has similar chances of being sampled. Slovin's formula was

adopted to calculate desired sample size. The slovin formula calculates the sample size required when the population is too vast to sample every individual.

$n=N/ (1+N_e^2)$

Where:

n=Number of samples

N=Total population

e=Error tolerance

Therefore: $1640/ (1+1640*0.05^2) =321$

Adjustment n $f_{inal}=F*n$

F=1/1+ (n/N)

Where;

N=population size and n=sample size before adjustment

Therefore: 1/1+ (321/1640)*321=268

Table 3.1 Sampling Frame

No.	SME sector	Sample size
1.	Retail sector	45
2.	Pharmaceuticals and health service sector	45
3.	Hospitality sector	45
4.	Catering sector	45
5.	Transport sector	44
6.	Technology sector	44
Total		**268**

3.5 Data Collection Instruments

Questionnaires were utilized to collect data for the study. Questionnaires allow researchers to obtain a huge amount of data from various groups of people at a minimal cost, even if they are spread across a broad geographic area (Kothari, 2008). The questionnaire is highly preferred since it is cost-effective in terms of both money and time, and because the questions are accompanied by alternative solutions, it is simple to administer. More importantly, they are easy to analyse (Mugenda & Mugenda, 2008). The study used questionnaires since it guarantees confidentiality; hence respondents will act without fear or bias.

There were six sections in the questionnaire. Background information covered in Section A, and record-keeping systems covered in Section B; section C covered financial reporting systems; section D covered budgetary control systems, section E covered cash management systems, and section F covered SME financial performance. The participants' responses were measured on a five-point Likert scale, with strongly agree, agree, not sure, disagree, and strongly disagree being the highest scores.

3.6 Pilot Testing

The sample size for pilot studies should be 10% of the total sample size (Connally 2008). As a result, an analysis was carried out on 10% of the overall sample size. The data from the 27 small and medium-sized businesses was not included in the final analysis. A pilot test was conducted to evaluate if the data collected could be processed and analysed. Following the pilot test, changes to the questionnaire were made to lessen the uncertainty

of some of the questions. The items in the questionnaires were deemed appropriate in terms of wording and structure at the conclusion of the exercise. The data for the final analysis was collected using the revised questionnaire.

3.6.1 Validity of Research Instrument

In this study, content validity was used. According to Sekaran (2010), content validity is a judgemental act in which researchers analyse whether the items, as well as the instrument's wording, layout, and scoring, truly reflect the construct being studied. To ensure validity, two measures were taken. To begin, prior study test questions were used wherever possible to improve the research instrument's validity. Finally, the instruments were evaluated by university supervisor to guarantee that they were valid. To determine the structure, time, and applicability of the questions utilized, validity checks were performed.

3.6.2 Reliability Research Instrument

Cronbach alpha was employed to examine the instrument's reliability because it just requires a single administration of questionnaires. To reduce inaccuracies, the data from the pilot research was double-checked for validity and accuracy. The internal consistency of the elements in the questionnaire was examined using the Cronbach's alpha coefficient. Alpha coefficients range from 0 to 1, and the higher the Cronbach's alpha coefficient, the better the measuring units' internal consistency (Zikmund et al., 2013). Cronbach's alpha is a good choice because most of the structured questions were on a likert scale. Cronbach's Alpha Coefficient had a cut-off of 0.7, and all items having a value of less than 0.7 were deemed inadequate and were altered or eliminated from the final questionnaire.

3.7 Data Collection Procedures

The researcher requested clearance from the county administration after departmental supervisors approved the study. The National Science, Technology, and Innovation Commission was also approached for a research license. The researcher also obtained permission from SME managers. Finally, the researcher dropped off the questionnaires at the respondents' workplaces and collected them as soon as they were completed.

3.8 Data Analysis and Presentation

Data was collected, categorised, and then encoded in SPSS version 24 before being analysed. The researcher employed descriptive and inferential statistics. Frequency, percentage, and mean were used in the descriptive analysis. Pearson's correlation was utilized to determine the relationship between the research variables. The regression model's overall fit was measured using ANOVA (Analysis of Variance) test. The R-squared value showed how the data fits the model best (fit of the regression model). Using the t-value and their respective p-value, the regression coefficient of the independent variables was investigated to determine the significance of their effect on the dependent variable. All hypotheses were tested with a 95% confidence level, and if the p-value was less than 0.05, the H0 rejection criteria were rejected. The significance of the association between the variables was assessed using the P values of the multiple regression analysis results.

The equation for the regression was:

$Y= \beta_0+ \beta_1X_1+\beta_2X_2+ \beta_3X_3+\beta_4X_4+ \varepsilon$

Where:

Y is the dependent variable (SME Financial Performance)

B0 is the regression constant

$\boldsymbol{\beta_1, \beta_2, \beta_3}$ and $\boldsymbol{\beta_4}$ are the coefficients of independent variables

$\mathbf{X_1}$ is Record Keeping Systems

$\mathbf{X_2}$ is Financial Reporting Systems

$\mathbf{X_3}$ is Budgetary Control Systems

$\mathbf{X_4}$ is Cash Management Systems

$\boldsymbol{\varepsilon}$ is the error term

3.9 Diagnostic test

The testing of assumptions is imperative when using multiple regressions. Violations of assumptions may result in biased estimates of relationships, over or under confident estimates of regression coefficients. As a result, this study conducted tests for normality and linearity, which are discussed in this section.

3.9.1 Normality Test

In order to test the normal distribution of the study variables, the Shapiro-Wilk test was used. It required that the data were normally distributed as its null hypothesis. H0 was rejected if the p-values were not greater than 0.05 for each study variable.

3.9.2 Linearity Test

This test was conducted to determine if the relationship between the independent and the dependent variable was linear or not. It is crucial, because standard multiple regression can only estimate the relationship between independent and dependent variables accurately when they are linear. Since non-linear relationships are common in the social sciences, it is important to examine assumptions about non-linearity. This study used a linearity test to determine whether the relationship between the predictor and the outcome variable was linear. When the deviation from linearity exceeds 0.05, the relationship between independent variables is considered linearly dependent (Cooper & 58 Schindler, 2008). To

resolve non-linearity violations, scatter plots were used to check for outliers and remove them.

3.10 Operationalization and Measurement of Variable

Variable	Type	Measurement	Scale	Type of analysis
Recordkeeping systems	Independent	5 point Likert scale • Inventory record management • Sales record management and analysis	Ordinal	Descriptive statistics Correlation analysis
Financial Reporting Systems	Independent	5 point Likert scale • Creation of financial statements • Financial analysis	Ordinal	Descriptive statistics Correlation analysis
Budgetary Control Systems	Independent	5 point Likert scale • Budget plan and implementation • Budget monitoring and evaluation	Ordinal	Descriptive statistics Correlation analysis
Cash Management Systems	Independent	5 point Likert scale • Bank and cash reconciliation	Ordinal	Descriptive statistics Correlation analysis

		• Cash planning and cash position		
Financial performance	Dependent	Net profit	Ordinal	Regression analysis Descriptive statistics Correlation analysis

3.11 Ethical Considerations

Science is not complete without ethical considerations. All ethical issues include anonymity and discretion; no harm to respondents; volunteer involvement; avoiding deception; and just reporting (Babbie, 2009). Before, during, and after the study, ethical guidelines were observed. Respondents were asked for informed consent so that they could participate at free will. The respondents received an introduction letter informing them of the study's intent. Since the survey did not require the disclosure of personal information, respondents' data was kept private and the source of information was hidden. To promote objectivity in research, efforts were made to ensure that the researcher's biases did not interfere with the data collection process. The information collected remained confidential and was used solely for reporting purposes.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

Based on the study objectives, this chapter provides research findings and discussions. The study's main objective was to determine the effect of accounting information systems on financial performance of SMEs in Mombasa County, Kenya. The research study was organized around the study's goal, which was to determine the effect of record-keeping systems, financial reporting systems, budgetary control systems, and cash management systems on the financial performance of SMEs in Mombasa County, Kenya. The responses were tabulated and analyzed into frequencies, percentages, mean, and standard deviation

4.2 Analysis of Response Rate and descriptive statistics

4.2.1 Response Rate

SME owners/managers were the study's participants. They completed and submitted the questionnaires as shown in Table 4.1.

Table 4.1: Instrument Response Rate

	Frequency	Percentage
Response	175	65.3
Non response	93	34.7
Total	**268**	**100**

Source: Survey Data (2021)

According to the findings, the response rate was 65.3 percent, which Mugenda (2008) considers appropriate for analysis. The high response rate was achieved due to researcher's efforts to closely monitor the data collection process and establishing a good rapport with the respondents.

4.2.2 Reliability Statistics

Cronbach's alpha was used to assess questionnaire reliability. The alpha values for record-keeping systems, financial reporting systems, budgetary control systems, and cash

management systems were 0.850, 0.967, 0.966, and 0.952, respectively. The alpha value for financial performance was 0.944, and the scale combination was 0.988, indicating that it is a sound and trustworthy metric. Table 4.2 summarizes the findings.

Table 4.2: Reliability Statistics

Variables	Cronbach's alpha	Items
SMEs financial performance	0.944	4
Record-keeping systems	0.850	5
Financial reporting systems	0.967	6
Budgetary control systems	0.966	6
Cash management systems	0.952	5
Scale Combination	0.988	**26**

Source: Survey Data (2021)

4.3 Descriptive Statistics

4.3.1 Background Information

The gender, age, education level, and accounting abilities of SME owners and managers were the focus of the background information. The respondents' general information is presented in Table 4.3.

Table 4.3: Background Information of Business Owner/Manager

Variable	Frequency (F)	Percentage (%)
Gender		
Male	75	42.9
Female	100	51.1
Total	**175**	**100.0**
Age		
20-30 years	36	20.6
31-40 years	76	43.4
41-50 years	50	28.6
Over 50 years	13	7.4
Total	**175**	**100.0**
Education level		
Primary	12	6.9
Secondary	61	34.9
College	74	42.3
Undergraduate	20	11.4
Postgraduate	8	4.6
Total	**175**	**100.0**
Accounting skills rating		
Excellent	15	8.6
Good	26	14.9
Fair	88	50.3
Poor	46	26.3
Total	**175**	**100.0**

Source: Survey Data (2021)

Table 4.3 shows that males owned or managed 42.9% of SMEs, whereas females managed or controlled 51.1%. This means that women own or manage the vast majority of SMEs in Mombasa County. Regarding respondents' age, majority were aged between 20-40 years which implies that the owners/managers were youthful and more likely to adopt computerized accounting than the older entrepreneurs. Findings show that all the respondents were literate since they had all acquired basic education. They could therefore read and answer the questionnaires. This also shows that they were in a position to read and interpret business records. Additionally, majority of the respondents felt that they were

not very competent in accounting since only 8.6% rated their accounting skills very excellent. However, all of them had some basic accounting skills.

The background information of SMEs focused on nature of business, number of staff and the period of time that they have been operating the business. The general information of the responders is presented in Table 4.4.

Table 4.4: Background Information of SME

Variable	Frequency (F)	Percentage (%)
Nature of business		
Retail	45	25.7
Transport	25	16.0
Technology	11	6.3
Hospitality	45	25.7
Pharmaceutical	14	8.0
Transport	32	18.3
Total	**175**	**100.0**
Number of Staff		
1-9 people	51	29.1
10-49 people	112	64.0
50-99 people	12	6.9
Total	**175**	**100.0**
Business Period of existence		
5-10 years	48	27.4
10-20 Years	93	53.1
More than 20 years	34	19.4
Total	**175**	**100.0**

Source: Survey Data (2021)

The study found that all categories of SMEs in Mombasa County were highly represented, with the retail and hospitality sector accounting for the majority. All the SMEs meet KRA definition of a small and medium enterprise that hires between10-99 respectively employees. The majority of SMEs have been in operation for more than 10 years, indicating that they are knowledgeable about business operations and different accounting aspects that may affect financial performance.

4.3.2 Record-keeping Systems and SMEs financial performance

The first objective was to determine the effect of record-keeping systems on the financial performance of SMEs in Mombasa County, Kenya. The respondents were asked whether they employ computerized record-keeping systems in the business. The findings are summarized in Table 4.5.

Table 4.5: Responses on Use of Record-keeping Systems

Responses	Frequency	Percentage
Yes	78	44.6
No	97	55.4
Total	**175**	**100.0**

Source: Survey Data (2021)

Findings show that 44.6% of the respondents employed computerized record-keeping systems. The records in the computer systems were sales receipts, invoices and payment vouchers. The SMEs owners/ managers who used computerized record-keeping systems opined that it helps them to know the financial position of their enterprises. Proper record keeping also helps to reduce operating expenses and enhances efficiency and productivity. This implies that majority of the SME owners/managers employed manual record keeping. Findings concur with Aladejebi and Oladimeji (2019) that since majority on entrepreneurs do not have general accounting skills, they hold their records manually. The results also agreed with Maseko and Manyani (2011) and Anokyewaa (2015) that majority of entrepreneurs used manual accounting.

Respondents were then asked to mark how much they agreed or disagreed with the statements on the effect of record-keeping systems on financial performance. The findings are summarized in Table 4.6.

Table 4.6: Responses on Effect of Record-keeping systems on Financial Performance

Key: Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4), Strongly Disagree (5), Mean (M), Standard deviation (STD)

Statements	1		2		3		4		5		M	STD
	F	%	F	%	F	%	F	%	F	%		
I always keep soft copies of business records for accountability.	74	42.3	41	23.4	22	12.5	18	10.3	20	11.4	1.93	1.350
Sound accounting records facilitate decision making.	105	60.0	34	19.4	12	6.9	18	10.3	6	3.4	1.85	1.311
My business has effective accounting records and procedures.	41	23.4	102	58.3	10	5.7	12	6.9	10	5.7	2.13	1.034
Keeping proper records helps the managers to know the performance of the business.	108	61.7	30	17.1	14	8.0	18	10.3	5	2.8	1.86	1.368

N=175

Source: Survey Data (2021)

The majority of respondents agreed that they always keep soft copies of business records for accountability (M = 1.93, STD = 1.350), that sound accounting records facilitate decision making (M = 1.85, STD = 1.311), that their business has effective accounting records and procedures (M = 2.13, STD = 1.034), and that keeping proper records helps the managers to know the business's performance (M = 2.13, STD = 1.034). This implies that although not every SME employs computerized record-keeping system, all the owners/managers who participated in the study agreed that computerized record is essential in an SME and it enhances business financial performance. This finding supports Adekunle and Adejare's (2014) assertion that proper record-keeping is necessary for making sound decisions, which invariably affect small-scale enterprise performance; Aladejebi and Oladimeji (2019) explain that proper record-keeping aids managers in understanding the company's performance, which improves its success.

To establish whether there was a statistically significant difference in financial performance between SMEs that used computerized record-keeping systems and those that didn't, a t-test was conducted. The findings are summarized in Table 4.7.

Table 4.7: T-test for Record-Keeping Systems and Financial Performance

ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	106.091	1	106.091	174.294	.000
Within Groups	105.303	173	.609		
Total	211.394	174			

Source: Survey Data (2021)

The differences between groups were statistically significant (F (1,173) = 174.29, p =.000). This indicates that there was a financial performance difference between SMEs that used computerized record-keeping systems and those who did not. Because the data follows the diagonal line closely and has a linear pattern, it was normally distributed as illustrated in Figure 4.1. Findings concur with Adekunle and Adejare (2014) that accounting record keeping and performance have a substantial positive association.

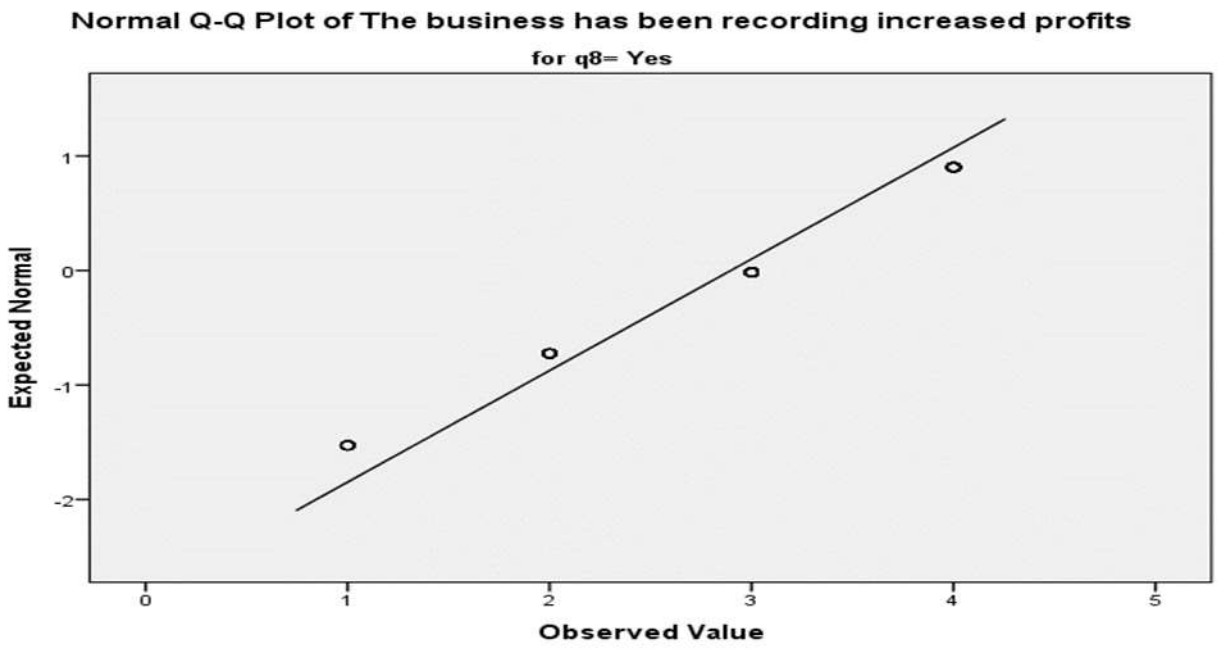

Figure 4.1: Normal Q-Q plot for Recordkeeping and Financial Performance

4.3.3 Financial Reporting Systems and SMEs Financial Performance

The second objective of the study was to examine the effect of financial reporting systems on SMEs' financial performance in Kenya's Mombasa County. The respondents were questioned whether they used computerized financial reporting systems in their business. Table 4.8 summarizes the findings.

Table 4.8: Responses on Use of Financial Reporting Systems

Responses	Frequency	Percentage
Yes	32	18.3
No	143	81.7
Total	**175**	**100.0**

Source: Survey Data (2021)

Findings show 18.3% of the respondents used computerized financial reporting while the majority did not use financial reporting systems. Majority of the business owners/

managers prepared and filed financial reports manually while only a few had computers to save the financial reports. Computers make it easier to retrieve financial records such as volume of sales, profits, debts and credits. Computerized financial reports also make it easier to file taxes and secure loans from financial institutions. Findings differ with Ploybut (2014) who established established widespread use of computerized accounting systems among SMEs in Thailand.

Respondents were asked to tick on the extent to which they agree or disagree with the listed statements regarding the effect of financial reporting systems on financial performance. The findings are summarized in Table 4.9.

Table 4.9: Responses on Effect of Financial Reporting Systems on Financial Performance

Key: Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4), Strongly Disagree (5), Mean (M), Standard deviation (STD)

Statements	1		2		3		4		5		Mean	STD
	F	%	F	%	F	%	F	%	F	%		
The design and implementation of accounting information system improve the quality of financial reports.	96	54.9	44	25.1	14	8.0	11	6.3	10	5.7	1.83	1.172
Managers make appropriate decisions based on formal financial transaction processes	84	48.0	35	20.0	22	12.6	7	4.0	27	15.4	2.19	1.460
Information technology makes financial reporting more factual, practical and better.	88	50.3	40	22.9	13	7.4	12	6.9	22	12.6	2.09	1.410
A computerized financial reporting system has high likelihood of high productivity.	93	53.1	29	16.6	22	12.6	12	6.9	19	10.9	2.06	1.384
Accounting systems are important for timely production of high-quality financial data.	103	58.9	37	21.1	20	11.4	8	4.6	7	4.0	1.97	1.474

N=175

Source: Survey Data (2021)

The respondents agreed that accounting information systems design and implementation improve the quality of financial reports (M=1.83, STD=1.250), formal financial transaction processes lead to appropriate managerial decisions (M=2.19, STD=1.460), information technology makes financial reporting more factual, practical, and better (M=2.09, STD=1.410), a computerized financial system has a high likelihood of high productivity (M=2.06, STD=1.384), and accounting information systems design and implementation

improve the quality of financial reports (M=1.97, STD=1.474). This means that, while the majority of SMEs do not employ computerized financial reporting, the managers/owners are aware of the advantages that come with using financial reporting systems. Findings concur with Suhail (2019) that a company with better financial reporting system enjoys a high level of performance and that a sound financial reporting system is also linked with better performance.

Table 4.10: T-test for Financial Reporting Systems and Financial Performance

ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	112.777	1	112.777	197.839	.000
Within Groups	98.618	173	.570		
Total	211.394	174			

Source: Survey Data (2021)

The differences between groups were statistically significant (F (1,173) = 197.84, p =.000). This demonstrates that financial performance differed between SMEs that used financial reporting tools and those who did not. The data was distributed normally, as seen in figure 4.2. Findings concur with Odhiambo (2018) that financial reporting instruments disclosure significantly affect business financial performance.

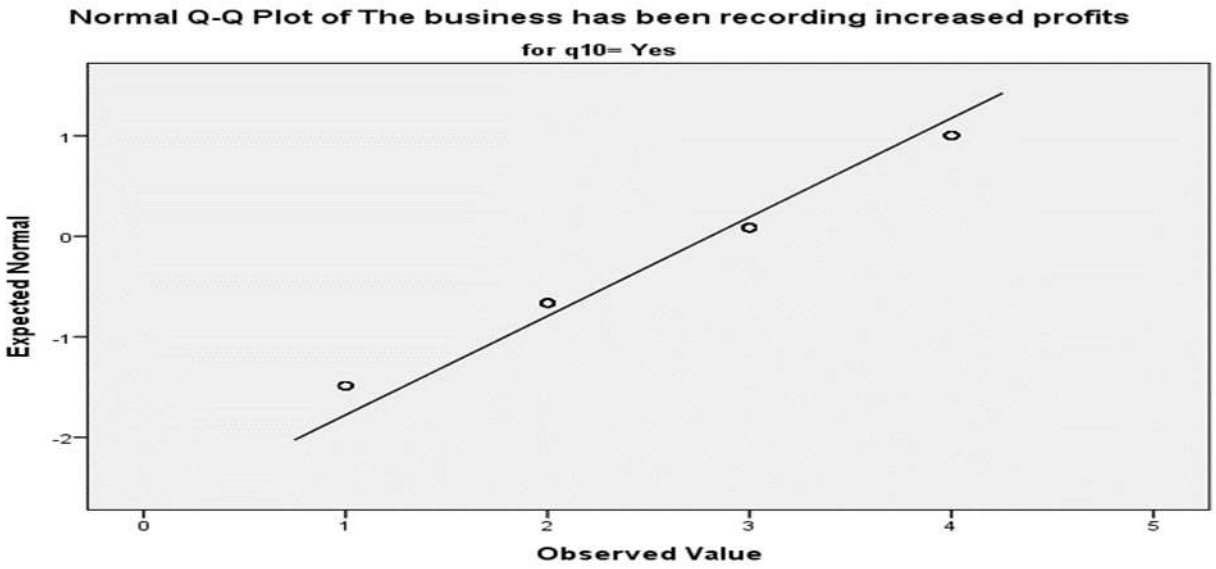

Figure 4.2: Normal Q-Q plot for Financial Reporting and Financial Performance

4.3.4 Budgetary Control Systems and SMEs Performance

The third objective was to establish the effect of budgetary control systems on SMEs' financial performance in Kenya's Mombasa County. If they use budgetary control systems in their business, respondents were questioned. Table 4.11 summarizes the findings.

Table 4.11: Responses on Use of Budgetary Control Systems

Responses	Frequency	Percentage
Yes	33	18.9
No	142	81.1
Total	**175**	**100.0**

Source: Survey Data (2021)

The majority of respondents (81.1%) did not use budgetary control systems, according to the findings. Lack of budgetary control systems may lead stocking products that were not budgeted for. It also makes it difficult to monitor the business financial spending. This implies that the business owners/managers did not have adequate budgeting skills to enable them adopt budgetary control systems. Findings concur with Maduekwe and Kamala (2016) that businesses had not implemented budgetary control systems due to lack of staff

training. Ghimire and Abo (2013) also found that SMEs owners and managers lacked budgeting skills which hindered success.

Respondents were asked to tick on the extent to which they agreed or disagreed with the following assertions about the effect of budget control systems on financial performance. Table 4.12 summarizes the findings

Table 4.12: Responses on Effect of Budget Control on Financial Performance

Key: Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4), Strongly Disagree (5), Mean (M), Standard deviation (STD)

Statements	1		2		3		4		5		Mean	STD
	F	%	F	%	F	%	F	%	F	%		
An appropriate system of budgetary control helps to prepare the business budgets.	100	57.1	34	19.4	11	6.3	15	8.6	15	8.6	1.92	1.324
Budgetary control systems help to point out critical financial measures for the enterprise and how and when to monitor them.	104	59.4	28	16.0	21	12.0	14	8.0	8	4.6	1.82	1.193
Using the management by exception principle, budgetary control saves management time.	94	53.7	35	20.0	24	13.7	12	6.9	10	5.7	1.91	1.209
The official and strong control techniques of control for the budgetary process improves business performance	70	40.0	35	20.0	31	17.7	17	9.7	22	12.6	2.35	1.410
Budgetary control systems help to interpret budgets and performance measurements.	37	21.1	98	56.0	17	9.7	9	5.1	14	8.0	2.23	1.090

N=175

Source: Survey Data (2021)

According to the findings in Table 4.12, the majority of respondents agreed that: an appropriate system of budgetary control helps to prepare the business budgets (M=1.92, STD=1.324), budgetary control systems help to point out critical financial measures for the enterprise and how and when to monitor them (M=1.82, STD=1.193), budgetary control economizes management time by using the management by exceptional principle (M=1.91,

STD=1.209), the official and strong control techniques of control for the budgetary process improves business performance (M=2.35, STD=1.410) and budgetary control systems help to interpret budgets and performance measurements (M=2.23, STD=1.090). This implies that business owners/ managers knowledge on budgetary control enhances business performance since it makes it easier to track business expenditure. Findings concur with Mulani (2015) that businesses that used a more organized budgeting preparation process had higher revenue and profit growth. Mbuthia (2019) found that business performance was affected by computerized budgeting.

Table 4.13: T-test for Budget Control Systems and Financial Performance

ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	61.958	1	61.958	71.727	.000
Within Groups	149.437	173	.864		
Total	211.394	174			

Source: Survey Data (2021)

The differences between groups were statistically significant (F (1,173) = 71.73, p =.000). This demonstrates that there was a financial performance difference between SMEs that used budget control tools and those that did not. The data was distributed normally, as seen in figure 4.3. The Findings concur with Mulani (2015) that businesses that use a more organized budgeting preparation process have higher revenue and profit growth.

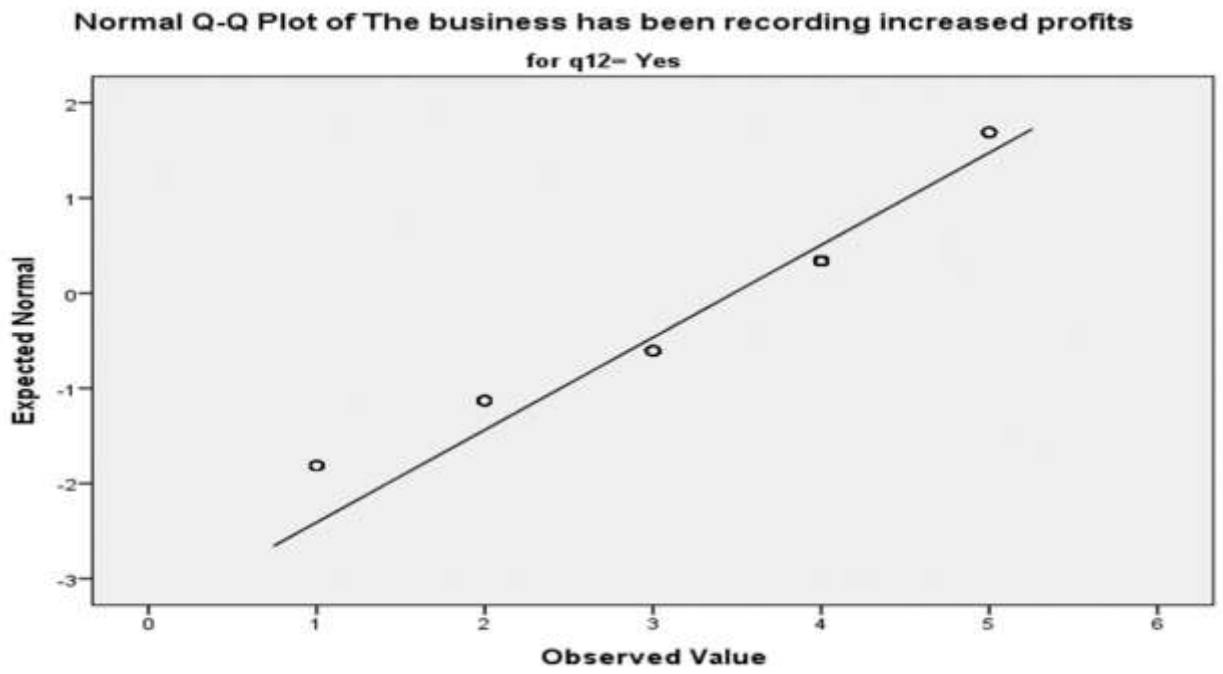

Figure 4.3: Normal Q-Q plot for Budgetary Control and Financial Performance

4.3.5 Cash Management Systems and SMEs Financial Performance

The fourth objective was to determine the effect of cash management systems on SMEs' financial performance in Kenya's Mombasa County. Respondents were asked if their company had implemented a cash management system. Table 4.14 summarizes the findings.

Table 4.14: Responses on Use of Cash Management Systems

Responses	Frequency	Percentage
Yes	165	94.3
No	10	5.7
Total	**175**	**100.0**

Source: Survey Data (2021)

The majority of respondents (94.3 percent) did not have a formal cash management system in place at their business, but manually counted cash from sales and deposited it at a later date, according to the findings. Cash out and cash in was only recorded on paper which

may be easily plucked by a cashier who may be planning to cash lift from the business. This means that the vast majority of SMEs in Mombasa County do not have established cash management practices in place. Findings concurs with Oteyo (2018) who found that majority of SMEs did not carry out formal cash management practices. Hamza (2015) found that the SMEs used poor cash management practices which affected the financial performance of SMEs due to frequent loss of cash.

Respondents were asked to tick on the extent to which they agreed or disagreed with the statements on the effect of cash management systems on financial performance. Table 4.15 summarizes the findings.

Table 4.15: Responses on Effect of Cash Management Systems on Financial Performance

Key: Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4), Strongly Disagree (5), Mean (M), Standard deviation (STD)

Statements	1		2		3		4		5		Mean	STD
	F	%	F	%	F	%	F	%	F	%		
Computerized accounting system allows for effective cash management.	97	55.4	33	18.9	13	7.4	15	8.6	17	9.7	1.98	1.362
Cash management systems contribute to the accuracy of accounting and the prevention of frauds.	25	14.3	109	62.3	19	10.9	13	7.4	9	5.1	2.27	0.972
To ensure that organizations cash flow is optimal, digital cash management controls are implemented.	105	60.0	31	17.7	18	10.3	13	7.4	8	4.6	1.79	1.172
Small and medium sized businesses' success is influenced by cash management techniques.	89	50.9	39	22.3	11	6.3	22	12.6	14	8.0	2.05	1.342

Source: Survey Data (2021)

Table 4.15 reveals that the vast majority of respondents agreed that: cash management systems contribute to accounting accuracy and fraud prevention (M = 2.27, STD = 0.972);

digital cash management controls ensure that an enterprise's cash flow is optimal (M = 1.79, STD = 1.172); and cash management techniques affect the performance of small and medium enterprises (M = 2.05, STD = 1.342). This implies that computerized cash management systems enhance business performance. Findings concur with Niwemutoni (2018) that digital cash management controls ensure optimal cash flow in an enterprise.

Table 4.16: T-test for Cash Management Systems and Financial Performance

ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	16.158	1	16.158	14.318	.000
Within Groups	195.236	173	1.129		
Total	211.394	174			

Source: Survey Data (2021)

The differences between groups were statistically significant (F (1,173) = 14.318, p =.000). This indicates that there was a financial performance difference between SMEs that used cash management systems and those that did not. The data was distributed normally, as seen in figure 4.4. The Findings concur with Amin (2016) that cash management methods affect SME performance.

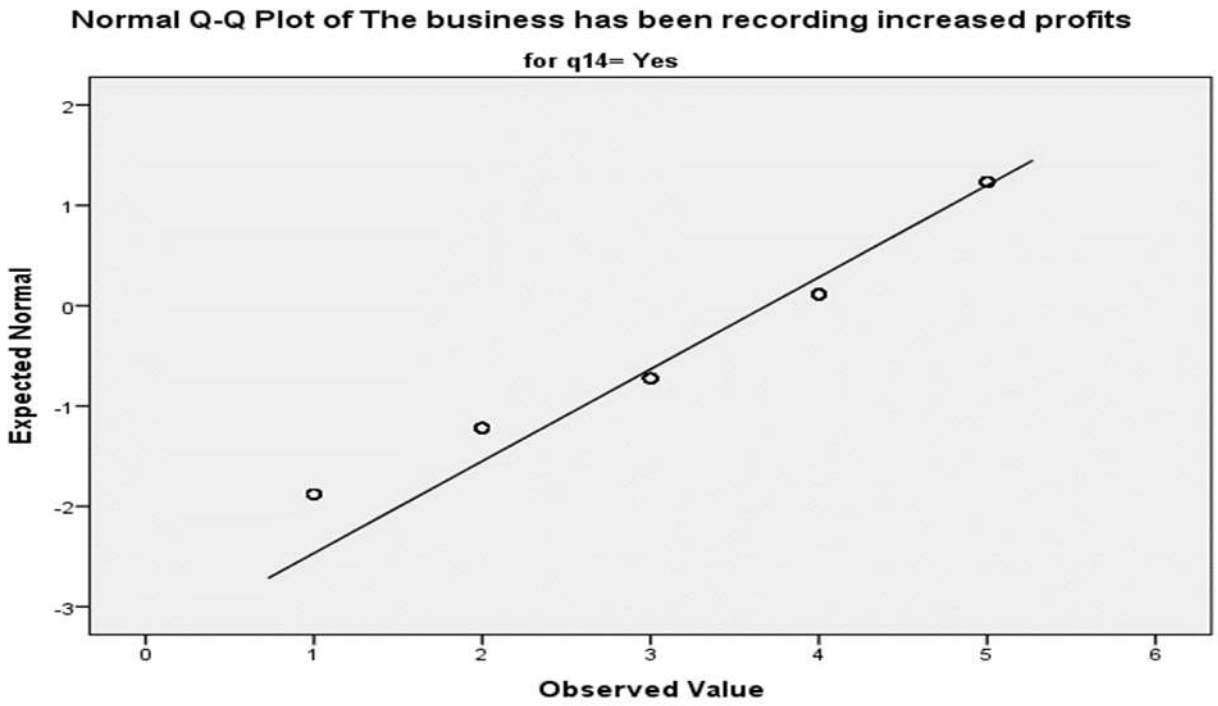

Figure 4.4: Normal Q-Q plot for Cash Management and Financial Performance

4.3.6 SMEs Financial Performance

In order to establish the SME's financial performance, respondents were asked to check whether they agreed or disagreed with a statement about the SME's financial. Table 4.17 summarizes the findings.

Table 4.17: Business Financial Performance

Key: Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4), Strongly Disagree (5), Mean (M), Standard deviation (STD)

Statements		1		2		3		4		5		Mean	
		F	%	F	%	F	%	F	%	F	%		
The business has been recording increased profits	9	5.1	18	10.3	23	13.1	80	45.7	45	25.7	3.77	1.102	
The business has been recording increased revenue	13	7.4	20	11.4	27	15.4	75	42.9	40	22.9	3.62	1.172	
The business profits has been stagnating	85	48.6	44	25.1	20	11.4	17	9.7	9	5.1	1.98	1.208	

Source: Survey Data (2021)

Table 4.16 shows that the majority of respondents (M = 1.83, STD = 1.250) dispute that the business has been earning greater profits. The majority of respondents (M = 1.98, STD = 1.208) agreed that their firm profits have been stagnating. This implies that majority of the SMEs have been recording dismal performance and only a few have been recording high performance. Finding concurs with a survey conducted by Capital Markets Authority (2020) which showed a significant decline in SMEs' profitability.

4.4 Inferential Analysis

4.4.1 Coefficient of Correlation

The study employed the Karl Pearson's coefficient of correlation (r) to determine the relationship between the study variables and to assess the study hypothesis. Table 4.18 summarizes the findings.

Table 4.18: Coefficient of Correlation

Variables		Financial performance	Record-keeping systems	Financial reporting systems	Budgetary control systems	Cash management systems
Financial performance	Pearson Correlation	1				
	Sig. (2-tailed)					
Record-keeping systems	Pearson Correlation	.708**	1			
	Sig. (2-tailed)	.000				
Financial reporting systems	Pearson Correlation	.730**	.932**	1		
	Sig. (2-tailed)	.000	.000			
Budgetary control systems	Pearson Correlation	.541**	.432**	.403**	1	
	Sig. (2-tailed)	.000	.000	.000		
Cash management systems	Pearson Correlation	.511**	.221**	.206	.276**	1
	Sig. (2-tailed)	.000	.003	.006	.000	

**. Correlation is significant at the 0.05 level (2-tailed).

Source: Survey Data (2021)

Table 4.18 reveals a strong significant relationship between record-keeping systems and financial performance (r = 0.708, p-value = 0.000), a strong significant relationship between financial reporting systems and financial performance (r = 0.730, p-value = 0.000), a moderate significant relationship between budgetary control systems and financial performance (r = 0.541, p-value = 0.000), and a moderate significant relationship between cash management systems and financial performance (r = 0.541, p-value =0.000). The null hypothesis is thus rejected because there is sufficient evidence to show that accounting information systems (record-keeping systems, financial reporting systems, budgetary control systems, and cash management systems) and the financial performance of SMEs in Mombasa County have a statistically significant relationship. The findings

support Anokyewaa (2015) assertion that computerized accounting has a major impact on SMEs' operations, and Otieno (2016) assertion that financial reporting practices influence performance. There is a substantial link between budgetary control systems and performance, according to Marcormick and Hardcastle (2014), and there is a considerable link between cash management practices and financial performance, according to Niwemutoni (2018).

4.4.2 Analysis of variance

An analysis was carried out to see if there is a linear relationship between accounting information systems and SMEs' financial performance. Table 4.19 summarizes the findings.

Table 4.19: Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	128.367	4	32.092	65.708	.000[b]
	Residual	83.028	170	.488		
	Total	211.394	174			

Predicators: (constant) Record-keeping, Financial reporting, Budgetary control, Cash management
Dependent variable: Financial Performance

The model was significant (p-value = 0.000) at the 0.05 level in explaining the linear relationship between the study variables, as shown in Table 4.19. Furthermore, the F-statistic is significantly greater than 1, indicating that the model is suitable for assessing the relationship between independent and dependent variables.

4.4.3 Coefficient of Determination

The coefficient of determination was calculated to see how well the statistical model can forecast future outcomes. The model summary is shown in Table 4.20.

Table 4.20: Model Summary.

Model	R	r^2	Adjusted r^2	Std. Error of the Estimate
1	0.779	0.607	0.598	0.699

Predicators: (constant) Record-keeping, Financial reporting, Budgetary control, Cash management

The adjusted R squared reflects the changes in the independent variable due to changes in the dependent variables, as shown in Table 4.19. The R squared is 0.607, indicating a change of 60.7% owing to changes in record-keeping systems, financial reporting systems, budgetary control systems, and cash management at a 95% confidence level, based on the results in Table 4.19. This indicates that the study's independent variables account for 60.7% of SME financial performance, while additional variables not examined in this study account for 39.3%.

4.4.4 Multiple Regression

To further understand the relationship between the study variables, the researcher used a multiple regression analysis. Table 4.21 summarizes the findings.

Table 4.21: Regression of Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
Model	**B**	**Std. Error**	**Beta**	**T**	**Sig.**
Constant/Y Intercept	.611	.276		2.217	.028
Record-keeping systems	.442	.298	.085	.628	.001
Financial reporting systems	1.194	.297	.535	4.022	.000

Budgetary control systems,	.813	.170	.289	4.782	.000
Cash management systems	.187	.265	.012	.004	.050

Dependent variable: Financial performance

As per the SPSS generated in Table 4.21, the equation,

$Y= \beta_0+ \beta_1X_1+\beta_2X_2+ \beta_3X_3+\beta_4X_4+\varepsilon$

Becomes;

$Y = 0.611 + 0.442\ X_1 + 1.194X_2 + 0.813X_3 + 0.187X_4$

Where;

Y=Financial performance

X_1=Record-keeping systems

X_2=Financial reporting systems

X_3=Budgetary control systems

X_4=Cash management systems

Using the aforementioned regression model, SME financial performance would be 0.611 if record-keeping systems, financial reporting systems, budgetary control systems, and cash management systems were held at a constant zero.

Record Keeping Systems has a positive statistical beta coefficient ($\beta = 0.442$, $p = 0.001$). this means record keeping systems has a significant on the financial performance of SMEs in Mombasa County, Kenya. This result is supported by Anokyewaa (2015) who looked at how computerized record keeping systems affect performance of SMEs in Ghana and revealed that computerized record keeping systems significantly influenced the performance of SMEs. Record keeping systems is critical in SMEs and directly determines the performance of an enterprise.

Financial Reporting Systems has a positive statistical beta coefficient ($\beta=1.194$, $p=0.000$). This infers that financial reporting systems has significant effect on financial performance of SMEs. The finding is supported by Suhail (2019) who sought to examine the influence of quality of financial reporting on company's performance in Pakistan and revealed that sound financial reporting systems is linked to better earnings. Financial reporting system

assist SMEs in improving the quality of their financial reports which will in turn lead to better managerial decisions which will affect the performance of an enterprise.

Budgetary Control System has a positive statistical beta (β=0.813; p=0.000). This shows that budgetary control systems have a significant effect on financial performance of SMEs in Mombasa County, Kenya. The finding is supported by Mbuthia (2019) who sought to establish the relationship between budgetary controls and performance of banks in Kenya and revealed that there was a significant relationship between budget planning and performance of financial institutions.

Cash management systems has a positive statistical beta coefficient (β=0.187; p=0.050). It can therefore be deduced that cash management system has significant effect on financial performance of SMEs in Mombasa County, Kenya. The result supports the findings of Hamza (2015) who investigated how cash management practices on the performance of SMEs in Ghana and revealed that cash management practices significantly influenced financial performance SMEs. Cash management systems ensure that enterprises cash flow is optimal and cash management techniques have an impact on SMEs success.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The researcher's summary of findings, conclusion, and suggestions are presented in this section.

5.2 Summary

The goal of the study was to see how accounting information systems affected SMEs' financial performance in Mombasa County. The study's specific objectives were to determine the effect of record-keeping systems on the financial performance of SMEs in Mombasa County; examine the effect of financial reporting systems on the financial performance of SMEs in Mombasa County; establish the effect of budgetary control systems on the financial performance of SMEs in Mombasa County; and assess the effect of cash management systems on the financial performance of SMEs in Mombasa County. A descriptive research design was adopted in this study. In the Mombasa CBD, the target population was 1640 SME owners and managers who had been in business for more than five years.

5.2.1 Record- keeping Systems and Financial performance

The goal of the study was to see if there was a link between record-keeping systems and SMEs' financial performance in Mombasa County, Kenya. The data revealed a strong significant association ($r = 0.708$, p-value = 0.000) as recorded in table 4.18 between record-keeping systems and financial performance. The majority of respondents said they didn't use digital record-keeping systems. The financial performance of SMEs that used computerized record-keeping systems differed significantly from those that did not. The majority of respondents stated that they preserve soft copies of business records for

accountability and that good accounting records help them make better decisions. They also agreed that having adequate accounting records and procedures in place aids managers in understanding the performance of the business.

5.2.2 Financial Reporting Systems and Financial Performance

Financial reporting systems revealed a strong significant relationship (r = 0.730, p-value = 0.000) as reported in table 4.18 between financial reporting and financial performance. The majority of respondents did not use computerized financial reporting systems, and there was a substantial difference in financial performance between SMEs that used and those that did not use financial reporting systems. Respondents agreed that the design and implementation of accounting information systems improve the quality of financial reporting and that formal financial transaction processes lead to appropriate managerial decisions. Financial reporting has been more factual, practical, and better as a result of information technology, according to respondents.

5.2.3 Budgetary Control Systems and Financial Performance

Budgetary control systems revealed a moderate significant link (r = 0.541, p-value = 0.000) as shown in table 4.18 between budgetary control systems and financial performance. The majority of respondents did not use budgetary control systems, which made it difficult to keep track of actual revenue and expenditures. The financial performance of SMEs that used budget control systems differed significantly from those that did not. Respondents agreed that a proper budgetary control system aids in the preparation of companies budgets and also identifies essential financial measurements for the company, as well as how and when to monitor them. Respondents also agreed that budgetary control systems save time for management by employing the management by exception approach, and that formal

and robust budgetary control techniques promote business performance. Budgetary control systems, it was also mentioned, aid in the interpretation of budgets and performance metrics.

5.2.4 Cash Management Systems and Financial Performance

In view of cash management systems, a moderate significant link between cash management systems and financial success (r = 0.511, p-value = 0.000) was established as depicted in table 4.18. The majority of the respondents' said they didn't have any formal cash management procedures in place. Between SMEs who used cash management systems and those that didn't, there was a statistically significant difference in financial performance. Computerized accounting enables for better cash management, and cash management systems contribute to accounting accuracy and fraud prevention, according to the respondents. Respondents went on to say that digital cash management controls ensure that an enterprise's cash flow is optimal, and that cash management techniques have an impact on small and medium-sized businesses' success.

5.3 Conclusion

The study's objectives were met when the researcher discovered that record-keeping systems, financial reporting systems, budgetary control systems, and cash management all have an impact on SMEs' financial performance in Mombasa County, Kenya. As a result, the study objective of determining whether accounting information systems affect financial performance of SMEs in Mombasa County, Kenya was met, and a clear relationship between the variables was established.

5.3.1 Record Keeping Systems

The study discovered that record-keeping systems are essential for making decisions. The majority of respondents, on the other hand, kept their business records in files and books, which are vulnerable to theft and infiltration by unauthorized individuals. The business owners/managers may therefore make decisions based on unreliable data resulting to inefficiency, exaggerated operational costs and low performance. Solid decision making strategies are based on updated brief and accurate records and reports.

5.3.2 Financial Reporting Systems

The study reported that most of the business owners and managers had difficulty creating and completing financial reports using computers, according to the research. Financial reports need to be published and computerized for easier reference if need be. Preparing and publishing financial reports ensures that businesses have a system in place to measure the financial health of the enterprise to foster financial discipline. Financial reports serve as referrals in case of legal disputes with tax agencies or with suppliers/customers.

5.3.3 Budgetary Control Systems

The study discovered that majority of SMEs did not invest in budgetary control systems as an important management function, according to the study. Lack of budgetary control systems challenges monitoring of business expenditure and making necessary changes which may save operational costs. It was also concluded that Budgeting and budgetary control systems provides data for managers so that they can make realistic expectations and targets.

5.3.4 Cash Management Systems

The study found out that cash management systems contribute to the accuracy of accounting and the prevention of frauds especially from cashiers who might be attempted

to loot cash especially where accounting operations are conducted manually. However, only a few SMEs employed computerized cash management systems. Computerized cash management systems gives real-time accountability of cash in and cash out which can be tracked as and when need arises.

5.4 Recommendation of the Study

Adoption of AIS improves performance, according to the conclusions of this research study. It is therefore recommended that; SME managers/owners should make efforts in adopting computerized record-keeping systems, financial reporting systems, budgetary control systems and cash management systems in order to assist them in improving performance of their enterprises.

Government regulations and recommendations should be developed to aid in the implementation of accounting systems. Tax exemptions or discounts on accounting software are examples of such policies and regulations. The policy makers could also be provided with information regarding the correlation between AIS and financial performance of SMEs, hence making better policies regarding information technology.

Institute of Certified Public Accountants of Kenya (ICPAK) should come up with programs where they offer free professional services to SMEs in Mombasa County. This could be achieved through establishing an office where SMEs can approach the professional accountants to help them in choosing the appropriate accounting systems, offering financial management consultation and how to prepare financial reports. Because complete and

correct business records are vital for decision-making, small-scale business operator units should ensure that they are retained. This can be secured by enrolling in a records-keeping course and hiring knowledgeable and professional employees.

5.5 Areas for Further Research

Future research should concentrate on the problems that SMEs face in adopting accounting information systems. The study's findings show that the accounting information system has a substantial impact on financial performance. Since the current study found that record-keeping systems, financial reporting systems, budgetary control systems, and cash management systems contribute 60.7 percent of SME financial performance, more research on other AIS variables that affect SME financial performance is needed.

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APPENDICES

Appendix I: Research Permit (NACOSTI)

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: 637389

Date of Issue: 28/October/2021

RESEARCH LICENSE

This is to Certify that Miss. Francisca Wanjala Kirigha of Kenyatta University, has been licensed to conduct research in Mombasa on the topic: ACCOUNTING INFORMATIONSYATEMS AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN MOMBASA COUNTY for the period ending : 28/October/2022.

License No: NACOSTI/P/21/13666

637389

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

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Appendix II: Introduction Letter

Letter to Business Managers/Owners,

Kenyatta University

PO Box 3044 - 00200

Tel 0716238576

Dear Participant,

RE: DATA COLLECTION REQUEST

I am a Kenyatta University Master's student pursuing a Master's Degree in Business Administration. My research is on "Accounting Information Systems and Financial Performance of SMEs in Mombasa County, Kenya." Please assist in answering the questionnaire to the best of your ability. Do not write your name anywhere, and this information will only be used for research reasons.

Sincerely,

Francisca Kirigha

Appendix III: Questionnaire

To aid study achievement, please check the boxes and complete the questionnaire with the most appropriate response.

SECTION A: Background information

1. Gender

Male ( ) Female ( )

2. Age bracket

20-30 years ( ) 31-40 years ( )

41-50 years ( ) Over 50 years ( )

3. Period of business existence

5-10 Years ( ) 10-20 years ( ) More than 20 years ( )

4. Nature of the business

Retail ( ) Transport ( ) Technology ( )

Restaurant/catering ( ) pharmaceutical & Health ( ) Hospitality ( )

5. Highest education attainment of enterprise decision maker

Primary ( ) Secondary ( ) Tertiary ( )

Undergraduate ( ) Graduate ( )

6. Number of staff

1-9 Employees ( ) 10-49 Employees ( ) 50-99 Employees ( )

7. How can you rate your accounting skills with a computer program?

Excellent ( ) Good ( ) Fair ( ) Poor ( )

SECTION B: Recordkeeping systems and SMEs financial performance

8. Do you employ computerised recordkeeping systems in the business?

Yes ( ) No ( )

If yes, kindly explain the implications of computerised recordkeeping systems in your enterprise.

……

……

…….

9. Tick on the extent to which you agree/disagree with the listed statements regarding record-keeping systems.

Key: Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4), Strongly Disagree (5).

STATEMENT	1	2	3	4	5
I always keep soft copies of business records for accountability.					
Sound accounting records facilitate decision making.					
My business has effective accounting records and procedures.					
Keeping proper records helps the managers to know the performance of the business.					

SECTION C: Financial reporting systems and SMEs financial performance

10. Do you practice computerised financial reporting in the business?

Yes ( ) No ( )

If yes, kindly explain the implications of computerised financial reporting in your business.

_____

_____

_____

_____

11. Tick on the extent to which you agree/disagree with the listed statements regarding to financial reporting systems.

Key: Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4), Strongly Disagree (5).

STATEMENT	1	2	3	4	5
The design and implementation of accounting information systems improve the quality of financial reports.					
Managers make appropriate decisions based on formal financial transaction processes.					
Information technology makes financial reporting more factual, practical, and better.					
A computerised financial system has high likelihood of business productivity.					
Accounting systems are important for timely production of high-quality financial data.					

SECTION D: Budgetary control systems and SMEs performance

12. Do you employ budgetary control systems in the business?

Yes ( ) No ( )

If yes, kindly explain the implications of budgetary control systems in your business.

_____

_____

_____

_____

13. Tick on the extent to which you agree/disagree with the listed statements regarding budgetary control systems.

Key: Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4), Strongly Disagree (5).

STATEMENT	1	2	3	4	5
An appropriate system of budgetary control helps to prepare the business budgets.					
Budgetary control systems help to point out critical financial measures for the enterprise and how and when monitoring them.					
Using the management by exception principle, budgetary control saves management time.					
The official and strong control techniques of control for the budgetary process improves business performance					
Budgetary control systems help to interpret budgets and performance measurements.					

SECTION E: Cash management systems and SMEs financial performance

14. Do you conduct formal cash management practices in the business?

Yes ( ) No ( )

If yes, kindly explain the implications of cash management in your business.

_____

_____

_____

_____

15. Tick on the extent to which you agree/disagree with the listed statements regarding cash flow management.

Key: Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4), Strongly Disagree (5).

STATEMENT	1	2	3	4	5
Computerised accounting allows for effective cash management.					
Cash management systems contribute to the accuracy of accounting and the prevention of frauds.					
To ensure that an organization's cash flow is optimal, digital cash management controls are implemented.					
Small and medium-sized businesses' success is influenced by cash management techniques.					

SECTION F: SMEs financial performance

14. Give details of the business's financial performance in Kenya shillings for the financial period/year stated below

Year	**Net profit**	**Total Assets**
2015		
2016		
2017		
2018		
2019		

15. Tick on the extent to which the listed statements best describe your business financial performance in the previous years where (1) strongly Agree, (2) Agree, (3) =Neutral, (4) Disagree, (5) strongly Disagree

Performance Indicators	1	2	3	4	5
The business has been recording increased profits					
The business has been recording increased revenue.					
The business has been reporting increased market share.					

Thank you for your cooperation

Appendix IV: Time Schedule

Activity	TIME PERIOD					
	Jan-Dec '20	Jan-Mar '21	Apr-Jun '21	Jul-sep '21	Oct-Dec '21	Jan-Feb '22
Research proposal writing and Defence						
Corrections & Submission of Research proposal for Departmental approval						
Data collection & analysis						
Research Project finalization						
Submission of Research project marking						

Appendix V: Budget

Item	**Description**	**Cost (KSH)**
Proposal Writing	Internet & Airtime	6,000
	Printing & photocopy	2,000
	Binding	2000
	Transport	5,000
Data Collection	Printing & Photocopy	3,000
	Transport	6,000
	Airtime	3,000
	Courier	3,000
	Stationary	1000
Data Analysis & Project Writing	Printing & Photocopy	5,000
	Typing services	1,500
	Internet & Airtime	2,500
Miscellaneous		2,000
TOTAL COST		**42,500**