SMALL ENTERPRISE ATTITUDE TOWARED THE APPLICATION OF ACCOUNTING SYSTEM (IN CASE STUDY EMDIBER TOWN)



Wolkite University

We Strive for Wisdom!

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

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DECLARATION

I the undersigned , SEBLE WUJIRA, confirm that the senior essay entitled ”SMALL ENTERPRISE ’S ATTITUDE TOWARDS THE APPLICATION OF ACCOUNTING SYSTEM(a case study in Emdiber town)” is my original work and is being submitted in partial fulfillment of BA degree in accounting and Finance in Wolkite University. This study have not been submitted for any degree or diploma program in this or other institutions and that all source of materials used for the paper have been duly acknowledged.

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It is the grace, mercy, charity, forgiveness, help and kindness of the almighty of God that made me alive, achieve this success and strength. Next to this I would like to thank all my teachers who fill my mind by accounting knowledge.

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ABSTRACT

Small scale enterprises play a vital role in the economic development of any country. In Ethiopia, most small scale enterprise owners/managers handle their business traditionally. This study aimed at investigating the attitude of small enterprise owners/managers towards the application of major elements of accounting system in Emdiber town. The population of the study consists of '60' small enterprise owners/managers. '25' respondents were selected through a stratified simple random sampling techniques. Structured questionnaire (both open ended and close ended) was employed in the course of gathering relevant data for the study. Data were analyzed by using percentage and frequency. The result indicates that most small enterprise owners/managers have a positive tendency towards internal control and inventory system. Moreover, it shows that a significant number of small enterprise owners/managers have a tendency towards single entry system of bookkeeping and most of them do not prepare financial statements for their enterprise. The study therefore concludes that small enterprise owners/managers have a positive attitude to apply elements of accounting system when different constraints solved and they were highly willing to learn more about how to keep accurate records of their business transactions. Following this the study recommended that, the ministry responsible for SEs development should initiate, in a more strengthen way, record keeping training program for entrepreneurs running small business and bookkeeping in SEs should be made mandatory to change their tendency in to practice and to make them beneficiary. Finally it is recommended that Wolkite University, specially accounting and finance department like that of law school, should establish a free community service in bookkeeping institute to facilitate small enterprise owners to apply accounting system in their enterprise.

CHAPTER ONE

INTRODUCTION

1. Background of the Study

An accounting system is the system use to manage the business transaction of any company records of income, expenses, and other financial activities of a business and it allows a business to keep track of all types of financial transactions, including purchases (expenses), sales (invoices and income), liabilities (funding, accounts payable), etc. and is capable of generating comprehensive the decision-making process (Sunder, 2009).

The main use of accounting system produce financial reports to provide information about the financial position, financial performance and changes in financial position of a company that is useful to a wide range of users in making economic decisions. These financial statements are usually directed towards the common information needs of these users and as a result, it serves as their major source of financial information. Users of these financial statements include shareholders, prospective investors, employees, customers and government. The act of communicating financial information to these users is known as financial reporting. Financial Reporting can be defined as the process of presenting financial data about a company's financial position, the company's operating performance, and its flow of funds (Peter S. Rose, 2008).

An accounting system consists of the business document, journals, ledgers, procedure and internal control needed to produce reliable financial statement and other accounting reports. (F, 1990)

In Ethiopia, a study conducted the Sector indicates that there is a number of manufacturing small business growing fast and there are constraints encountered by the operators (Sertsewold, 2007). According to Sertsewold (2007) Major problems of small businesses are shortage of capital , Lack of work premises (74.3%) and Inadequate information on market (62.5%), On the contrary, the majority of small manufacturing small business which accounts 54.6% reported that their sales volume slightly increased over time

The accounting system should accommodate a variety of users and changing informational needs. The system should be sufficiently flexible to meet the resulting changes in the demands made up on it. Therefore, if the accounting system is cost effective, provide useful output, and has the flexibility to meet future needs, it can be provides a valuable service and major contribution to both individual and organizational goals. Due to such circumstance, was conduct the research title of accounting system and to be asses the attitude of small enterprise toward such system is much important for the time being.

1.1. Statement of Problem

Small business was type of business which have relatively small of market share and is managed by its owners. These small businesses play a great role in any society and they involve in the provision of goods and services, which address the need of the society. The need of the society may be notice by large business of profitable for the large firms (Burn and Dew, 1993).

Small business enjoys tradition of infinite variety and solid achievement. It played a role in history since practically the beginning of recorded time. It flourished in almost all ancient customers. Their product and service however were frequently shoddy and slipshod customers were often created and defrauded. Their result was that small business become object scorn (Sirolopis, Nicholas, 1997)

According to, (Sunder, 2009) Accounting system is not only the oldest but also the most stable of the management disciplines. In spite of its stability and continuity, accounting system has seen major changes during the past century. It would be surprising if a century from now, the accounting system is the same as today.

Accounting system is a set of records, procedures and equipment that routinely deals with the events affecting the financial performance and position of the organization. Although we cannot look so far ahead, we can analyze the current conditions for clues about what to expect in the advancements in information technology have eventually led to the introduction of Computerized Accounting Systems in corporate reporting to help produce relevant and faithful representative financial reports for both management and external users for decision making (Greuning, 2006).

Accounting systems gather data from all parts of a business, put them in to useful form, and communicate the result to management. Management uses system output to make all kind of business decisions. As business hake grow larger and more complicated, the role of accounting systems also has grown. (Needles, Anderson and Caldwell, 1993)

Introducing of new method through which business activities takes place is the bases for starting small business. For doing this managerial skill of the business owners plays an important role. The owners should be gather information regarding product market condition as well as changes take place environment and act accordingly. The owners also understand his customer and treat politely and respectively. If the owner has performed managerial skill his business activities performed smoothly and lead to profit. If not, the business lead to bankrupt. In general managerial skills of the owner affect small business (WoldayAmha, 1997 p.2-3).

Most of the previous study probably conduct to the accounting system with respect to large business organization and try to assess its role for the performance (Greuning, 2006). And also (WoldayAmha, 1997 p.2-3) more emphasize managerial skills of the owner. Moreover researcher address most of the small business enterprises handle their business traditionally. And also emphasizes the problem related to source of finance rather accounting system. Therefore this study tries to assess attitude of small enterprise toward accounting system in Emdebir town.

1.2. Research Question

- What is the attitude of small business managers towards business event and the accounting treatment?
- Does the enterprise managers prepare crucial financial statements periodically?
- What is the attitude of those enterprise managers towards internal control system?
- What is the attitude of those enterprise managers towards inventory system?
- What is the attitude of small enterprise managers towards Double entry bookkeeping system?
- Why managers apply major elements of accounting system?

1.3. Objective of the Study

1.3.1. General Objective

The general objective of this study is to assess the attitude of small business enterprises towards the application of accounting systems at Emdebir town.

1.3.2. Specific Objective

- To assess the attitude of small enterprise managers towards business events and its accounting treatment.
- To find out whether the enterprise owners/managers prepare crucial financial statement.
- To assess the attitude of enterprise owners/managers towards establishing internal control system.
- To assess the tendency of small enterprise owners/ managers towards inventory system.
- To assess the attitude of small enterprise owners/managers towards Double entry bookkeeping.
- To identify reasons which hinder owners/managers from applying accounting system

1.4. Significance of the Study

The outcome of this study will provide important information in the area of accounting system as having knowledge of accounting system in running business is most suitable solution for the growth of business. The study also was gives information for the importance of accounting system in the wise use of resources and for financial information to make possible comparison as to know the profitability of the enterprises. Accordingly any person who was reads this study as literature and understands the importance of accounting system. Other researchers also can use this study for further finding in this area which means small business enterprise.

1.5. Limitations of the Study

The researcher was face the following limitations

- The time provided for the study was not enough for the researcher to collect all necessary information

- The financial means for the study was insufficient to conduct the study as the price of everything in the market increased.
- The respondents had heavy work and did not provide the information on time.
- Some of the respondents did not understand the objective of the study and think otherwise.
- It was very difficult to get the particular location of small enterprise

1.6. Scope of the Study

This study was conducted in Gurage zone and only concern in Emdiber woreda town administration. Moreover, this study was focused on small enterprises which has a paid up capital of up to birr 200,000, which are under the cooperative societies. This excludes high technological consultancy service and other higher technological establishments. Cooperative societies are like: construction, municipal activities, urban agriculture, different kind of trade and industry in the area of major accounting system like Accounting cycle, internal control and inventory valuation.

1.7. Organization of the Study

This research is organized in to five chapters. Chapter one states introduction that includes background of the study, statement of the problem, objective, significance, scope and limitation of the study. The second chapter presents review of related literature. The third chapter deals with research design and methodology which include research design, source of data and date collections, sampling method and method of data analysis techniques and the last chapter about cost budget and time schedule.

CHAPTER TWO

2. LITERATURE REVIEW

3. Definition of Accounting System

A system is a set of things working together as parts of a mechanism or an interconnecting network; a complex whole and a set of principles or procedures according to which something is done; an organized scheme or method. A system is a collection of elements or components that are organized for a common purpose. A system is a set of interacting or interdependent component parts forming a complex or complicated whole. Every system is delineated by its spatial and temporal boundaries, surrounded and influenced by its environment, described by its structure and purpose and expressed in its functioning. According to, (Sunder, 2009) Accounting system is not only the oldest but also the most stable of the management disciplines. In spite of its stability and continuity, accounting system has seen major changes during the past century. It would be surprising if a century from now, the accounting system is the same as today.

Accounting system is a set of records, procedures and equipment that routinely deals with the events affecting the financial performance and position of the organization. Although we cannot look so far ahead, we can analyze the current conditions for clues about what to expect in the advancements in information technology have eventually led to the introduction of Computerized Accounting Systems in corporate reporting to help produce relevant and faithful representative financial reports for both management and external users for decision making (Greuning, 2006). The many advantages from the use of these systems have led many to conclude that Computerized Accounting Systems in Corporate Reporting is the "engine of growth" in business organizations (Frenzel, 2006).

Hussey (2005) defines accounting system as the system designed to record the accounting transaction and events of a business and account for them in a way that complies with its policies and procedures. Moreover according to Hartzell (2006), accounting system is a consistent way of organizing, recording, summarizing and reporting financial transactions. The minimum requirements for an accounting system must provide financial information for management to make policy decisions, prepare budgets and grant proposals and provide other. Useful financial reports and, similar transitions must receive consistent accounting treatment. Ama (2004), defines the accounting system as "a formal system for identifying, measuring, accumulating,

analyzing, preparing, interpreting and communicating accounting information about a particular entity to a particular group". By formal system, we mean that the accounting system carries out its functions with laid down rules, regulations, methods, procedures and techniques. It is also aroutine and an automatic system. An accounting system as opined by Ama (2003) is a formal mechanism for gathering, organizing and communicating information about organization's activities. Chionye (2003) defines accounting system as the art of identifying, recording, classifying, measuring and interpreting in a significant manner the financial transaction of an organization for decision making. Summarizing from time to time the information contained in the record, for its significant presentation and interpretation to interested parties as an aid to decision making.

Accounting system is also as a consistent way of organizing, recording, summarizing and reporting financial transactions. In general to the above definition an accounting system can be summarized as mechanism for gathering and communicating data for the ends of assisting and co-coordinating collective decision in view of the overall objective of a firm or an organization. Accounting system by its definition is a financial information system which includes accounting terms, records instruction manuals flow charts programs, and reports to fit the particular needs of the business. Accounting system is a set of records, procedures and equipment that routinely deals with the events affecting the financial performance and position of the organization. Finally, a system is an organized set of manual and computerized accounting methods rules, procedures and controlling ways of established together, record, classify, analyze, summarized interpret and present accurate and timely financial data for management decisions.

3.1. Accounting System Maintaining Financial Records

The World Bank (2005), Accounting system created accounting record for each financial transaction. Some are created by the company (e.g. orders for payment or for goods); others are created by entities with which the companies deal (e.g. suppliers‟ invoices, bank statements). Records must be preserved and classified for easy access because they provide the paper trail on which the accounting system is based. A good record-keeping system facilitates financial accounting and reporting, internal control management and subsequent auditing. Records represent a particularly valuable type of information because they can provide verification and are therefore suitable as legal evidence. When financial management systems are being designed,

the maintenance of records, and their computerization are also considered. Finance and audit laws generally require ministries to ensure that financial and accounting records are adequately kept.

3.2. Purpose of the Accounting System

The major purpose of accounting system is to provide useful information to both external users and to the company's managers for making operating decisions. Many transactions result in important financial managerial information. All accounting system is the means by which a company records and stores the financial and managerial information from its transaction so that it can retrieve and report the information in an accounting statement. All companies have accounting system, ranging from the very simple, such as a check book, to the very complex, involving the use of networked computers (Bazley, 2000, P. 66). The basic accounting model provides a frame work for accounting system and is the basis for recording transaction. This model for corporation, called the residual equity theory modes, is usually expressed in an equation (Bazley, P. 66). The way in which management is given the information for the use conducting the affairs of the business and in reporting to owners, creditors and other interested parties is called the accounting system. In general sense, an accounting system includes of the entire network of communications used by a business organization to provide needed information (warren, 1984).

An accounting system must be tailored to meet the specific need of each business. Since cost must be incurred in meeting these needs, one of the major considerations in developing an accounting system is cost effectiveness, for instance, although the reports produced by an accounting system are a valuable end product of the system. The value of the reports produced should be at least equal to the cost of producing them. No matter how detailed or informational a report may be, it should not be produced if it costs more than the benefits received by those who use it. (warren, 1984), the accounting system gathers processes and organizes accounting data in order to produce useful financial information. It should reflect company's needs and be designed to provide the financial information required by all interested parties and fulfill all the legal and regulatory requirements of the borrower country. The accounting system was a critical part of the company's financial management system and its design and operation are therefore of great importance. It should: provide information compatible with the agreed accounting standards and

be simple and user friendly; be capable of installation and maintenance by industry staff, and be easily understandable by users; provide adequate documentation and audit trails; provide reliable and timely information, including financial management and other reports; and maintain integrity (World Bank, 2012).

3.3. Role/Functions of Accounting System

According to Pamely, (2007) a business organization can be seen as a set of contracts among various participants: employees, shareholders, customers, vendors, managers, creditors, auditors, government, among others. Each party in the contract agrees to contribute resources. For example, employees and managers contribute skills, shareholders and creditors contribute capital, vendors provide machinery and materials, and customers provide cash. Each participant demands an inducement at least as large as the opportunity value of his contribution to the organization. For an organization to succeed, its production technology and set of contracts must satisfy each one of its participants. If he can get more elsewhere, he will quit the organization. If enough people quit, the organization collapses. They therefore argued that, accounting system is necessary to assemble, implement, enforce, modify, and maintain the contract set of organization.

Accounting system therefore plays five main functions in an organization. The first requirement of control is to devise a system of measuring the contributions made by each agent. It should also determine the amount of incentive due them, and monitor the distribution of inducements so that each agent receives his due, no more and no less. In addition, accounting system helps compare the contributions made and the incentives received by each participant and distributing this information. Furthermore, accounting distributes information to various factor markets to keep them liquid and find replacements for participants who leave. Finally, accounting makes some information available in the form of common knowledge or public disclosure to help reduce conflict among participants at the time they re-negotiate their contracts (Hartzell, 2006). In its second function, the accounting system measures, records, and controls the outflow of resources from the organization. Payroll and benefit accounts for employees, shipping to customers, accounts payable to suppliers, and tax accounts measure the out flow of resources to the government (Rao, 2006).

In its third function, the accounting system compares the data on resource inflows and outflows to determine who has fulfilled his contract and to what degree. The accounting system prepares.

In a fourth function, accounting helps assemble and maintain the contract set by finding the appropriate participants in the factor markets for labor, managers, customers, suppliers, and investors among others. All these people must be convinced that participating in such an enterprise is in their own best interests.

Performa financial statements, business plans, and budgets prepared by the organization before the enterprise starts functioning help agents assess the costs and benefits of participating in the proposed enterprise in various roles. When contractual slots fall vacant, they must be filled from the factor markets (Sajady and Dastgir, 2008). Finally, when contract terms expire, they are often re-negotiated under changed circumstances. Agents are tempted to issue threats, to quit their position in the organization if their terms were not revised in their favor. Such bluff sand threats sometimes lead to deadlock in negotiations, strikes, and therefore dead weight losses to society. Conclusively, an organization can be seen as a set of contracts or alliances among many people who join them with the expectation of gain. Accounting, therefore, is the mechanism that defines implements, enforces, modifies, and maintains this system of contract.

3.4. Policy and Procedure

Louis (2006) Policies and procedures provide the framework within which an organization operates. They define what your organization does and how you do it. Clear policies and procedures support effective decision making and delegation because they provide guidelines on what people can and cannot do what decisions they can make and what activities are appropriate. The policies and procedures your organization needs will depend on a number of factors such as the type of work you do and the size of your organization. Policies consist of high-level statements of intent about the things a business either wants to do or plans to avoid doing .Policies are statements of principle that guide decision-making and service delivery. In the community and disability services sector, policies are often based on legislation.

Procedures are more detailed instructions about how policies should be carried out by employees. They provide a link between the organization’s plans and strategies and day-to-day operations. Protocols are similar to procedures but deal specifically with the agreed ways in

which organizations interact on a specific matter. However, it is possible to write procedures that focus on the expected outcome of a task without specifying the means of achieving it if staff members are expected to use their own initiative. Accounting system is "the system designed to record the accounting transactions and events of a business and account for them in a way that complies with its policies and procedures (Owuala, 2001).

3.5. Types of Accounting System

Generally, there are two major types of Accounting System: Manual Accounting system and Computerized Accounting System.

3.5.1. Manual Accounting System

According to Ama (2004), this is a system, which uses special journals to stream line the journalizing and posting procedures. To handle a large volume of transaction rapidly and effectively, it is helpful to group the transactions into classes and to use a specialized journal for each. Recording and posting are made for these journals using the double entry record keeping.

Also according to free online Marian, manual system is a system in which the accountant or the book-keeper is required to post business transactions to the general journal, general ledger and worksheet by hand. This process can be computed by either using actual paper journal and ledger sheets or by creating these sheets in a computer program such as excel it is considered manual because each transactions is entered into the systems individually. Regarding to a manual system, the components of an accounting system include, the frame work for operation of the system, the input source document, the records used to store accounting information, the output reports. (Bagley, 2000, P. 66)

3.5.2. Computerized Accounting System

Ama (2004) defines this system as a system that uses specialized machines called calculators and computer in gathering information. It is technically known as Electronic Data Processing (EDP) Accounting System. A computer – based accounting system processes data in basically the same manner as does a manual system. Transactions are initially recorded manually on sources documents, the data from these source documents are then key – punched into punched cards, which can be read by the computer. The computer process the information and performs such routine tasks as printing journals, posting to ledger accounts, determining account balances and

printing financial statements and other reports. A computerized accounting system according free online Merriam is system which allows the user to enter the transaction into the program once and all accounts are updates as necessary.

3.6. Difference between Computerized and Manual Accounting System

According to the free online Merriam it has the following differences. Speed: The main difference between manual and computerized system is speed. Accounting software processes data and creates reports much faster than manual system. Calculations are done automatically in software programs, minimizing errors and increasing efficiency. Once data is input you can create reports literally by pressing a button in a computerized system. Cost: Another difference between manual and computerized system is cost. Manual accounting with paper and pencil is much cheaper than a computerized system, which requires a machine and software include training and program maintenance. Expenses can add up fast with cost for printers, paper, ink and other suppliers. Back-up: A third difference between manual and computerized system is the easy of backup of a computerized system. All transactions can be saved and backed up in case of fire or other mishap. You cannot do this with paper records, unless you make copies of all pages long and inefficient process.

3.7. Methods for Computerization in Accounting

The two main methods of computerization in accounting which dictate how a company's transactions are recorded in the company's financial books are cash basic accounting and accrual basis accounting.

3.7.1. Cash – Basis Accounting

Ama (2003), states that cash basis of accounting revenue is recognized and recorded only when the cash is received. Expenses are recognized in the period when payment is made. Recording of revenue and expenses during an accounting period is based on an inflow and outflow of cash. A matching of cash receipts and cash disbursement is done to determine operating results during the period. This method is simple in application.

Rao (2006) defines cash basis as a basis of accounting by which a transaction is recognized only if cash is received or paid. Cash basis of accounting is suitable for such business organizations which operate for a short-term duration.

3.7.2. Accrual – Basis Accounting

The accrual basis of accounting is based on the principle that all revenue earned during a period and the related incurred expenses of earnings that revenue assignable to the period must be determined. These then are matched against each other to determine net income or net loss. Revenue is recognized at a time of sales of services or merchandise and expenses are usually recognized at the time the service are received and used in the production of revenue. Rao (2006) defines accrual basis as a system of classifying and summarizing transactions into assets, liabilities, capital, cost and resources and recording thereof. A transaction is recognized when either a liability or asset is created or impaired. Whether payment is made or received is immaterial in accrued basis accounting.

The following are the essential features of accrual basis:

I. Revenue is recognized as it is earned.

II. Costs are matched either against revenues so recognized or against the relevant time period to determine periodic income.

Costs which are not charged to income are carried forward and are kept under continuous review. Any cost that appears to have lost its utility or its power to generate future revenue is written off

3.8. EMPERICAL LITERATURE

There were studies that were conducted in the area of accounting information system and its impact on decision making, financial performance and organizational effectiveness. According to Hunton (2002) study, which investigated the relationship between automated accounting information system and organizational effectiveness; showed that there was strong relationship between accounting information system and organizational effectiveness, which means access to accounting information, will lead to organizational effectiveness. Several recent studies on value of accounting information for equity valuation, share price and earnings prediction have queried current financial reporting model in the developed world.

In another research conducted by sajady et al. (2008) the effectiveness of accounting information systems for finance managers of listed companies at Tehran stock exchange were studied. The result showed that implementation of accounting information system at these companies caused

the improvement of manager's decision making process, internal controls and quality of financial reports and facilitated the process of the company's transactions.

On the other hand, a study conducted by Onaolapo and Odetayo (2012), this study also found that accounting system leads to good financial reports and also lead to better decision making. To reach to this finding, the researchers used purposive sampling technique to select ten personnel from each of the selected companies as a sample for the study. A hypothesis was also formulated and both descriptive and inferential statistical tools were employed to analyze the data.

The main constraints of micro and small enterprises include lack of finance, business information, business premises, skills and managerial expertise, access to appropriate technology, lack of adequate infrastructure and in some instances discriminatory regulatory practices (Ministry of Trade and Industry, 1997).

Financial literacy can be more important for those running business than individual consumers, because the ultimate financial matter of the business lies in the hands and responsibilities of its owners beyond their personal financial context. Therefore, small business owners are expected to be financially literate to achieve success through excelling in financial matters and making wise and informed decisions and making the right choices and use of financial products and services. Despite the very importance of personal financial literacy for small and medium business owners, financial literacy survey and research focusing on SMEs owners around the world is not adequate. Most of the studies conducted on entrepreneurs, small and medium business owners revealed that financial literacy is low among those business owners/managers (Fatoki, 2014) and (Plakalović, 2015).

Eshetu and Zelke(2008) conducted a longitudinal study to assess the impact of influential factor that affect the long term survival and viability of small enterprise by using random sampling of 500 MSME from major cities of Ethiopia. In that time there are some problems found to be inadequacy of finance, level of education, level of managerial skill, level of technical skill and ability to convert a part of profit to investment.

3.9. CONCLUSION AND KNOWLEDGE GAP

Those study were concerned to such title describe and understand the impact of finance and economic condition on small enterprises. And probably conduct to the accounting system with respect to large business organization and try to assess its role for the performance (Greuning,

2006). And also (WoldayAmha, 1997 p.2-3) more emphasize managerial skills of the owner. In such a way this study tries to assess the attitude of small enterprise with respect to accounting system. In addition to this whether merchants in small business enterprises use accounting system and they will deliver financial statement to the users of accounting information. And this study was fulfilled the gap found between the previous study that investigated by different and many researchers with in different times. So the gap also exists because of the range of time.

CHAPTER THREE

4. RESEARCH METHODOLOGY

4.1. Research design

According to, Saunders and Philip (2012), Research design is general plan of how to analyze about answering your research questions it would contain clear objectives derived from your research questions specify the sources from which intended to collect data. In order to explore the existing situation These study was used descriptive research design.

4.2. Research approaches

There were quantitative, qualitative and mixed approaches. The reason was that to recognize non-numerical measures for qualitative approach and to show the numerical aspects in quantitative approach (polit and hunger, 1999). This study Will used both qualitative and quantitative approaches. The sources was included questionnaire; collected quantitative data analyzed using simple descriptive statistics like percentages and table. The qualitative data gathered from non-numerical measures of data analysis and interpretation from the summary and finding of the collected data to draw conclusion and recommendation.

1.1. Target population and sample size

In research methods, population is the entire aggregation of items from which samples can be drawn. In such case the total population, who engage in the small enterprise at Emdiber town are 60. And simple random sampling was employed("yemane formula")

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

$=60/ (1+60 (0.05^2)$

$=52.17$

In circumstance, where there are small population elements the sample was equal to the population in such case we can adjust the sample calculated by the formula:

$n = n / (1+ (n/N))$

$= 52.17/ (1+ (52.17/60)) \quad =28$

1.2. Source and Type of Data

To conduct this study the researcher will used primary sources of the data. Primary data was collected through questionnaire from Emdiber small enterprise.

1.3. Methods of Data Collection

To assess the objectives of the study primary source of data was used. So to conduct the study primary data was involved. To do so the researcher will used questionnaires that contained closed- ended and open ended questions. The open ended used to clarify the answers given by respondent in close - ended questions.

1.4. Methods of data analysis and presentation

After collecting the raw data through different mechanisms mentioned above, the collected data was analyses and interpret in quantitative data and the data collected will processes by editing and coding to eliminate errors. And synthesized and analysed using both qualitative and quantitative analytical techniques to draw valid conclusions and tables and percentages was used in the case of the quantitative approach. Additionally, Wolcott (1994) cited in Creswell (2003), suggested that qualitative research is fundamentally interpretative i.e. the researcher makes an interpretation of the data. Finally the analyses data was presented in the understandable manner to draw the conclusion and interpretation and forward a recommendation.

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATION

This data analysis and interpretation is made based on the questionnaires distributed to the small enterprise owners or managers of Emdibir town.

Total of '28' questionnaires were distributed to '28' SE owners or managers of which, '25' questionnaires (89.28% response rate) were collected. The remaining '3' questionnaires have not been collected due to the lack of cooperation of the respondents and carelessly filling the questionnaires. Therefore this data analysis and interpretation is made by '25' respondents questionnaire.

Table 4. 1 Respondent's background

Description	Response	Frequency	percentage
Gender	Male	16	64%
	Female	9	36%
Educational level	Certificate and below	15	60%
	Diploma	6	24%
	Degree	4	16%
	Above Degree	0	0%
Work experience	Below 1 year	4	16%
	1-2 years	7	28%
	3-5 years	9	36%
	Above 5 years	5	20%
Position in the	Only manager	7	28%

Enterprise	Owner and manager	18	72%
Activities of the enterprise	Hotel	10	40%
	Trade	8	32%
	Constriction	5	20%
	Manufacturing	2	8%
Form of Business	Partnership	5	20%
	share company	0	0%
	Sole proprietorship	20	80%

Education is critical in understanding the dynamics and challenges of business encounter. It is expected that if an SE operators has a reasonable educational background, it will undoubtedly enable to directly or indirectly implement the necessary elements of accounting system in his/her business (B.E M. J., 2013).

The results in the above table indicates that about 60% (15) of the SE owners/managers had attained primary, secondary or college education followed by those attained diploma(24%). A few enterprise owners/managers (16%) attained degree. A gender has also a great implication in this understanding because of its impact on the educational background. The results show that, about 64% of the SE owners/managers are males and 36% are females.

The going concern concept of accounting assumes that businesses are to exist in perpetuity. To attain the going concern however, businesses are expected to survive all business trials in their operations since there are often many challenges in the running of a business regardless of the size and type of industry. Like individuals business events gain experience in various aspect of their operations with time. In view of this it is expected that, the longer business unit operates, the better positioned it is to account and implement controls in their business (B.E M. J., 2013).

Results in table-1 show that, majority (about 36%) of the respondent SE operators have been in their business between 3 to 5 years followed by those in business 1 to 2 years (about 28%). Few businesses (16%) had been established in the past year. The closeness of family involvement is expected to influence the extent of accounting tasks. Where firms run by more non family members (only managers) tend to keep formal accounts. In the opposite fashion, firms run by more closely family members (owners) do not see the need to keep formal accounting systems (k, 2013). Table 1 shows that most of (about 83.73%) the SE operators are owners and only 16.27 % (7) of the operators are managers (non-family members). This implies that most of the small enterprises are managed by owners (family members). In above table show the most business man is engage in hotel 32% and followed by trader and the list is manufacturer 8%.

The forms of business are partnership, company and sole proprietorship. Partnerships are an association of two or more people as partners and sole proprietorship is a business that can be owned and controlled by an individual. Here are no partners in the business. A business engage in Emdibir is mostly sole proprietorship 80% and the list is 20% partnership.

4.1. Attitude of small enterprise toward recording business events

Table 4. 2preparation of financial statements

Statement	Response	frequency	percentage
Do you prepare financial statement for your enterprise?	Yes	9	36%
	No	16	64%
	Total	25	100%

After taking some general information from the respondents, the main questioned was posed “Do you prepare a crucial financial statement for your enterprise?” This question sought to categories the respondents. Those respond ‘yes’ were continue to answer other questions whilst those who answered ‘no’ were asked to give reasons why not he/she prepare financial statement. Out of the 25, 36% (9) respondents answered “Yes”. The yes meant that per their Owen understanding of the financial statements they are in place. The 16 (64%) were answered “no”.

Table 4. 3 Reasons for not preparing financial statements

Response	Frequency	Percentage
It is not important for small business	4	25%
Lack of skilled labor	7	43.75%
It is not obligated by the government	1	6.25%
It haven't benefit for success unlike production	4	25%
Total	16	100%

The above table shows that among the respondents who answered 'no' in table two, 64% says lack of skilled labor is the main reason for not preparing financial statements. In addition to this 43.75% of the respondent owners/managers who did not prepare financial statement, thinks as it haven't benefit for success unlike production. This implies that there is lack of educated manpower and lack of understanding the use of financial statements. Jointly the above two tables implies that most of the respondents did not prepare financial statements since they have not skilled labor and good understanding on the benefit of financial statements.

Table 4. 4 attitude of owners/managers towards internal control system

Statement	Response	frequency	percentage
Does your enterprise have the designed control system?	Yes	16	64%
	No	9	36%
	Total	25	100%
Do you plan to use	Yes	20	80%

internal control system for your business?	No	5	20%
	Total	25	100%
Internal control in small business enables the control of cash, purchase and different disbursements.	Strongly agree	10	40%
	Agree	13	52%
	Neutral	0	0%
	Disagree	2	4%
	Strongly disagree	0	0%
	Total	25	100%

Regarding control procedures for small enterprise Sathyamoorthi (as cited in (B.E M. J., 2013)) observed that it is important to have a system of control over all business activity as a well-designed and properly implemented control system can ensure; protection of resources against waste and fraud, accuracy and reliability in accounting data, and success in the evaluation of the performance of the business. Any business regardless of its type and size should have a designed internal control system to achieve its objective (plan). Table 4 of this paper indicates that 64% of the respondents had understanding of internal control and are already in use in their business and 36% of the respondents had not understanding of internal control. The second statement also shows that 80% of the respondents have a plan to use internal control in their business, and only 20% of them have not a plan to use it. Thirdly, Most of the respondents (about 52%) also agree on the third statement and about 40% of the respondents strongly agree on that statement. This implies that most of small enterprise owners/managers have a positive (good) attitude towards internal control.

Table 4. 5 Business transaction and its accounting treatment

Statement	response	Frequency	percentage

Do you record all transactions timely?	Yes	4	16%
	NO	9	36%

	mezzanine	12	48%
	Total	25	100%
If your answer is mezzanine what type of business transaction is recorded	Asset change	2	16.67%
	Asset use	6	50%
	Asset source	4	33.33%
	Total	12	100%
Recording all business events (transaction) of small business is tedious and less fruit full.	Strongly disagree	7	28%
	Disagree	6	24%
	Neutral	3	12%
	Agree	8	32%
	Strongly agree	1	4%
	Total	25	100%

(B.E O. , 2011)in his study argues that in order to enhance the profitability of small enterprises and their continuity, there is a need for adequate recording all business transaction, which will help the operators to keep track of the performance of these enterprises. Bulter (2009) also show that without accurate and complete records of business transactions, the business doomed to fail at its onset. Table 5 of this study in the above shows that only 16% of the respondents record all business transactions on a timely basis and 36% of them do not record all business transactions. 48% of the respondents are mezzanine in the statement. About 48% of the respondents, who answer mezzanine, records asset use transactions followed by asset source transactions.

Moreover, most of the respondents (about 50%) disagree on the third statement. This implies that, even though they do not apply, most of the owners/managers have a positive tendency towards business transactions.

Table 4. 6 System of recording business transaction

Statement	Response	Frequency	Percentage
Through what system you record business events?	Double entry	3	12%
	Single entry	2	8%
	Neutral	20	80%
	Total	25	100%
If your answer is neutral what system do you think important for your enterprise?	Double entry	6	30%
	Single entry	14	56%
	I don't know	0	0%
	Total	20	100%

OGUNLADE and BAUMBACK (1983) and OSUALAL (1993) noted that most of small scale enterprises make use of single entry system of accounting. The reason behind the use of single entry system of accounting is probably due to its simplicity and low level of accounting education of operators. In table 6, the results show that most of the respondents (about 56%) think as single entry system is important for their enterprise. The results partly agreed with the above arguers. It implies that most of small owners have a tendency to apply single entry system and have not positive attitude towards double entry system of accounting (bookkeeping).

4A. 1 Attitude towards inventory system

Statements	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	total

Inventory system is important for one enterprise.	12	6	3	4	0	25
	48%	24%	12%	16%	0%	100%
Adequate inventory system is important for a complete accounting system and performance planning	17	0	5	1	2	25
	68%	0%	20%	4%	8%	100%

Statement	Response	Frequency	Percentage
If your answer is agree or strongly agree, what system you think important?	Perpetual	18	72%
	Periodic	7	28%
	Total	25	100%
What method of inventory valuation you think important?	FIFO	5	20%
	LIFO	1	4%
	Average	10	40%
	Specific identification	0	0%
	Neither of them	9	36%
	Total	25	100%

B

In table 7a, the results show that, most of the respondents, 48% strongly agree and 24% agree on the first statement. 12% 0f the respondents were neutral and 16% disagree on that statement. In the second statement 17 respondents (about 68%) agreed, 5 respondents (20%) are neutral, 1(4%) disagreed and 2 (8%) are strongly disagreed. This implies that most (more than half) of

the enterprise owners/managers have a positive tendency towards inventory system. To strengthen this idea, in table 7b, results show that about 78% of the respondents believe as perpetual inventory system is important for their enterprise. In the second statement 10 respondents (about 40%) believed that average inventory valuation method is important for their business.

Table 4. 7 Attitude towards Accounting

Statement	Strongly agree	agree	neutral	disagree	Strongly disagree	total
Accounting system is vital to small business	9	11	2	3	0	25
	36%	44%	8%	12%	0%	100%
All business ,including small business require accounting	8	7	2	5	3	25
	32%	28%	8%	20%	12%	100%
I would appreciate if given opportunity to learn about accounting.	13	11	0	1	0	25
	52%	44%	0%	4%	0%	100%

Penen and Grant noted that decision making processes in small scale enterprises are more sophisticated than anticipated, but they lacked effective accounting information and control systems to support their decision. Furthermore, International Federation of Accountants also suggest that small firms are aware the importance of accounting system (as cited in (.G.K, 2013). The result of table 8 in the above indicates that most of the respondents (about 44%) agreed on the first statement followed by 36% strongly agree. On the second and third statements also most of the respondents (32% and 52% respectively) strongly agreed followed by 28% and 44% agree respectively. This result supports the argument of International Federation of Accountants. This implies that most of small enterprise owners/managers have a positive tendency towards the important of accounting system.

Table 4. 8 Owners/managers filling by not applying accounting system

Statement	Response	Frequency	Percentage
Do you think that your business can save some money by not applying accounting system	Yes	15	60%
	No	10	40%
	total	25	100%

In a related study John and Ben (2013) and International federation of accountants as cited (.G.K, 2013) found that small firms are aware the important of accounting system. In spite of this aware most SEOs lack basic working knowledge in accounting to keen the use of standard accounting system to run the day-to-day activity of their enterprise. The above table result shows that 60% of the respondents think as they can save some money by not applying accounting system. Only 10 (40%) respondents said no on the statement. This implies that most of the small enterprise owners/managers believed, as the application of accounting system is costly in addition to the lack of skilled labor they face.

When we come to the analysis of the data that obtained from open ended questions they does not blamed their filer to hold a record towards tax. In opposite fashion, as most of the respondents' response they believe as the tax system become fair if they have financial statement. Moreover they also responded as they will not embezzle by tax assessors. Most of them also responded for the question "why government advises you as you have accounting system"? As the government makes it for their own purpose but some of them (small in amount) believes as the government do it for its own tax collection system. From this it is possible to conclude as most of the respondents know the advantage of accounting system and as they do not attach to the tax increasment problem. For the other open end question, what is the importance of accounting system? , most of them responded as it has the following importance:

The first advantage that they give is to issue financial statements that used for outside parties especially for lenders. With regard to this they also explain as they cannot gat loan if they have not some tangible property without exception.

With regard to the last question most of the respondents responds as they have not accurate knowledge to decide about the elements of accounting system which must be implemented by their business. In support of this most of them said we have not any knowledge for this, we only apply what the government said to us and what our experienced friends advises us. From this the researcher concludes as they have positive attitude towards the application of accounting system.

CHAPTER- FIVE

5. SUMMARE, CONCLUSION AND RECOMMENDATION

5.1. Summary of the Finding

- Majority of the small enterprise owners about 36% had been in business between 3 to 5 years. A majority of 60% had up to certificate and below certificate education.
- 60% of the respondents do not prepared financial statements for their enterprise. Among those who did not prepare financial statement 43.75% blamed to lack of skilled labor. 25% thinks as it have not benefit for success unlike production. 6.25% reasoned as it is not obligated by the government.
- Among the respondents 64%s have a designed internal control system that they think important for their business. 80% plans to use internal control system in their enterprise. 52% agreed on the role of internal control in small enterprise.
- Most of SEO/MS 36% does not record business transaction on a timely basis. 32% agreed on the tediousness and fruitless of recording all business transactions of small enterprises.
- 56% of the respondents think as single entry system of bookkeeping is important for their enterprise.
- From the total respondents 48% strongly agree on the important of inventory system for one enterprise. 72% thinks as perpetual inventory system is important for their enterprise and 40% of them inclined to use average inventory valuation method.
- Among the respondents 44% agreed on the vital of accounting system to small business. 52% strongly agreed on the importance of accounting for all business.
- 60% of the respondents think as their business can save money by not applying accounting system.

5.2. CONCLUSION

- The study revealed that SMEOs do not prepare crucial financial statements for their enterprise because of the lack of accounting knowledge (skilled labor) and due to lack of understanding the ultimate importance of financial statements. As result there is inefficient

use of accounting information to support the financial performance measurement by small enterprises.

- More over based on the finding the researcher concludes that, Even though they do not prepare financial statements and do not record business transactions timely because of lack of skill (skilled labor) in accounting and worry on the cost of hiring accountants, they have the positive attitude to apply elements of accounting system when the above constraints solved. This study ignores the idea proposed in (k, 2013).
- The study further revealed that the owners/managers of SEs were highly willing to learn more about how to keep accurate records of their business transactions. The finding of the study showed that the owners/managers of SEs had a positive attitude towards internal control, inventory system and business transaction. In addition to this, this study concludes that except deferent restriction small enterprise managers believe as accounting system is important for one enterprise including theirs.
- Additionally, the finding showed that SEOs, because of the simplicity of single entry bookkeeping, are more inclined to adopt single entry system of bookkeeping.
- Finally, it revealed that the failure of not applying accounting system was highly blamed by small enterprise owners/managers to lack of skilled labor and cost of hiring professional accountants and in some extent to the size of the enterprises.

5.3.RECOMMENDATION

After a detailed investigations made on the attitude of small enterprise owners/managers towards the application of accounting system the researcher would like to forward the following recommendation.

- It is recommended that the ministry responsible for SEs development should initiate, in more strengthen way, record keeping training program for entrepreneurs running small business.
- Bookkeeping in SEs should be made mandatory to change their tendency in to practice and to improve their accounting practice to enhance financial and economic decision making for business growth.

- ❖ Since there is international acceptance that SEs requires simplified financial reporting standard fitting their reduced size and narrow stockholders base, the government needs to adopt simplified accounting standard sets for SEs.
- ❖ Wolkite university, specially accounting department like that of law school, should establish a free community services in bookkeeping support institute to facilitate small enterprise owners to apply accounting system in their enterpris

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