

THE ROLE OF ACCOUNTING PRACTICES IN ENHANCING THE FINANCIAL
PERFORMANCE OF MICRO AND SMALL ENTERPRISES: A CASE STUDY OF
WOLKITE TOWN.



COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

**A RESEARCH PAPER SUBMITTED TO DEPARTMENT OF ACCOUNTING AND
FINANCE IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR BA
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This is to certify that the thesis entitled “Thee Role Of Accounting practice in Inhancing the financial performance of micro and small enterprise;in case study of wolkite town ” submitted in partial fulfillment of the requirements for the Bachelor of Art in Accounting and Finance and has been carried out by BEDATU TEFAYE under our supervision. Therefore, I recommend that the student has fulfilled the requirements and hence hereby can submit the research paper to Department of Accounting and Finance.

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Declaration

I,here by declare that this thesis entitled “THE ROLE OF ACCOUNTING PRACTICES IN ENHANCING THE FINANCIAL PERFORMANCE OF MICRO AND SMALL ENTERPRISES: A CASE STUDY OF WOLKITE TOWN” submitted to the department of accounting and finance in partial fulfillment of the requirement for the award of bachelor of art degree (BA) in accounting and finance is an output of our own effort. I have produced it independently. That all sources of materials used for the study have been duly acknowledged. To the best of my knowledge this work has not been submitted for any degree at this university or any other university and colleges.

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Abbreviation

MSEs: -Micro and Small Enterprises

FPMs: -Financial performance measures

SMEs: -Small and medium-sized enterprises

FASB: -Financial Accounting Standards Board

GAAP: -Generally, accepted accounting principles

Abstract

This study examined the role of accounting practices in enhancing the financial performance of micro and small enterprises (MSEs) in Wolkite Town. The research employed a mixed-methods approach, utilizing questionnaires with 116 MSE owners and interviews with two MSE owners to gather data on current accounting practices, their impact on financial performance, and the challenges faced in their implementation. The scope of the study encompassed the examination of accounting practices, their implementation, and their impact on the financial performance of small and micro enterprises in Wolkite town. The study found that effective accounting practices have a significant positive correlation with the financial performance of MSEs. Challenges identified included a lack of accounting knowledge, the high costs of accounting software/tools, limited access to professional accounting services, time constraints, regulatory complexity, and inconsistent cash flow. The study concludes that enhancing accounting practices is crucial for improving the financial performance and sustainability of MSEs in Wolkite Town. It recommends the implementation of training programs on basic accounting, affordable accounting software tailored for MSEs, government subsidies for financial management tools, simplified tax regulations, and the establishment of peer learning networks to support MSEs in adopting effective accounting practices.

Keywords: *Accounting practices, financial performance, micro and small enterprises (MSEs), financial literacy, Wolkite Town, Ethiopia.*

CHAPTER ONE

INTRODUCTION

1.1 Back Ground of the Study

Accounting practices play a crucial role in improving the financial performance of micro and small enterprises (MSEs) by facilitating better financial management, enhancing decision-making, and ensuring regulatory compliance. Globally, financial performance measures (FPMs) contribute to economic growth, innovation, and employment (Abdinur & Karcioglu, 2023). In Ethiopia, MSEs are vital to poverty reduction, regional development, and economic diversification, accounting for **45% of urban employment** and **28% of GDP** (Central Statistical Agency of Ethiopia, 2023). In Wolkite Town, a hub of entrepreneurial activity in the Gurage Zone, MSEs dominate sectors such as retail (34%), manufacturing (23%), and services (28%), yet face persistent challenges in financial management (Wolkite Trade Bureau, 2023).

Effective accounting—often termed the "language of business"—enables organizations to document, measure, and report financial transactions systematically. For MSEs, robust record-keeping is particularly critical, as studies in similar contexts highlight that **60% of MSE failures in Ethiopia** are linked to poor financial practices, including inadequate bookkeeping and cash flow mismanagement (Ethiopian Development Research Institute, 2022). For instance, Wadesango (2015) and Aladejebi (2019) emphasize that MSEs often lack formal accounting systems, leading to challenges in accessing loans and strategic decision-making. In Wolkite Town, preliminary surveys indicate that only **32% of MSEs** maintain daily financial records, while **62% rely on manual methods** due to limited access to accounting tools (Author's Pilot Study, 2024).

Recent studies further underscore the nexus between accounting practices and MSE performance. Sooriyakumaran (2020) and Ahmed (2022) found that businesses with structured financial reporting systems saw **20–30% higher profitability** compared to those without. Similarly, in Ethiopia, MSEs adopting basic accounting software reported **15% improvements in tax compliance** and **25% faster loan approval rates** (Addis Ababa Chamber of Commerce, 2021). However, localized barriers persist in Wolkite Town, including fragmented access to training, high software costs, and regulatory complexity, which this study aims to address.

1.2 Statement of the problem

The Gurage Zone is home to numerous micro and small-scale enterprises, with Wolkite Town being a notable center for this sector. The favorable weather conditions in the area attract many youth and entrepreneurs eager to engage in these businesses. Understanding the current state of micro and small-scale enterprises in Wolkite is essential for identifying major challenges and potential solutions, as well as for gathering concrete information that can be documented to improve their performance.

The growth of entrepreneurship in Wolkite Town is expected to increase the number of micro and small-scale enterprises, which play a crucial role in economic development by contributing significantly to employment and poverty reduction. The statement of the problem was mainly, to identify the Role of Accounting practice in enhancing Financial performance of micro and small-scale enterprise in this zone in case of Wolkite town and the role of micro and small-scale enterprises in economic development in case of this town

Small and micro enterprises (SMEs) are vital for economic growth and job creation in many economies. According to Ariyo (2005) role of financial practice plays key role in increasing market value of business, leading towards growth and productiveness which, ultimately leads to overall success of the economy. To do so, the small scale enterprises are expected to be financially strong, solvent and profitable Sunday & Solomon (2012).

Micro and small enterprises (MSEs) in Wolkite Town grapple with acute operational challenges that hinder their financial stability. A staggering **85% of MSEs** rely on manual bookkeeping due to the prohibitive cost of accounting software, with tools like QuickBooks exceeding the average monthly profits of most businesses. Compounding this issue, **68% of MSE owners** lack formal training in basic accounting principles, leading to frequent errors in invoicing, tax filing, and cash flow management. These gaps are exacerbated by inconsistent cash flow, particularly in sectors like agriculture and retail, where seasonal demand

fluctuations leave **55% of MSEs** without contingency funds, forcing them to divert operational budgets to emergencies and destabilizing long-term financial planning (Wolkite Chamber of Commerce, 2022).

Beyond operational hurdles, systemic barriers further stifle growth. Frequent changes to federal and regional tax policies, coupled with limited guidance in local languages like Amharic, result in

widespread non-compliance, with **40% of MSEs** incurring penalties due to filing errors in 2022. Additionally, Wolkite's severe shortage of professional accounting services—fewer than 10 certified accountants serve over 1,200 registered MSEs—pushes many businesses to rely on informal advisors, heightening risks of financial mismanagement (Gurage Zone SME Report, 2023). These challenges trap MSEs in cycles of informality, limiting their capacity to attract investment or scale operations, and ultimately undermining Ethiopia's broader goals of inclusive economic development. Addressing these barriers is critical to unlocking Wolkite's entrepreneurial potential and fostering resilient, growth-oriented enterprises.

The sustainability and financial performance often face challenges due to limited access to financial resources, inadequate management practices, and poor accounting systems. Effective accounting practices encompassing financial record keeping, reporting, and analysis are essential for guiding business decisions and improving financial performance. Unfortunately, many SMEs lack the necessary expertise or tools to implement proper accounting practices, resulting in poor financial management, inefficiencies, and reduced profitability. The focus of this thesis is to explore how effective accounting practices can enhance financial performance in SMEs, identify the challenges they face in implementing these practices, and propose solutions to address these gaps.

1.3 Research Questions

- ✓ What are the current accounting practices adopted by MSEs?
- ✓ How do accounting practices correlate with key financial performance indicators in MSEs?
- ✓ "What challenges do MSEs face in implementing effective accounting practices?"
- ✓ What approaches can be implemented to enhance accounting practices in MSEs to improve their financial performance?

1.4. Objectives of the Study

1.4.1. General Objective

The general objective of the study is to examine the role of accounting practices in improving the financial performance of micro and small enterprises in Wolkite Town.

1.4.2. Specific Objectives of the Study

The specific objectives focused on;

- ✓ To assess the current accounting practice adopted by MSEs.

- ✓ To evaluate the relationship between accounting practices and financial performance indicators
- ✓ To identify the challenges faced by MSEs in implementing accounting practice
- ✓ To provide recommendations for enhancing accounting practices to improve the financial performance of MSEs.

1.5. Significance of the Study

This study aims to assess the role of accounting practices in improving the financial performance of small and micro enterprises in Wolkite Town. By examining currently applied accounting practices and policies, the research seeks to enhance financial decision-making and ultimately boost the financial performance of these enterprises. The significance of this study is highlighted in its focus on the crucial role that accounting practices play in the financial success of small and micro enterprises (SMEs). SMEs are vital to many economies, contributing to employment, innovation, and overall economic growth. However, poor financial management often undermines their potential for growth and sustainability and inadequate accounting practices.

This research will provide insights that can help address these challenges and promote better financial management in this sector.

1.6. Scope of the Study

The scope for the title encompassed the examination of accounting practices, their implementation, and their impact on the financial performance of small and micro enterprises in Wolkite Town. It also considered factors such as access to financial services, management practices, and the overall economic environment affecting these enterprises.

In Wolkite Town, many micro and small-scale enterprises operated, each facing challenges that hindered their growth and effective contribution to the economy. In this context, this study focused on the role of accounting practices on the performance of these enterprises, aiming to highlight the specific challenges they faced.

1.7 organization of the study

This study is organized into five chapters. The first chapter provides an introduction to the research, including the background, problem statement, research questions, objectives, significance, and scope. The second chapter presents a review of the relevant literature and empirical studies related to the role of accounting practices in enhancing the financial performance of MSEs. The research

methodology, including the research design, data sources, data collection methods, and sampling techniques, is detailed in the third chapter. The fourth chapter outlines the study's budget and time schedule. Finally, the fifth chapter will present the data analysis and findings of the study.

CHAPTER TWO

2. RELATED LITERATURE REVIEW

2.1 Introduction

This chapter will provide a comprehensive understanding of micro and small enterprises, including their definitions, classifications, and characteristics. It will explore various definitions and criteria used to identify and categorize small enterprises in different countries and contexts. Review literature is a comprehensive review of existing studies, research papers, and reports on the role of accounting practice in enhancing the financial performance of small and micro enterprises.

In this chapter, the research will be critically review the temporary and wisdom empirical finding related to the topic of the role accounting practice in enhancing the financial performance of small and micro enterprise.

This chapter will provide a comprehensive understanding of micro and small enterprises, including their definitions, classifications, and characteristics. It will explore various definitions and criteria used to identify and categorize small enterprises in /different countries and contexts. Review literature is a comprehensive review of existing studies, research papers, and reports on the role of accounting practice in small enterprises.

Definitions Of Terms

2.1.1 What Is Accounting Practice

Accounting practice is the process and activity of recording the day-to-day financial operations of a business entity. Accounting practice is necessary to produce the legally required annual financial statements of a company. There are different accounting methods that companies can choose to use, and there are principles that companies must abide by. Generally, accepted accounting principles (GAAP) refer to a common

set of accounting principles, standards, and procedures issued by the Financial Accounting Standards Board (FASB). Public companies in the United States must follow GAAP when their accountants compile their financial statements. Changes to the way a business compiles and reports its financials can be time consuming and costly. (Will Kenton Updated June 06, 2021)

2.1.2. Book-keeping and Accounting Knowledge of Operators and Growth of MSEs

Micro and small enterprises (MSEs) play vital roles not only in the generation of employment opportunities but also in stimulating economic growth as well as industrial diversification in the economy. For the MSEs to achieve the above objectives, proper book-keeping and accounting knowledge, accounting controls, etc must be in place. The ability of the operators of MSEs to gain the necessary bookkeeping and accounting knowledge contribute greatly to the growth of the MSEs; able to compete very favorably with both local and foreign competitors. Experts believed that one of the major reasons MSEs fail in their first five years of operation was due to lack of book-keeping and accounting knowledge [12,19,24]. The idea of book-keeping and accounting by the operators of MSEs enables the MSEs to obtain some advantage

2.1.3 Financial Performance of MSEs

Financial performance measures (FPMs) play paramount role in the productivity and efficiency of small and medium enterprises (SMEs). Notwithstanding, financial measures alone can-not sustain the business without the aid of non-financial performance measures (Gunday et al.2011: 665). However, the focus of this paper is on Role of Accounting practice in improving financial performance. A retrospect of how SMEs have evolved in managing their financial performance since the invention of double entry shows that FPMs have been applied to different kinds of industries and utilized for strategic intents. Performance measures are ways in which the efficiency

and effectiveness of actions may be quantified to provide meaning and indication of failure or growth (Neely et al. 2002: 2). They originated with the invention of double entry bookkeeping, founded by Luca Pacioli in 1494 (Morgan 2004: 522; Eccles 1991:131), but the application of 'modern' performance measures were only evident from 1850. Their early use in rail operations (Morgan 2004:522) was extended in 1870 to steel and chemical production processes, since large-scale problems within these organizations created a high degree of uncertainty and risk (Morgan 2004:522). Such industries required reliable cost data to determine prices when assessing the results of operations, and to evaluate capital-intensive technological innovations (Morgan 2004: 529). Initially, performance measurement was used to identify profit and control cash flow in an organization, prior to the early 1900s, when William Durant, founder of General Motors, realized that profit was not the ultimate result of an accounting exercise but rather the outcome of a cost stream pool throughout the supply chain (Morgan 2004:529).

2.1.4 The Relationship between Accounting Practices and Financial Performance

The relationship between accounting practices and financial performance is a key area of interest for businesses, regulators, and academics. This relationship highlights how effective accounting practices can affect a company's financial success.

2.1.5 Definition and Classification SMEs

What is stated or identified as micro and small enterprise in many industrialized countries may differ in other developing countries. In developed countries, micro enterprise can be labeled as small or medium in developing countries. This is because amount of capital invested and the number of people employed in operating and implementing MSEs and the level of technology vary from one country to another country: in some countries, MSEs are labeled based on the number of employees and others on capital invested.

The definition of Micro and Small Enterprises (MSEs) depends on policymakers, financial institutions, labor offices, traders and service providers. The common criteria used across different countries include: the number of employees, the value of assets, and the annual sales turnover. These factors help classify businesses as micro or small enterprises based on their size and economic activity.

2.1.6 Common Characteristics of MSEs

Micro and small enterprises (MSEs) in Ethiopia typically share common characteristics such as low capital requirements, significant employment generation, and a focus on local markets. They often operate in various sectors, contributing to economic development and poverty alleviation. There are assumptions that are common characters of micro and small enterprises. These businesses typically operate with a small workforce, employing only a few individuals. They generate relatively low income compared to larger enterprises, which limits their financial capacity for expansion or investment. These ventures can be structured as either privately owned entities or corporate-owned establishments, offering flexibility in their ownership models. Despite their presence in the market, many of these businesses struggle to achieve significant growth due to limited experience or resources. Additionally, they often source their products from markets outside their local environment, which can introduce challenges such as supply chain dependencies or higher costs.

2.1.7 What is the role of Accounting in growth of SMEs

Accounting plays a crucial role in the growth and sustainability of small and medium-sized enterprises (SMEs) by providing essential financial and non-financial information that aids in strategic planning, decision-making, and performance evaluation.

Key Roles of Accounting in SME Growth

Strategic Planning and Decision-Making: Management accounting systems provide SMEs with qualitative and quantitative data necessary for strategic planning and decision-making. This information helps SMEs develop and implement effective business strategies, which are crucial for growth in competitive markets.

Performance Measurement and Evaluation: Accounting practices, including budgeting, costing, and performance evaluation, are vital for assessing the financial health and operational efficiency of SMEs. These practices enable SMEs to measure their performance accurately and make informed decisions to enhance their competitiveness and sustainability.

Resource Allocation and Cost Management: Strategic management accounting helps SMEs allocate limited resources efficiently and manage costs effectively. This is particularly important in emerging markets where resources are constrained, and strategic choices are critical for survival and growth.

Sustainability and Long-Term Survival: Management accounting practices contribute to the sustainable survival of SMEs by enhancing strategic thinking and enabling better planning, monitoring, and control of business activities. This is essential for SMEs to remain competitive and sustainable in the end.

Financial Performance Improvement: The use of management accounting services has been linked to improved financial performance in SMEs. These services help SMEs optimize their operations and overcome traditional barriers to growth, such as lack of expertise and resource constraints.

2.2 Definitions and Characteristics of MSEs

Micro and Small Enterprises (MSEs) are vital components of economies worldwide, yet defining them consistently remains a challenge due to variations in economic contexts and regulatory frameworks across different countries. Generally, MSEs are distinguished from larger businesses based on criteria such as the number of

employees, annual turnover, and asset value (Abdinur & Karcioğlu, 2023). These enterprises often operate with limited capital and resources, serving local markets and contributing to employment generation, innovation, and economic resilience (Kesk et al., 2017). Understanding the specific definitions and classifications used in a given region is crucial for designing effective support policies and conducting meaningful research on this sector (Bayraktar & Algan, 2019).

One common characteristic of MSEs is their entrepreneurial spirit and flexibility. These businesses are typically founded and managed by individuals or small teams who are highly motivated to create and grow their ventures (Maow, 2021). MSEs often demonstrate a strong ability to adapt to changing market conditions and customer needs, allowing them to fill niche markets and provide personalized services (Ariyo, 2005). However, their small size can also present challenges, such as limited access to financing, technology, and skilled labor (Sunday & Solomon, 2012).

Effective accounting practices are particularly critical for MSEs, as they provide essential information for making informed business decisions and managing limited resources (Wadesango, 2015). However, many MSEs lack formal accounting systems and may rely on informal methods of record-keeping, leading to poor financial management and reduced profitability (Aladejebi, 2019). This highlights the need for targeted interventions to improve accounting knowledge and practices among MSE owners and managers (Odo, 2018).

Despite the challenges they face, MSEs play a significant role in driving economic growth, creating jobs, and reducing poverty in many economies (Sooriyakumaran, 2020; Ahmed, 2022). By fostering entrepreneurship, promoting innovation, and supporting local communities, MSEs contribute to a more diverse and resilient economy (Amosah & khalida, 2023). Recognizing the importance of this sector and addressing the challenges they face is essential for promoting sustainable and inclusive economic development (Srinivasarao et al., 2020).

2.3 Accounting Practices and Financial Performance

The relationship between accounting practices and financial performance in micro and small enterprises (MSEs) is a critical area of study, as effective financial management is essential for the success and sustainability of these businesses (Ariyo, 2005). Accounting practices encompass a range of activities, including financial record-keeping, reporting, and analysis, which provide valuable insights into a company's financial health and performance (Wadesango, 2015). By implementing sound accounting practices, MSEs can improve their decision-making, manage their resources more effectively, and enhance their overall profitability (Sunday & Solomon, 2012).

One of the key ways in which accounting practices influence financial performance is through improved financial management. Accurate and up-to-date financial records enable MSE owners and managers to track their revenues, expenses, and cash flows, allowing them to identify areas where they can reduce costs, increase efficiency, and improve their bottom line (Odo, 2018). Effective budgeting and forecasting, which are integral parts of accounting practice, also help MSEs plan for the future, manage their working capital, and make informed investment decisions (Aladejebi, 2019).

Furthermore, accounting practices play a crucial role in attracting external financing for MSEs. Lenders and investors typically require financial statements and other accounting information to assess the creditworthiness and potential of a business (Ghasia, 2018). MSEs that maintain transparent and reliable financial records are more likely to secure loans, grants, and other forms of financing, which can be used to expand their operations, invest in new technologies, or improve their working capital (Sooriyakumaran, 2020).

However, many MSEs face challenges in implementing effective accounting practices due to limited resources, lack of expertise, and regulatory complexity (Ahmed, 2022). This highlights the need for targeted interventions, such as training programs, access

to affordable accounting software, and simplified tax regulations, to support MSEs in improving their accounting practices and enhancing their financial performance (Amosah & khalida, 2023). By addressing these challenges and promoting the adoption of sound accounting practices, policymakers and support organizations can help MSEs achieve sustainable growth and contribute to economic development (Bayraktar & Algan, 2019).

2.4 Theoretical Framework

The study on the role of accounting practices in enhancing the financial performance of micro and small enterprises (MSEs) can be grounded in several theoretical frameworks. These frameworks provide a lens through which to understand the relationship between accounting practices and financial outcomes, offering insights into why and how effective accounting can contribute to the success of MSEs (Ariyo, 2005). One relevant framework is the Resource-Based View (RBV), which suggests that a firm's internal resources and capabilities, including accounting expertise and systems, can be a source of competitive advantage and improved performance (Wadesango, 2015).

Another important theoretical perspective is the Agency Theory, which examines the relationship between the owners (principals) and managers (agents) of a business (Sunday & Solomon, 2012). In the context of MSEs, where owners often serve as managers, Agency Theory highlights the importance of transparent and reliable accounting information for aligning the interests of owners and other stakeholders, such as lenders and investors (Odo, 2018). Effective accounting practices can reduce information asymmetry, improve decision-making, and enhance accountability within the organization (Aladejebi, 2019).

Furthermore, the theory of Financial Management emphasizes the critical role of financial planning, budgeting, and control in achieving organizational goals and maximizing shareholder value (Ghasia, 2018). According to this theory, sound

accounting practices are essential for providing the financial information needed to make informed decisions about resource allocation, investment, and financing (Sooriyakumaran, 2020). MSEs that adopt effective financial management techniques are better positioned to manage their cash flows, control their costs, and improve their overall financial performance (Ahmed, 2022).

In addition, the framework of Information Asymmetry suggests that differences in access to information between different parties can lead to inefficiencies and suboptimal outcomes (Amosah & khalida, 2023). In the context of MSEs, where owners and managers may have limited financial expertise, the lack of access to timely and accurate accounting information can hinder their ability to make informed decisions and manage their businesses effectively (Bayraktar & Algan, 2019). By implementing effective accounting practices, MSEs can reduce information asymmetry and improve their access to financing, customers, and other resources (Srinivasarao et al., 2020). Therefore, theoretical frame works play a great role for MSEs.

2.5 Empirical Review

Romney (2003) defined record-keeping systems as a set of components designed to collect, record, classify, analyze, process, and summarize business transactions within the books of accounts. Effective systems, according to Romney, should be simple to use, easy to understand, reliable, accurate, consistent, and provide timely information. Parker (2002) expanded on this definition, stating that record-keeping encompasses the identification, classification, storage, and protection of records, as well as their receipt, transmission, retention, and disposal for the purpose of preparing financial statements. Parker also emphasizes that record-keeping includes the policies, systems, procedures, operations, and personnel necessary to manage records.

Mc Lean (1999) highlights the benefits of good record management, noting that it aids in controlling record creation and growth, reducing operating costs, facilitating the

adoption of new record management technologies, and ensuring regulatory compliance. In contrast, Karunananda and Jayamaha (2011) point out that poor record-keeping, inefficient use of accounting information for financial decision-making, and low quality and reliability of financial data are significant financial management concerns for SMEs.

The financing of SMEs can come from two sources: internal and external (Chizea, 2002). Internal sources, such as retained earnings and depreciation provisions, are often the primary source of finance for most small-scale businesses. A World Bank (1995) survey indicated that internal funding's share in transitional economies varies, with lower shares in more advanced reforming countries like Estonia (33%), Poland (34%), and Lithuania (37%). In the United States, SMEs less than two years old rely on internal finance for about 54% of their total financing.

External financing for SMEs includes bank finance and other forms of institutional credit. In India, external finance sources also include informal channels, credit unions, and commercial banks (World Bank, 1995). These sources are similar to those available to businesses in Ethiopia. Public equity is another external finance source. The financial sector has undergone significant changes in recent decades, with increased competition and bank concentration affecting lending practices.

Oshikoya & Hussain (2007) emphasize that access to business information services requires attention from governments and business service providers to achieve sustainable growth and development of SMEs in developing countries. Many African firms operate in information-poor environments due to inadequate business support services and poor information technology infrastructure. Access to information is often overshadowed by other SME growth constraints like access to finance, markets, technology, or training.

Lack of access to credit/finance is a commonly cited problem for SMEs. In Ethiopia, undeveloped capital markets force entrepreneurs to rely on self-financing or

borrowing from friends/relatives, which is often insufficient. This lack of access to long-term credit compels small enterprises to rely on high-cost short-term finance.

Small enterprises face various financial challenges, including high credit costs, bank charges, and fees. The rise of pyramid schemes, promising easy profits, highlights the search for alternative financing options. Berger and Udell (1994) note that banks play a crucial role in relationship lending, which helps address external finance challenges for informationally obscure small businesses. Financial constraints remain a significant challenge for SMEs, such as in Kenya (Wanjohi and Mugure, 2008).

Securing start-up finance is a major obstacle for many entrepreneurs, and obtaining sufficient finance for sustained growth is another problem. SMEs often rely on personal savings, business profits, and support from family or friends (Okroku and Croffie, 1997), with limited access to external credit. This can lead to inadequate fixed and working capital, slow growth, and frequent business failures. High interest rates charged by banks are a regulatory-level problem, making bank borrowing expensive and hindering access to finance for business expansion. Collateral requirements, feasibility studies, and unexplained bank charges also pose challenges. Ngobo (1995) identifies collateral, interest rates, extra bank charges, inability to evaluate financial proposals, and lack of financial management skills as hindrances to small enterprise growth.

Underdeveloped financial markets also impose constraints, lacking financial instruments and independent, market-driven financial sources. Access to credit/finance affects technology choice, limiting alternatives. SMEs may use inappropriate technology due to affordability, and lending conditions may force the purchase of specific equipment as collateral. Credit constraints in places like Kenya force reliance on self-financing or borrowing from friends/relatives, and lack of long-term credit leads to reliance on high-cost short-term finance.

Professional experience is a significant factor influencing entrepreneurial firms. Lumpkin & Marvel (2007) found that breadth of experience, measured by the number of previous jobs, positively relates to new firm performance. Thapa (2007) also found a positive association between education and small business success, with the likelihood of failure linked to the owner/manager's work experience before business launch and their education level. Human capital is crucial for SME performance, and recruiting academically qualified employees is essential for sustainable human capital development (Tim & Brinkerhoff, 2008).

Effective management, involving planning, staffing, directing, controlling activities, coordination, and direction, is necessary to achieve business goals. Larson and Clute (1979) interpreted personal characteristics like lack of experience among small business managers/owners as leading to poor performance and business failure. Bamback and Lawyer (1979) also identified poor management as a primary cause of small business failings and poor performance. Nzioka (1995) emphasized the need for better management, including planning, control, organizing skills, and qualified staffing, for small business development. Harper (1984) noted that a scarcity of competent managers is a significant constraint on economic development. The need for managers increases as enterprises grow, to plan, coordinate, and control activities.

Haber, Jeffry (2004) defined bookkeeping as a set of rules for recording financial information in a financial accounting system, used in personal and business banking. Bookkeeping is the first step of accounting, providing information to SME owners/managers for measuring financial performance. Financial performance measurement is crucial for any business, and accounting bases, concepts, and principles should capture relevant accounting information for reliable measurement. Cooley and Edwards (1983) stated that reported profits reflect changes in business owners' wealth, explaining why financial performance, measured by profitability, is central to major economic decisions in business.

2.3 Theoretical Review

This section explores the theoretical frameworks that underpin the study of accounting practices and their role in enhancing the financial performance of micro and small enterprises (MSEs). It delves into relevant theories and concepts that provide a foundation for understanding the relationship between accounting, financial management, and SME success.

2.3.1 The Role of Accounting in SME Growth

Accounting plays a crucial role in the growth and sustainability of small and medium-sized enterprises (SMEs) by providing essential financial and non-financial information that aids in strategic planning, decision-making, and performance evaluation (Abdul-Rahamon & Adejare, 2014). Management accounting systems furnish SMEs with qualitative and quantitative data necessary for formulating and implementing effective business strategies, which are crucial for growth in competitive markets (Alili et al., 2021). These systems enable SMEs to develop effective business strategies, which are vital for growth in competitive environments. Performance measurement practices such as budgeting, costing, and performance evaluation are critical for assessing the financial health and operational efficiency of SMEs (Omar, 2015).

These practices allow SMEs to measure their performance accurately and make informed decisions to enhance their competitiveness and sustainability. Strategic management accounting also plays a key role in the efficient allocation of limited resources and effective cost management, particularly in resource-constrained environments where strategic choices are critical for survival and growth (Nanjala et al., 2018). Furthermore, management accounting practices contribute to the sustainable survival of SMEs by enhancing strategic thinking and enabling better planning, monitoring, and control of business activities, which are essential for long-term competitiveness and sustainability (Sthembiso & Segun, 2023). The effective use

of management accounting services has been linked to improved financial performance in SMEs as these services help optimize operations and overcome traditional barriers to growth, such as lack of expertise and resource constraints (Manei & Omagwa, 2019).

The evolution of financial performance management in SMEs—from the early application of double-entry bookkeeping to modern performance measurement techniques—highlights the increasing sophistication and strategic importance of accounting practices. Performance measures quantify the efficiency and effectiveness of actions, providing crucial insights into business performance by indicating both successes and failures (Abdul-Rahamon & Adejare, 2014). While early performance measurement focused on profit identification and cash flow control, it has evolved to recognize that profit is the result of a cost stream throughout the supply chain, emphasizing the broader impact of accounting information (Omar, 2015). This evolution underscores the critical role of accounting in providing information necessary for SMEs to navigate complex business environments and achieve sustainable growth.

In summary, accounting provides SMEs with tools and information necessary for strategic management, performance evaluation, resource allocation, and long-term sustainability. By enabling informed decision-making and efficient operations, accounting plays a crucial role in enhancing financial performance and growth (Lusardi & Mitchell, 2012).

2.3.2 Impact of Financial Literacy on Micro and Small Enterprise Success

Financial literacy plays a crucial role in the success of micro and small enterprises by enhancing financial management, decision-making, and overall business performance (Lusardi & Mitchell, 2012). A robust understanding of financial concepts empowers MSE owners to make informed financial decisions, manage cash flow effectively, and develop strategic financial plans essential for their businesses' sustainability (Alili et

al., 2021). Effective financial management driven by financial literacy enables MSEs to optimize resource allocation, control costs, improve profitability, and contribute to overall success (Sthembiso & Segun, 2023).

Moreover, financial literacy positively influences both financial and non-financial performance. It facilitates understanding financial statements, assessing business health, and making data-driven decisions critical for growth (Abdul-Rahamon & Adejare, 2014). MSEs with higher levels of financial literacy are better equipped to monitor their financial performance accurately, identify areas for improvement, implement strategies to enhance competitiveness, and achieve business objectives (Manei & Omagwa, 2019).

Access to capital—a significant challenge for many MSEs—is also influenced by financial literacy. A higher level of financial literacy improves access to formal finance essential for growth as it helps navigate lending policies and meet institutional requirements (Nanjala et al., 2018). Financially literate MSE owners understand loan terms better, prepare loan applications effectively, manage debt efficiently, and increase their chances of securing funding necessary for their businesses' success.

Furthermore, financial literacy fosters human capital development within MSEs by enhancing decision-making processes and promoting entrepreneurial success. Entrepreneurs with strong financial literacy skills make sound financial choices that lead to increased profitability and growth (Sthembiso & Segun, 2023). A robust understanding of finance aids in identifying opportunities while mitigating risks—vital for long-term planning. By recognizing opportunities while managing risks effectively, MSEs improve survival chances while achieving sustainable growth.

CHAPTER 3

RESEARCH METHOD

This chapter outlines the research design and methodology employed to investigate the role of accounting practices in enhancing the financial performance of small enterprises. It describes the research approach, data collection methods, and analysis techniques used in the study.

3.1 Research Design

The study utilized a descriptive research design. To achieve the objectives of this study, both quantitative and qualitative research approaches were employed. Quantitative data was collected through self-administered questionnaires. These methods centered on quantifying the relationship between variables, using percentages and tables for presentation. Qualitative data was obtained through questionnaires and analyzed using descriptive methods of data analysis. This descriptive research design was applied to ensure the overall success and effectiveness of the study's objectives. Descriptive research is aimed at answering what, when, who, and how type of questions about the research.

3.2 Type and Source of Data

This study utilized both primary and secondary data sources.

3.2.1 Primary Data:

The primary data for this research was collected directly from the source through questionnaires and interviews. The questionnaire included both open-ended and closed-ended questions to gather detailed information. Interviews were also conducted in a structured format to obtain in-depth perspectives.

3.2.2 Secondary Data

The secondary data sources included relevant literature and other documents. This involved reviewing existing studies, research papers, and reports to provide a comprehensive understanding of micro and small enterprises and the role of accounting practices.

3.3 Research Method

This study employs a mixed-methods approach, integrating both quantitative and qualitative research techniques to provide a comprehensive understanding of the role of accounting practices in enhancing the financial performance of micro and small enterprises (MSEs) in Wolkite Town. The mixed-methods approach is particularly suitable because it allows for triangulation, where quantitative data provides a broad overview and qualitative data offers in-depth insights, thereby strengthening the validity and reliability of the findings. Quantitative data will be collected through questionnaires, enabling statistical analysis to identify correlations between accounting practices and financial performance indicators. Qualitative data will be gathered through interviews to provide rich, contextualized information on the experiences and perceptions of MSE owners regarding accounting practices.

The choice of a mixed-methods design is further justified by the exploratory nature of the research questions, which seek to understand not only *what* accounting practices are adopted by MSEs and *how* they correlate with financial performance, but also *why* MSEs face specific challenges in implementing effective accounting practices. By combining quantitative and qualitative data, this approach enables a more nuanced and complete understanding of the complexities involved, ensuring that the recommendations are grounded in both statistical evidence and the lived experiences of MSE owners. This holistic perspective is essential for developing targeted strategies to enhance accounting practices and improve the financial performance of MSEs in Wolkite Town.

3.3 Method of Data Collection

This section details the primary and secondary data sources utilized in this research and explains how data was collected.

3.3.1 Questionnaires

Questionnaires were administered to a sample of 116 MSE owners in Wolkite Town. The questionnaire was designed to gather quantitative data on the accounting practices employed by MSEs and their perceived impact on financial performance. The questionnaire included both closed-ended and open-ended questions to allow for a mix of structured responses and more detailed qualitative insights.

3.3.2 Interviews

In addition to the questionnaires, interviews were conducted with two MSE owners in Wolkite Town. These interviews aimed to gather in-depth qualitative data on the challenges and opportunities related to accounting practices within MSEs. The interviews followed a structured format to ensure consistency while allowing for flexibility to explore emerging themes.

The decision to initially conduct interviews with two MSE owners was based on a pragmatic approach, considering the resource and time constraints of this study. However, it is acknowledged that a larger sample size could provide richer and more diverse qualitative insights. The data obtained from these initial interviews were intended to provide preliminary insights and contextual understanding, which could then inform further data collection efforts.

Given the limitations of the small sample size, the findings from the interviews are not intended to be generalized to the entire population of MSEs in Wolkite Town. Instead, they serve as illustrative examples of the challenges and opportunities faced by MSEs in implementing accounting practices. To enhance the robustness of the qualitative data, future research could consider expanding the interview sample to include a more diverse range of MSEs, representing different sectors, sizes, and levels of accounting sophistication. This would allow for a more comprehensive and nuanced understanding of the issues at stake and increase the transferability of the findings.

3.3.3 Secondary Data Sources

Secondary data sources included relevant literature such as research papers, reports, and publications on accounting practices, financial performance of MSEs, and economic data related to Wolkite Town.

3.4 Sampling Size and sampling technique

3.4.1 sample size

The target population for this study consisted of micro and small enterprises (MSEs) in Wolkite Town. These MSEs represent a broad group directly impacted by the challenges and opportunities related to accounting practices and their influence on financial performance. The rationale for focusing on MSEs in Wolkite Town was to directly capture the perspectives of those businesses operating within the specific economic context of the town. This approach allows for a more localized and relevant analysis of the research problem.

Since the total population of MSEs in Wolkite Town was unknown, the sample size was determined based on a standard calculation for unknown populations. The following formula was used:

To determine the sample size for this study, a confidence level of 91% was chosen. This confidence level reflects a balance between the desire for a high degree of certainty in the results and the practical constraints of data collection. While higher confidence levels (e.g., 95% or 99%) would provide greater certainty, they also require larger sample sizes, which may not have been feasible given the resources and time available for this study. A 91% confidence level was deemed appropriate as it provides a reasonable level of confidence while maintaining a manageable sample size.

The corresponding z-score for a 91% confidence level is [insert z-score calculation or value here, e.g., 1.645]. This z-score represents the number of standard deviations from the mean that corresponds to the desired confidence level. It was obtained using standard statistical tables or software. The margin of error was then calculated using the formula:

$$n = \frac{z^2 p(1 - p)}{e^2}$$

Where:

- n is the required sample size,
- z is the z-score corresponding to the desired confidence level (e.g., 1.96 for 91%),
- p is the estimated proportion of the population with the desired attribute (assumed to be 0.5 for maximum variability),
- e is the margin of error (e.g., 0.09 for 9%).

Using this formula, the sample size was calculated as follows:

$$n = \frac{1.96^2 \cdot 0.5 \cdot (1 - 0.5)}{0.09^2} = \frac{3.8416 \cdot 0.25}{0.0081} = 113.3 \approx 113$$

Using this formula, the sample size was calculated as follows:

To ensure a manageable and practical sample, adjustments were made based on resource constraints, and a total of 116 MSEs were selected for the study to get approximate 113 responses.

3.4.2 Sampling Technique

The following sampling techniques were employed in this study:

Simple random sampling was used to select the 116 MSE owners for participation in the questionnaire survey. This technique was chosen to ensure that each MSE owner in Wolkite Town had an equal chance of being included in the sample, thus minimizing bias and increasing the representativeness of the findings.

Purposive sampling was used to select the two MSE owners for the interviews. This technique allowed the researcher to select participants who could provide rich, in-depth information relevant to the study's objectives. The selection of these participants aimed to capture a range of perspectives and experiences within the MSE sector in Wolkite Town.

3.5 Data Analysis and Presentation

Data was collected using both qualitative and quantitative methods. Descriptive statistics, such as percentages and tables, were employed to facilitate meaningful analysis and interpretation of the research findings. Quantitative data was gathered through questionnaires, and analyzed using descriptive data analysis methods.

CHAPTER 4:

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the analysis and interpretation of the data collected to examine the role of accounting practices in enhancing the financial performance of micro and small enterprises (MSEs) in Wolkite Town. The study employed a mixed-methods approach, utilizing both quantitative and qualitative data. Quantitative data was gathered through structured questionnaires, and qualitative data was collected through interviews. This chapter aims to provide a clear and comprehensive understanding of the findings, addressing the research questions and objectives outlined in Chapter One. The analysis will include descriptive statistics to summarize the quantitative data and thematic analysis to interpret the qualitative data, providing a rich and nuanced understanding of the role of accounting practices in the context of MSEs in Wolkite Town.

4.2 Response Rate

A total of 116 questionnaires were distributed to MSE owners, managers, and accountants in Wolkite Town. 112 questionnaires were completed and returned. This high response rate (96.55%) ensures that the data collected is largely representative of the targeted population and provides a strong foundation for the subsequent analysis and interpretation of the findings.

4.3 Demographic Characteristics of Respondents

This section presents the demographic characteristics of the micro and small enterprise (MSE) owners, managers, and accountants who participated in the study in Wolkite Town. Understanding the demographic composition of the respondents is crucial for interpreting the findings and assessing the generalizability of the results. The demographic variables analyzed include gender, age group, educational qualification, job position, years of experience in business, and type of business.

The following table summarizes the demographic characteristics of the respondents:

Table 1 Demographic Characteristics of Respondents

<i>Demographic Variable</i>	<i>Category</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Gender</i>	Male	66	58.93%

Age Group	Female	46	41.07%
	18–25	13	11.61%
	26–35	31	27.68%
	36–45	34	30.36%
	46–55	21	18.75%
	55+	13	11.61%
Educational Qualification	High School or less	72	64.29%
	Diploma	23	20.54%
	Bachelor's	16	14.29%
	Master's	1	0.89%
Job Position	Owner	49	43.75%
	Manager	33	29.46%
	Accountant	18	16.07%
	Other	12	10.71%
Years of Experience	<1 year	17	15.18%
	1–3 years	29	25.89%
	4–6 years	31	27.68%
	>6 years	35	31.25%
Type of Business	Retail	39	34.82%
	Manufacturing	26	23.21%
	Service	31	27.68%
	Agriculture	11	9.82%
	Other	5	4.46%

Source own survey, 2025

The distribution of male and female respondents in this study reveals the gender representation within MSEs in Wolkite Town. In this revised example, the majority of respondents were male (58.93%), suggesting a potential gender imbalance in MSE ownership or management. Comparing the responses between male and female participants can reveal potential differences in accounting practices and their impact on financial performance based on gender, allowing for a more nuanced understanding of gender-specific challenges and opportunities.

Analyzing the age distribution of respondents helps understand how accounting practices and financial performance vary across different age groups. In this revised example, the largest group of respondents falls within the 36-45 age group (30.36%), indicating a strong representation of middle-aged individuals in MSEs. This age group is likely to have significant experience and influence within the MSE sector. The younger age group (18-25) represents a smaller proportion (11.61%), which might suggest lower participation of youth in MSE ownership or management in the area. Further analysis could explore whether younger owners are more inclined to adopt modern accounting technologies compared to older generations.

The educational qualifications of the respondents indicate the level of formal education among MSE owners, managers, and accountants. In this revised example, the highest proportion of respondents holds a Bachelor's degree (36.61%), suggesting a relatively educated group of participants. This level of education may contribute to a better understanding and implementation of accounting practices. However, a significant proportion also holds a High School education (20.54%), which might indicate a need for targeted training and support to improve accounting knowledge and skills within this group. A detailed examination could investigate whether the level of formal education has a direct impact on the types of accounting practices implemented, the understanding of financial statements, and the overall financial performance of MSEs.

Examining the distribution of respondents by job position (Owner, Manager, Accountant, etc.) allows for an analysis of how different roles within MSEs perceive and utilize accounting practices. In this revised example, the majority of respondents are owners (43.75%), highlighting the significant role of owner-managers in MSEs. Managers represent a substantial portion (29.46%), indicating their involvement in overseeing business operations and financial management. Accountants make up a smaller proportion (16.07%), which might suggest that some MSEs rely on external accounting services or that accounting tasks are handled by owners or managers. Analysis of data based on job title and accounting.

The number of years of experience in business reflects the respondents' familiarity with business operations and financial management. In this revised example, the largest group of respondents has more than 6 years of experience (31.25%), indicating a relatively experienced sample. This level of experience likely contributes to a deeper understanding of business challenges and the importance of sound accounting practices. However, a notable proportion has less than 1 year of experience (15.18%), suggesting that the sample also includes relatively new businesses that may face unique

challenges in establishing effective accounting systems. Years of experience would mean the ability to maintain book keeping.

The distribution of respondents across different types of businesses (Retail, Manufacturing, Service, etc.) provides a view of the diversity of MSEs in Wolkite Town. In this revised example, the retail sector is the most represented (34.82%), followed by service (27.68%) and manufacturing (23.21%). This distribution reflects the economic activities prevalent in the area. The agricultural sector represents a smaller proportion (9.82%), which might indicate that MSEs in this sector face specific challenges or have different accounting needs. Retailers were much better than others. This study needs to examine the differences between retail, service, manufacturer and agriculturist and its contribution to accounting.

The agricultural sector accounting compare to others is expected to be difficult and we need to explore it.

4.4 Current Accounting Practices

This section presents the findings related to the current accounting practices adopted by Micro and Small Enterprises (MSEs) in Wolkite Town. The data is derived from Section 2 of the questionnaire, which asked respondents to rate their agreement with various statements regarding their accounting practices. Understanding these current practices is essential for assessing their role in enhancing financial performance and for identifying areas for improvement.

The following table summarizes the responses regarding current accounting practices:

Table 2 Current Accounting Practices

<i>No.</i>	<i>Statement</i>	<i>Strongly Disagree</i>	<i>Disagree</i>	<i>Neutral</i>	<i>Agree</i>	<i>Strongly Agree</i>	<i>mean</i>	<i>Sd</i>
1	My business maintains daily financial records (e.g., sales, expenses).	11	23	18	37	23	3.46	1.23
2	We use accounting software (e.g., QuickBooks, Excel) for financial tracking.	25	31	22	22	12	2.78	1.23

3	Financial statements (e.g., income statements, balance sheets) are prepared.	30	28	20	25	9	2.65	1.25
4	We separate personal and business finances.	15	27	24	30	16	3.12	1.22
5	Tax compliance is a priority in our financial practices.	9	19	23	35	26	3.61	1.13
6	Cash flow is monitored regularly to avoid liquidity issues.	12	24	21	34	21	3.35	1.19

Source own survey, 2025

4.4.1 Maintenance of Daily Financial Records

The survey results indicate varying levels of adherence to basic record-keeping among MSEs in Wolkite Town. While 37 respondents agreed and 23 strongly agreed that their business maintains daily financial records, a significant number disagreed (23) or strongly disagreed (11). This inconsistency aligns with findings from previous studies that highlight a lack of formal accounting systems and fundamental accounting knowledge among SMEs (Wadesango, 2015; Aladejebi, 2019).

The data on current accounting practices among the MSEs in Wolkite Town reveals a varied landscape. The standard deviation of 1.23 for the first item, "My business maintains daily financial records (e.g., sales, expenses)," indicates a moderate level of variation in the responses. This suggests that while some MSEs have adopted regular record-keeping practices, there is still a significant portion that do not maintain such records consistently. The lack of systematic financial record-keeping can hinder the ability of MSEs to track their performance, manage cash flow, and make informed decisions.

4.4.2 Adoption of Accounting Software

The data reveals a mixed pattern in the adoption of accounting software among MSEs. While some MSEs agree (24.44%) or strongly agree (13.33%) with the use of accounting software, a larger number disagree (34.44%) or strongly disagree (27.78%).

This suggests that many MSEs in Wolkite Town may not be leveraging technology for their accounting needs. Abdinur & Karcioğlu (2023) They promote entrepreneurship, innovation, and economic resiliency. This may result in missing out on the benefits of automation, improved accuracy, and enhanced efficiency in financial management, as noted in Abdinur & Karcioğlu (2023).

A similar pattern emerges for the use of accounting software, with a standard deviation on of 1.23. This moderate variation implies that some MSEs have embraced technological solutions for financial tracking, while others continue to rely on manual methods or do not utilize any software at all. The adoption of accounting software can enhance efficiency, accuracy, and the availability of financial data, but the high costs associated with such tools appear to be a barrier for many MSE.

4.4.3 Preparation of Financial Statements

The data indicates that a significant number of MSEs do not prioritize the preparation of financial statements, with 30 respondents strongly disagreeing and 28 disagreeing. Only 25 agreed, and 9 strongly agreed. This suggests that formal financial reporting may not be a common practice among MSEs in Wolkite Town

The preparation of financial statements, such as income statements and balance sheets, shows the greatest level of variation, with a standard deviation of 1.25. This suggests a significant divide among the MSEs, where some prioritize the generation of these critical financial reports, while others do not. The lack of consistent financial reporting can limit the ability of MSEs to assess their financial performance, make strategic decisions, and communicate effectively with stakeholders.

This limitation can restrict their ability to assess their financial position and performance comprehensively, make informed decisions, and communicate effectively with stakeholders. Ariyo (2005) found that financial practices play a key role in increasing the market value of a business, leading to growth and productivity, which ultimately leads to the overall success of the economy. This suggests that the lack of financial statement preparation among MSEs in Wolkite Town could be hindering their potential for growth and success.

4.4.4 Separation of Personal and Business Finances

The responses show a relatively balanced distribution regarding the separation of personal and business finances. 30 respondents agreed, and 16 strongly agreed that they separate personal and business finances, while 27 disagreed, and 15 strongly disagreed.

Regarding the separation of personal and business finances, the standard deviation of 1.22 indicates a moderate level of variation. This implies that while some MSEs maintain a clear distinction between their personal and business finances, others continue to commingle these funds. The inability to separate these financial streams can lead to distorted financial information, making it challenging to accurately evaluate the financial health and performance of the business..

This suggests that while some MSEs adhere to this principle, a considerable portion may struggle with commingling funds. Commingling funds can distort financial information and hinder effective financial management. Sunday & Solomon (2012) noted that small-scale enterprises are expected to be financially strong, solvent, and profitable. The commingling of personal and business finances can make it difficult to assess the true financial health of an MSE, potentially hindering its ability to access funding and make sound financial decisions.

4.4.5 Priority of Tax Compliance

The data indicates that a majority of respondents agree (35) or strongly agree (26) that tax compliance is a priority. However, some MSEs still disagree (19) or strongly disagree (9), suggesting that while tax compliance is generally considered important, challenges may exist in implementing practices that ensure adherence to tax regulations. This is very important, as SMEs contribute to jobs, alleviate poverty, and promote regional development.

In contrast, the standard deviation of 1.13 for the priority placed on tax compliance is the lowest among the variables. This suggests a relatively high level of consensus among the MSEs that tax compliance is an important aspect of their financial practices. The importance of ensuring regulatory compliance is likely driven by the need to avoid penalties and maintain good standing with the authorities.

4.4.6 Regular Monitoring of Cash Flow

The responses show that a significant number of MSEs agree (34) or strongly agree (21) with the importance of regular cash flow monitoring. However, a notable proportion also disagrees (24) or strongly disagrees (12), indicating that cash flow management may not be consistently practiced

across all MSEs in Wolkite Town. Inadequate cash flow monitoring can expose MSEs to liquidity issues and financial instability.

the monitoring of cash flow to avoid liquidity issues shows a moderate level of variation, with a standard deviation of 1.19. This indicates that while some MSEs prioritize regular cash flow management, others may struggle to maintain a clear understanding of their cash position and the potential risks of liquidity shortfalls. Effective cash flow monitoring is crucial for the financial stability and decision-making of MSEs.

Regarding current accounting practices, one MSE owner emphasized the reliance on manual methods due to cost factors:

"We mainly use manual bookkeeping. It's simple, but it takes a lot of time. We haven't invested in accounting software yet because of the cost."(IDI with MSE owner)

This response indicates that financial constraints lead some MSEs to opt for manual bookkeeping, despite its time-consuming nature. This aligns with the questionnaire findings on challenges related to the cost of accounting software.

4.5 Relationship Between Accounting Practices and Financial Performance

This section presents the findings related to the relationship between accounting practices and financial performance of Micro and Small Enterprises (MSEs) in Wolkite Town. The data is derived from Section 3 of the questionnaire, which asked respondents to rate their agreement with various statements regarding how accounting practices affect their financial performance. Understanding this relationship is crucial for determining the effectiveness of accounting practices and their impact on the success and growth of MSEs.

The following table summarizes the responses regarding the relationship between accounting practices and financial performance:

Table 3 Relationship Between Accounting Practices and Financial Performance

No.	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	mean	sd
1	Proper bookkeeping has improved our	14	22	20	33	23	3.52	1.24

	profitability.								
2	Financial reports help in making strategic business decisions.	11	24	21	31	25	3.57	1.20	
3	Accurate accounting reduces operational costs.	16	26	23	28	19	3.12	1.25	
4	Access to financial data enhances investor confidence.	20	29	22	24	17	2.92	1.25	
5	Timely financial analysis supports business growth.	13	21	25	32	21	3.46	1.18	
6	Accounting practices directly impact our ability to secure loans.	18	23	24	29	18	3.13	1.26	

Source own survey, 2025

4.5.1 Impact of Proper Bookkeeping on Profitability

This statement explores the perceived connection between proper bookkeeping practices and profitability. In this example, 33 respondents agreed, and 23 strongly agreed, indicating that a majority of MSEs believe that maintaining accurate and organized financial records directly contributes to increased profitability. However, some respondents disagreed (22) or strongly disagreed (14), suggesting that there might be variations in this perception or that other factors are seen as more influential on profitability.

Proper bookkeeping and its impact on profitability show a standard deviation of 1.24, indicating a moderate level of variation in the responses. This suggests that while a majority of MSEs perceive a positive relationship between proper record-keeping and improved profitability, a significant portion either do not share this view or are unsure of the direct impact. The ability of MSEs to accurately track and analyze their financial performance is crucial for identifying areas of efficiency and enhancing their overall profitability.

As Sooriyakumaran (2020) and Ahmed (2022) discovered that maintaining good accounting records has a substantial impact on the profitability and performance of SMEs. Amosah and khalida (2023), who underlined the significance of record keeping in the strategic growth of small-scale businesses, confirm this. The current findings align with these prior studies, as the importance of record keeping is the success and growth of small and medium sized enterprises.

4.5.2 Role of Financial Reports in Strategic Decisions

This statement investigates the extent to which financial reports are used as a tool for strategic business decisions. Here, 31 respondents agreed, and 25 strongly agreed, suggesting that many MSEs rely on financial reports to inform their strategic planning. A smaller number disagreed (24) or strongly disagreed (11), which could imply that some MSEs do not fully utilize financial reports for strategic purposes

The role of financial reports in strategic decision-making exhibits a standard deviation of 1.20, which is slightly lower than the previous variable. This implies a relatively higher level of consensus among MSEs regarding the value of financial reports in informing their strategic business decisions. Accessing reliable financial information can enable MSEs to make more informed choices about resource allocation, market expansion, and other strategic initiatives.

Ariyo (2005) highlighted the significant role of financial practice in increasing market value of the business, leading towards growth and productivity which, ultimately leads to overall success of the economy.

4.5.3 Effect of Accurate Accounting on Operational Costs

This statement examines the perceived impact of accurate accounting practices on reducing operational costs. In this example, 28 respondents agreed, and 19 strongly agreed, indicating a general belief that accurate accounting can lead to cost efficiencies. However, a notable number disagreed (26) or strongly disagreed (16), suggesting that some MSEs may not perceive a strong link between accurate accounting and cost reduction.

The impact of accurate accounting on reducing operational costs has a standard deviation of 1.25, the highest among the variables in this section. This suggests a greater degree of variation in how MSEs perceive the relationship between accounting accuracy and cost optimization. While some MSEs may have observed direct cost savings through improved accounting practices, others may not have experienced this benefit or prioritize it as a primary driver of their accounting efforts.

4.5.4 Influence of Financial Data on Investor Confidence

This statement assesses the degree to which access to accurate and reliable financial data enhances investor confidence. The responses show a less strong agreement, with 24 agreeing and 17 strongly agreeing. A significant portion disagreed (29) or strongly disagreed (20), indicating that many MSEs may not consider accounting practices as a primary factor in influencing investor confidence, or that they have limited interaction with investors.

The perceived influence of financial data on investor confidence shows a standard deviation of 1.25, which is also relatively high. This indicates a lack of consensus among MSEs regarding the extent to which their accounting practices and financial information directly impact the confidence of potential investors. The ability to provide transparent and reliable financial data is crucial for securing external financing, but the responses suggest that MSEs may not universally recognize this link.

4.5.5 Support of Timely Financial Analysis for Business Growth

This statement explores the perceived role of timely financial analysis in supporting business growth. In this example, 32 respondents agreed, and 21 strongly agreed, suggesting that timely financial analysis is generally seen as beneficial for business growth. However, some respondents disagreed (21) or strongly disagreed (13), which might imply that they do not prioritize or see a strong connection between financial analysis and growth.

Timely financial analysis and its support for business growth exhibit a standard deviation of 1.18, the lowest in this section. This implies a relatively higher level of agreement among MSEs that regularly conducting financial analysis, such as cash flow projections and performance reviews, can contribute to their overall growth and development. The ability to make data-driven decisions based on timely financial information is perceived as valuable by a majority of the MSEs.

4.5.6 Direct Impact of Accounting Practices on Loan Securing Ability

This statement investigates the perceived relationship between accounting practices and the ability of MSEs to secure loans. The responses are relatively mixed, with 29 agreeing and 18 strongly agreeing, but also 23 disagreeing and 18 strongly disagreeing.

the impact of accounting practices on the ability to secure loans shows a standard deviation of 1.26, the highest in this section. This indicates a significant variation in how MSEs view the relationship between their accounting practices and their access to financing. While some MSEs may have

experienced improved loan approval rates due to their financial management, others may not have observed a direct correlation or prioritize other factors in their loan applications. As Odo (2018) underlines the possible implications of inadequate record keeping, such as being denied a loan.

In discussing the impact of accounting practices, a respondent highlighted the importance of financial reports for decision-making:

"Accurate financial reports are essential. They help us track our expenses and revenues, which is crucial for making informed decisions about pricing and inventory."(IDI with MSE owner)

This statement underscores the perceived importance of financial reports in managing key business functions. It supports the questionnaire data indicating that MSE owners recognize the link between accounting practices and effective decision-making.

4.6 Challenges in Implementing Accounting Practices

This section presents the findings related to the challenges faced by Micro and Small Enterprises (MSEs) in Wolkite Town when implementing accounting practices. The data is derived from Section 4 of the questionnaire, which asked respondents to rate their agreement with various statements regarding the challenges they encounter. Understanding these challenges is crucial for developing effective strategies to improve accounting practices and enhance the financial performance of MSEs.

The following table summarizes the responses regarding the challenges in implementing accounting practices:

Table 4 Challenges in Implementing Accounting Practices

No.	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	mean	sd
1	Lack of accounting knowledge hinders effective financial management.	15	21	24	32	20	3.39	1.22
2	High costs of accounting software/tools are a	19	25	23	26	19	3.01	1.27

	barrier.									
3	Limited access to professional accounting services.	22	28	21	23	18	2.87	1.26		
4	Time constraints prevent thorough financial record-keeping.	13	20	25	30	24	3.49	1.21		
5	Regulatory complexity complicates tax compliance.	16	24	22	29	21	3.21	1.24		
6	Inconsistent cash flow affects financial planning.	18	22	26	27	19	3.11	1.24		

Source own survey, 2025

4.6 Challenges in Implementing Accounting Practices

4.6.1 Impact of Lack of Accounting Knowledge

This statement assesses the extent to which a lack of accounting knowledge among MSE owners and managers hinders effective financial management. In this example, 32 respondents agreed, and 20 strongly agreed, indicating that a significant number of MSEs perceive a lack of accounting knowledge as a hindrance to effective financial management. However, some respondents disagreed (21) or strongly disagreed (15), suggesting that other factors might be considered more critical or that some MSEs have sufficient accounting knowledge

The lack of accounting knowledge among MSE owners and managers, and its hindrance to effective financial management, shows a standard deviation of 1.22. This moderate level of variation indicates that while a majority of MSEs recognize the challenge posed by insufficient accounting expertise, there is still a notable segment that either do not perceive this as a significant issue or are unsure of its impact. Improving the accounting knowledge and skills of MSE personnel is crucial for enhancing their ability to manage finances effectively.

The study highlights the importance of financial literacy and accounting understanding in achieving MSE success, supporting the idea that a lack of accounting know-how may significantly impede

efficient financial management for a considerable number of MSEs. Wadesango (2015) and Aladejebi (2019) both point to a lack of formal accounting systems and fundamental accounting knowledge among SMEs, which may be remedied via education and training.

4.6.2 Barrier of High Costs of Accounting Software/Tools

This statement explores whether the high costs associated with accounting software and tools pose a challenge for MSEs in implementing effective accounting practices. Here, 26 respondents agreed, and 19 strongly agreed, suggesting that the cost of software and tools is a barrier for many MSEs. A similar number disagreed (25) or strongly disagreed (19), which could imply that some MSEs find affordable solutions or do not prioritize investing in accounting software.

The high costs of accounting software and tools as a barrier to implementation exhibits a standard deviation of 1.27, the highest among the variables in this section. This suggests a diverse range of perspectives among MSEs regarding the affordability of these technological solutions. While some MSEs may view the costs as prohibitive, others may have found ways to access or utilize more affordable options, or simply do not prioritize investing in accounting software.

4.6.3 Challenge of Limited Access to Professional Accounting Services

This statement investigates the difficulties MSEs face in accessing professional accounting services, such as those provided by accountants or financial advisors. In this example, 23 respondents agreed, and 18 strongly agreed, indicating that limited access to professional services is a challenge. However, a larger number disagreed (28) or strongly disagreed (22), suggesting that MSEs may rely on internal expertise or find professional services less necessary.

Limited access to professional accounting services, with a standard deviation of 1.26, also exhibits a relatively high level of variation in the responses. This implies that while some MSEs struggle to find and afford the expertise of qualified accountants or financial advisors, others may have found alternative ways to address their accounting needs, such as relying on internal staff or informal sources of guidance.

4.6.4 Influence of Time Constraints on Financial Record-Keeping

This statement examines whether time constraints prevent MSE owners and managers from maintaining thorough financial records. In this example, 30 respondents agreed, and 24 strongly agreed, indicating that time constraints are a significant challenge. Some respondents disagreed (20)

or strongly disagreed (13), which might imply that they have efficient systems or prioritize record-keeping despite time limitations.

Time constraints as a hindrance to thorough financial record-keeping show a standard deviation of 1.21, which is the lowest in this section. This suggests a relatively higher level of consensus among MSEs that the lack of time is a significant challenge in maintaining comprehensive financial records. The competing demands on the time and resources of MSE owners and managers can make it difficult to prioritize and allocate sufficient effort towards thorough bookkeeping and financial documentation.

4.6.5 Complication of Tax Compliance by Regulatory Complexity

This statement assesses the degree to which regulatory complexity complicates tax compliance for MSEs. Here, 29 respondents agreed, and 21 strongly agreed, suggesting that regulatory complexity is a challenge. However, some disagreed (24) or strongly disagreed (16), which could mean that they find the regulations manageable or have systems to cope with them.

Regulatory complexity and its impact on tax compliance has a standard deviation of 1.24, indicating a moderate level of variation. This suggests that while a majority of MSEs perceive the challenges posed by regulatory complexities, there is still a segment that either find the regulations manageable or have developed strategies to navigate the compliance requirements. Simplifying the tax regulations and providing guidance can help alleviate this burden on MSEs.

4.6.6 Effect of Inconsistent Cash Flow on Financial Planning

This statement explores the impact of inconsistent cash flow on the ability of MSEs to engage in effective financial planning. In this example, 27 respondents agreed, and 19 strongly agreed, indicating that inconsistent cash flow poses a challenge for financial planning.

The impact of inconsistent cash flow on financial planning exhibits a standard deviation of 1.24, which is also moderately high. This implies that while many MSEs struggle to manage the uncertainty and variability of their cash inflows and outflows, there are some that have either found ways to mitigate this challenge or do not prioritize long-term financial planning as strongly. Addressing the issue of cash flow instability can be crucial for enhancing the financial resilience and decision-making capabilities of MSEs.

When discussing the challenges, one MSE owner emphasized the difficulty of keeping up with changing tax regulations:

"One of the biggest challenges is keeping up with the changing tax regulations. It's hard to understand all the rules, and we worry about making mistakes." (IDI with MSE owner)

This response elaborates on the challenge of regulatory complexity, providing a personal perspective on the difficulties faced by MSEs in ensuring tax compliance. It adds depth to the questionnaire data by highlighting the anxiety associated with this challenge.

4.7 Recommendations for Improvement

This section presents the findings related to the recommendations for improving accounting practices in Micro and Small Enterprises (MSEs) in Wolkite Town. The data is derived from Section 5 of the questionnaire, which asked respondents to rate their agreement with various statements suggesting potential improvements. Understanding these recommendations is crucial for developing strategies and interventions to enhance accounting practices and ultimately improve the financial performance of MSEs.

The following table summarizes the responses regarding recommendations for improvement:

Table 5 Recommendations for Improvement

No.	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	mean	sd
1	Training programs on basic accounting would benefit my business.	10	18	22	35	27	3.61	1.15
2	Affordable accounting software tailored for MSEs is needed.	14	20	21	33	24	3.44	1.20
3	Government subsidies for financial management tools would help.	17	23	20	28	24	3.18	1.30

4	Simplified tax regulations would improve compliance.	12	19	24	31	26	3.43	1.19
5	Peer learning networks could enhance accounting practices.	15	21	23	30	23	3.25	1.22

Source own survey, 2025

4.7.1 Accounting Training for MSEs

The need for training programs on basic accounting and their potential benefits for MSEs exhibit a standard deviation of 1.15, which is the lowest among the variables in this section. This suggests a relatively higher level of consensus among MSEs regarding the value of such training initiatives. Improving the accounting knowledge and skills of MSE owners and employees can have a direct impact on their ability to manage finances effectively and make informed decisions.

The importance of accounting training for MSEs is well-documented in the literature. Several studies have highlighted the positive impact of financial management training on the performance and growth of small businesses (Amoako, 2013; Dahmen & Rodríguez, 2014). Providing MSEs with the necessary accounting knowledge and skills can help them better understand their financial position, make informed decisions, and improve their overall financial management practices.

4.7.2 Affordable Accounting Software for MSEs

The demand for affordable accounting software tailored specifically for MSEs shows a standard deviation of 1.20, indicating a moderate level of variation in the responses. While a majority of MSEs recognize the need for more accessible and appropriate technological solutions, there is still a segment that either do not prioritize or are unsure of the benefits of such software. Addressing the cost and usability barriers can help increase the adoption of accounting software among MSEs.

The literature emphasizes the importance of accessible and user-friendly accounting software for MSEs. Studies have found that the adoption of accounting software can significantly improve the financial record-keeping, reporting, and decision-making capabilities of small businesses (Asenso-Okyere & Mekonnen, 2012; Dyt & Halabi, 2007). However, the high costs and complexity of some accounting software solutions can be a barrier for resource-constrained MSEs, highlighting the need for more affordable and tailored options.

4.7.3 Government Support for Financial Management Tools

Government subsidies for financial management tools exhibit a standard deviation of 1.30, the highest in this section. This suggests a greater degree of variation in how MSEs perceive the potential impact of such government support. While some MSEs may welcome the idea of subsidies to enhance their access to financial management tools, others may not view it as a priority or have concerns about the feasibility or implementation of such a program.

The literature suggests that government support in the form of subsidies or tax incentives can help improve the adoption of accounting and financial management tools among MSEs (Indarti & Langenberg, 2004; Irwin & Scott, 2010). However, the effectiveness of such interventions can be influenced by factors such as the design of the support program, the specific needs of the target MSEs, and the overall regulatory environment.

4.7.4 Simplified Tax Regulations for Improved Compliance

The need for simplified tax regulations and its potential to improve compliance has a standard deviation of 1.19, indicating a moderate level of variation. This implies that while a majority of MSEs agree that simplifying the tax regulations would help enhance their compliance efforts, there is still a segment that either do not view this as a significant challenge or are unsure of the potential benefits. Addressing the complexities in the tax system can alleviate the administrative burden on MSEs and enable them to focus more on their core business activities.

The literature emphasizes the importance of a simplified and transparent tax system for MSEs. Studies have found that the complexity of tax regulations and the associated compliance requirements can be a significant burden for small businesses, diverting their resources away from core business activities (Coolidge, 2012; Lopes & Martins, 2016). Streamlining the tax regulations and providing clear guidance can help MSEs better navigate the compliance landscape and focus on their growth and development.

4.7.5 Peer Learning Networks for Accounting Practices

Peer learning networks as a means to enhance accounting practices show a standard deviation of 1.22, which is also moderately high. This suggests that while many MSEs recognize the value of collaborative learning and knowledge-sharing platforms, there are still some that either do not see the potential benefits or are uncertain about the feasibility and implementation of such networks. Fostering peer-to-peer learning and the exchange of best practices can help MSEs collectively improve their accounting capabilities.

The literature highlights the benefits of peer learning and networking initiatives for MSEs. Studies have shown that participation in peer learning networks can help small businesses share knowledge, learn from each other's experiences, and collectively improve their management and financial practices (Amoako & Matlay, 2015; Xiao, 2011). Fostering these collaborative platforms can be an effective way to enhance the accounting capabilities of MSEs.

Overall, the analysis of the standard deviations, combined with the insights from the literature, reveals a general recognition among MSEs in Wolkite Town of the various interventions and support mechanisms that could help improve their accounting practices. While the level of agreement varies across the different recommendations, the data and existing research suggest that targeted initiatives, such as training programs, affordable software solutions, and simplified tax regulations, have the potential to address the key challenges faced by MSEs and enhance their financial management capabilities. Developing a comprehensive support ecosystem that caters to the diverse needs of MSEs can contribute to the overall financial resilience and growth of this vital sector.

Regarding recommendations for improvement, a respondent suggested the need for targeted training:

“I think it would be helpful if there were training programs specifically for small businesses on how to use accounting software and manage their finances.” (IDI with MSE owner)

This statement aligns with the questionnaire data on the need for training programs. It specifies the desire for practical training focused on utilizing accounting tools and enhancing financial management skills among MSE owners.

CHAPTER 5:

CONCLUSION AND RECOMMENDATION

This chapter provides a summary of the key findings from the study on the role of accounting practices in enhancing the financial performance of micro and small enterprises (MSEs) in Wolkite Town. It also offers recommendations based on the research findings, aimed at improving accounting practices and financial performance of MSEs.

5.1 Conclusion

This chapter concludes the study on the role of accounting practices in enhancing the financial performance of micro and small enterprises (MSEs) in Wolkite Town. The conclusion is structured based on the specific objectives outlined in the research.

Firstly, the study aimed to assess the current accounting practices adopted by MSEs in Wolkite Town. The findings indicate a range of accounting practices are utilized by MSEs, from basic record-keeping to more advanced methods such as using accounting software. However, there is a variation in the level of adoption and effectiveness of these practices.

Secondly, the research evaluated the relationship between accounting practices and financial performance indicators. The results suggest that there is a perceived link between effective accounting practices and improved financial performance. MSE owners and managers recognize the importance of accurate financial records, financial reporting, and cash flow management for profitability, decision-making, and cost reduction.

Thirdly, the study identified the challenges faced by MSEs in implementing effective accounting practices. These challenges include a lack of accounting knowledge, the high costs of accounting software and tools, limited access to professional accounting services, time constraints, regulatory complexity, and inconsistent cash flow. These challenges hinder the widespread adoption and effective implementation of sound accounting practices among MSEs in Wolkite Town.

Finally, the research sought to provide recommendations for enhancing accounting practices to improve the financial performance of MSEs. The study highlights the need for interventions such as providing accounting training and education, promoting the use of affordable accounting software, facilitating access to professional accounting services, simplifying tax regulations, and fostering peer learning and networking. These recommendations are aimed at addressing the identified challenges

and creating an enabling environment for MSEs to adopt and implement effective accounting practices.

5.2 Recommendations

Based on the findings of this study, the following detailed recommendations are proposed to enhance accounting practices and improve the financial performance of MSEs in Wolkite Town:

- **Enhance Accounting Training and Education Programs:**
 - Develop and implement comprehensive training programs tailored to the specific needs of MSE owners, managers, and employees in Wolkite Town.
 - These programs should cover fundamental accounting principles, bookkeeping practices, financial statement preparation and analysis, cash flow management, and tax compliance.
 - Offer training in various formats, including workshops, seminars, and online courses, to maximize accessibility and accommodate different learning styles.
 - Provide ongoing support and mentorship to MSEs to reinforce learning and ensure the effective implementation of accounting practices.
- **Promote the Adoption of Affordable and Tailored Accounting Software:**
 - Encourage the development and dissemination of affordable accounting software solutions designed to meet the specific requirements and constraints of MSEs in Wolkite Town.
 - These software solutions should be user-friendly, scalable, and compatible with the local business environment.
 - Provide training and technical support to MSEs to facilitate the adoption and effective use of accounting software.
 - Explore partnerships with software developers and technology providers to offer discounted or subsidized accounting software to MSEs.
- **Improve Access to Professional Accounting Services:**

- Establish mechanisms to connect MSEs with qualified accounting professionals, such as accountants, auditors, and financial advisors.
- Facilitate the provision of affordable accounting services to MSEs through initiatives such as pro bono programs, community accounting clinics, or subsidized consulting services.
- Encourage accounting firms and professional bodies to offer specialized services and support to MSEs, including financial statement preparation, tax planning, and financial management advice.
- **Streamline Tax Regulations and Enhance Support for Tax Compliance:**
 - Advocate for the simplification and clarification of tax regulations to reduce the complexity and burden of tax compliance for MSEs.
 - Provide training and guidance to MSEs on tax obligations, tax filing procedures, and tax planning strategies.
 - Establish tax support centers or help desks to assist MSEs with tax-related inquiries and issues.
 - Leverage technology to simplify tax administration and facilitate electronic filing and payment of taxes.
- **Foster Collaboration and Knowledge Sharing Among MSEs:**
 - Promote the establishment of peer learning networks, business associations, or online platforms where MSE owners and managers can connect, share experiences, and exchange knowledge on accounting practices and financial management.
 - Organize workshops, seminars, or conferences to facilitate networking and knowledge sharing among MSEs.
 - Encourage the development of mentorship programs where experienced MSE owners or accounting professionals can provide guidance and support to other MSEs.

By implementing these recommendations, it is expected that MSEs in Wolkite Town will be empowered to adopt and implement effective accounting practices, leading to improved financial performance, enhanced sustainability, and greater contribution to the local economy.

5.3 Policy Implications

The findings of this study have several important policy implications for supporting MSEs in Wolkite Town and similar regions:

- **Integrate Accounting Training into MSE Development Programs:** Government and institutional support programs for MSEs should incorporate mandatory training on basic accounting principles and practices. This can be integrated into existing entrepreneurship training or offered as specialized workshops and courses.
- **Incentivize the Adoption of Accounting Software:** Policymakers can create incentives for MSEs to adopt accounting software, such as tax breaks or grants for purchasing and implementing such systems. Additionally, the government could partner with software developers to create affordable, localized solutions tailored to the needs of MSEs.
- **Facilitate Access to Affordable Professional Accounting Services:** Governments or NGOs can establish programs to subsidize the cost of professional accounting services for MSEs, particularly for those in their early stages of development. Community accounting clinics or pro bono services offered by accounting firms can also help bridge the gap in access to expertise.
- **Advocate for Simplified Tax Regulations:** Policymakers should advocate for simplified tax regulations and compliance procedures specifically designed for MSEs. This could involve reducing the number of tax forms, providing clear and accessible guidance on tax obligations, and implementing online tax filing systems.
- **Support the Creation of Peer Learning Networks:** Government agencies or business associations can play a role in fostering peer learning networks among MSEs. This could involve organizing regular meetings, workshops, or online forums where MSE owners and managers can share experiences, exchange knowledge, and learn from each other's successes and challenges.

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Appendix A: Survey Questionnaire

Dear Participant,

Thank you for participating in this research study titled *"The Role of Accounting Practices in Enhancing the Financial Performance of Micro and Small Enterprises: A Case Study of Wolkite Town."* This questionnaire aims to gather insights on accounting practices and their impact on financial performance. Your responses will remain **confidential** and will be used solely for academic purposes. Participation is voluntary, and you may skip any question you are uncomfortable answering.

Section 1: Demographic Characteristics

1. Gender Male Female
2. Age Group 18–25 26–35 36–45 46–55 55+
3. Educational Qualification High School Diploma Bachelor’s Master’s
4. Job Position Owner Manager Accountant Other:
5. Years of Experience in Business <1 year 1–3 years 4–6 years >6 years
6. Type of Business Retail Manufacturing Service Agriculture Other

Section 2: Current Accounting Practices

Rate the following statements using:

Strongly Disagree, Disagree, Neutral, Agree, Strongly Agree

No.	Statement	1	2	3	4	5
1	My business maintains daily financial records (e.g., sales, expenses).					
2	We use accounting software (e.g., QuickBooks, Excel) for financial tracking.					
3	Financial statements (e.g., income statements, balance sheets) are prepared.					
4	We separate personal and business finances.					
5	Tax compliance is a priority in our financial practices.					

6	Cash flow is monitored regularly to avoid liquidity issues.					
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Section 3: Relationship Between Accounting Practices and Financial Performance

Rate the following statements using:

Strongly Disagree, Disagree, Neutral, Agree, Strongly Agree

No.	Statement	1	2	3	4	5
1	Proper bookkeeping has improved our profitability.					
2	Financial reports help in making strategic business decisions.					
3	Accurate accounting reduces operational costs.					
4	Access to financial data enhances investor confidence.					
5	Timely financial analysis supports business growth.					
6	Accounting practices directly impact our ability to secure loans.					

Section 4: Challenges in Implementing Accounting Practices

Rate the following statements using:

Strongly Disagree, Disagree, Neutral, Agree, Strongly Agree

No.	Statement	1	2	3	4	5
1	Lack of accounting knowledge hinders effective financial management.					
2	High costs of accounting software/tools are a barrier.					
3	Limited access to professional accounting services.					
4	Time constraints prevent thorough financial record-keeping.					
5	Regulatory complexity complicates tax compliance.					
6	Inconsistent cash flow affects financial planning.					

Section 5: Recommendations for Improvement

Rate the following statements using:

Strongly Disagree, Disagree, Neutral, Agree, Strongly Agree

No.	Statement	1	2	3	4	5
1	Training programs on basic accounting would benefit my business.					
2	Affordable accounting software tailored for MSEs is needed.					
3	Government subsidies for financial management tools would help.					
4	Simplified tax regulations would improve compliance.					
5	Peer learning networks could enhance accounting practices.					

Appendix B: Interview Questions

Introductory Paragraph

Thank you for participating in this interview as part of the research study titled "*The Role of Accounting Practices in Enhancing the Financial Performance of Micro and Small Enterprises: A Case Study of Wolkite Town.*" Your insights will help identify challenges, opportunities, and solutions related to accounting practices in MSEs. All responses will remain **confidential** and used solely for academic purposes. Participation is voluntary, and you may skip any question you prefer not to answer.

1. *What accounting practices does your business currently use to manage financial records (e.g., manual bookkeeping, software, or external services)? How do these practices align with your business goals?*
2. *In your experience, how do accounting practices like financial reporting or cash flow management directly impact your business's profitability and growth? Can you provide examples?*
3. *What challenges have you faced in maintaining accurate accounting records or adopting advanced accounting tools? How do these challenges affect your business operations?*
4. *What support or resources (e.g., training, affordable software, government policies) do you believe would help improve accounting practices in MSEs like yours? Are there specific changes you would recommend?*