

EFFECT OF ACCOUNTING INFORMATION SYSTEM ON FINANCIAL PERFORMANCE OF SMALL & MEDIUM ENTERPRISES IN MOGADISHU-SOMALIA

¹Hassan Mohamed Sabrie, ²Aaron Mukhongo

¹Master of Science in Business Administration (Accounting option) Student, Jomo Kenyatta University of Agriculture and Technology

²Senior Lecturer, COHRED, Jomo Kenyatta University of Agriculture and Technology

Abstract: Since in Somalia it's clear that many SME'S play a vital role in both in the economy and as a means of reducing poverty. Since accounting information system play a vital role for the facilitation of organization's operations, in my best knowledge it's still questionable whether this system have better adaptation to a changing environment, better management of arm's length transactions and a high degree of competitiveness in Small businesses in Mogadishu. Therefore, this study investigates the impact of practices of Accounting Information System on Small Businesses financial performance in Mogadishu-Somalia. The general objective of the study was to establish the effect of accounting information System on Financial performance of SMEs in Mogadishu-Somalia. And this study was focused on four main specific objectives such as the effect of Financial accounting information system, Cost Accounting information system, Management Accounting information system and Financial Management information system on the financial performance of the SMEs in Mogadishu-Somalia. The study discussed three theories and they are Agency theory, Contingency theory and Behavioral theory. The study adopted a quantitative research with the specific research design being a descriptive design. The population of the study was the classified SMEs locate in Mogadishu Market, and they are 5 main SMEs in Mogadishu Market, the employees worked that 5 main SMES are 133 employees. The sampling frame is 133 employees in 5 main SMEs arising from the sample size of 100 employees was extensively surveyed to ascertain the influence of Accounting Information system on Financial performance of SMEs. The sampling technique used was purposive sampling. Primary data was collected by use of questionnaires which are administered through drop and pick method. Data screening was done to identify any missing data and it further test for reliability and normality. Data was analyzed using SPSS version 22. Descriptive statistics e.g standard deviations and inferential statistics such as Pearson's correlation, ANOVA and multiple regression analysis were used for further analysis. The findings of this study was there was positive and significant effects of Financial Accounting information system on Financial performance ($\beta = .177$; $t = 2.029$; $p < 0.05$) as well as the results indicates There was positive and significant effects of Cost Accounting information system on Financial performance ($\beta = 1.269$; $t = 4.187$; $p < 0.05$) and the third objectives was found there was positive and significant effects of Management Accounting information system on Financial performance ($\beta = 1.829$; $t = 5.637$; $p < 0.05$) and finally the researcher found there was positive and significant effects of Financial Management information system on Financial performance ($\beta = .500$; $t = 6.378$; $p < 0.05$). In conclusion the results shows that Financial accounting information system, Cost accounting information system, Management accounting information system and Financial management information system is significant in predicting the financial performance of SME's operates in Mogadishu- Somalia. In light of the results study, the researcher recommends that the management of Small and Medium Enterprises effective use of Accounting Information Systems in administrative decisions-making. As well as the researcher recommends the development of software and hardware used in the information systems and the training of personnel in the coordination of accounting information systems.

Keywords: Financial Accounting, Cost Accounting, Management Accounting, Financial Management Information System and Financial Performance.

1. INTRODUCTION

Accounting Information Systems (AIS) are a tool which when incorporated into the field of Information and Technology systems (IT), were designed to help in the management and control of topics related to firms' economic-financial area (Grande, Estébanez and Colomina, 2011). But the stunning advance in technology has opened up the possibility of generating and using accounting information from a strategic viewpoint. Accounting plays a critical role in the success or failure of contemporary business institutions. Accounting systems are responsible for recording, analyzing, monitoring and evaluating the financial condition of companies, preparation of documents necessary for tax purposes, providing information support to many other organizational functions, (Amidu et al., 2011).

AIS are also to record financial transactions of an by means of combining methodologies, controls and accounting techniques with relevant technologies (Berisha-Namani, 2009). This type of system is used to track transactions and provides internal reporting data, external reporting data, financial statements, and respective trend analysis for specific „time-intervals“ (information for relevant decision-making). Small businesses require effective information systems to support and to deliver information to the different internal users to make the correct business decisions, but more often than not a limited number of these entities actually make use of such a system (Bruwer and Watkins, 2010).

Specific Objectives:

- i. To investigate the effects of financial accounting information system on financial performance of small and medium enterprises.
- ii. To determine the effects of cost accounting information system on financial performance of small and medium enterprises.
- iii. To assess the effects of Management accounting information system on financial performance of small and medium enterprises.
- iv. To determine the effects of financial management information system on financial performance of small and medium enterprises.

This study adopted a Cross sectional survey design and quantitative methods will apply in data collection and analysis.. Descriptive research studies are those studies which are concerned with describing the characteristics of a particular individual, or of a group, studies concerned with specific predictions, with narration of facts and characteristics concerning individual, group or situation. Descriptive studies are concerned with what, where and how of a phenomenon hence more placed to build a profile on that phenomenon (Kothari, 2004).

2. DATA PROCESSING AND ANALYSIS

The questionnaires was checked for completeness and consistency of information at the end of every field data collection day and before storage. The data from the completed questionnaires was cleaned, coded and entered into the computer using the statistical package for social sciences (SPSS version 22) for Windows analysis. Data analysis and the findings reported in chapter four. To establish the relationship between the independent variables and the dependent variable of the study inferential analysis will be conducted. It involves a coefficient of determination and a multiple regression analysis.

Financial Accounting Information System:

The respondents' level of agreement on how financial Accounting Information System effect on financial performance of SME's. Most of the respondents agreed that Financial Accounting information system provide relevant information in real time and should frequently report on the most important events and provide rapid feedback on a previous transactions as shown by a mean of 2.46. Also most of the respondents agreed to the financial accounting information System Quality responds quickly to user requirements and that is easy to use and would facilitate the use of advanced accounting practice, reporting a mean of 3.02. Financial accounting information system quality of data storage contributes to the integrity of the financial reporting practice as reported a mean of 3.41.

Cost Accounting Information System:

The study required to establish the effects of Cost Accounting Information System on financial performance of small and medium enterprises. From the findings indicated in table 4.7 most of the respondents agreed that the firm adopt the ABC information system to improve the cost information system with a mean of 3.36 being obtained. The results also indicates that the firms is using automated machines in collecting and interpreting cost data As obtained a mean of 2.84. The

quality of your cost management system is excellent a mean of 2.97. also respondents agree that The cost information system offers data about several activities in your firm with the mean of 2.98. Therefore Cost accounting information system t aimed to access and disseminate information for improving the use of management and cost accounting to increase global effectiveness of companies in the Barbados. (Forde et al. ,2007).

Management Accounting Information System:

The study sought to establish the effects of management Accounting Information System on financial performance of small and medium enterprises. From the findings indicated in table 4.8 Respondents agreed that Management Accounting information System help the organization to reach its key strategic objective as represented by a mean of 3.36, most of the respondents also agreed that Management Accounting information system help managers to make decisions as showed by a mean of 2.84 as well as the majority of the respondents agreed that Management Accounting information System have an adequate and sufficient documentation for employees to follow with the mean 2.97. Similarly the respondents agreed that Management Accounting information System are easy to modify and upgrade as indicates the mean of and a mean of 2.98. and finally the mean 3.27 were obtained on the question whether Management Accounting information System are able to automatically validate data.

Financial Management Information System:

A number of questions were asked to determine how Financial Management Information System and its effect on financial performance of small and medium enterprises. From the findings of table 4.9 Respondents agreed that Financial management information system provides significant assistance in managing a business effectively obtaining a mean of 3.20. another question asked was Financial Management information system assist in maintaining an up-to-date picture of the government's liquidity obtaining a mean of 3.04. Another important question was Financial Management Information System should include functionality for preparation of annual budgets and a mean of 3.13 were obtained. As well as the respondents agreed that Financial management information system is vital for debt management with the mean of 2.80. And finally respondents agreed that Financial Management information System provides information required in the formulation of fiscal policy, such as forecasts with the mean of 2.76.

From the model summary in **table 1**, it is clear that the adjusted R² was **0.780** indicating that a combination of Financial Accounting information system, Cost Accounting information system, Management Accounting information system, Financial Management information system explained **78%** of the variation of Financial performance of SME's in Mogadishu- Somalia.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.888 ^a	.789	.780	.44293
a. Predictors: (Constant), FMIS, CAIS, FAIS, MAIS				

3. CONCLUSIONS

In spite of the limitations, this research and its findings form a useful contribution to the body of knowledge about the effect of accounting information system on financial performance of SME's in Mogadishu- Somalia. This research findings are in accordance with many research studies already conducted. Thus, Management Accounting information system is regarded as to be a major factor has effect on financial performance of SME's in Mogadishu - Somalia.

As well this research discovered that Financial Accounting information system has an effect on the financial performance of SME's. The study found that application of financial accounting information system for SME's has positively effect on their financial performance.

On the other hand the results also shows that the practice of Cost accounting information system has influence on financial performance of SME's in Mogadishu – Somalia. And finally study revealed that there is positive relationship between financial management information system and financial performance of SME's. That means the more Utilized financial management information system is the more increase the financial performance of SME's.

In conclusion the results shows that Financial accounting information system , Cost accounting information system , Management accounting information system and Financial management information system is significant in predicting the financial performance of SME's operates in Mogadishu- Somalia.

REFERENCES

- [1] Ajibolade, S.O., Arowomole, S.S., & Ojikutu R.K., (2010). Management Accounting Systems, Perceived Environmental Uncertainty and Companies Performance in Nigeria. *International Journal of Academic Research*, 2(1), 195-200
- [2] Akintoye I.R., 2008. Sensitivity of Performance to Capital Structure *European Journal of Social Sciences*, vol. 7 (1)
- [3] Amidu, M. (2005). Accounting information and management of SMEs in Ghana. *African journal of finance and management* , 15-24.
- [4] Amidu, M., Effah, J., & Abor, J. (2011). E-accounting practices among small and medium enterprises in Ghana. *Journal of Management Policy and Practice*, 12(4), 146-155.
- [5] Berisha-Namani M (2009). The Role of Information Technology in Small and Medium Sized Enterprises in Kosova. Fulbright Academy 2009 Conference.
- [6] Bruwer J, Watkins J (2010). Sustainability of South African FMCG SMME retail businesses in the Cape Peninsula. *Afr. J. Bus. Manage.* 4(16):3550-3555
- [7] Bhattacharya, H. (2006). *Working Capital Management: Strategies and Techniques*. New Delhi, Prentice Hall.
- [8] Bradlery J.F (2012) *Nature and Scope of Financial Management*
- [9] Burja V., *The analysis of the financial statements of companies*, 2010. Aeternitas Publishing, Alba Iulia
- [10] Chang, Y. W. (2001)). Contingency factors and accounting information system design in jordanian companies. *Journal of Accounting information System* .
- [11] Emeka-Nwokeji, N. A. (2012). Repositioning accounting information system through effective data quality management: A framework for reducing costs and improving performance. *International Journal of Scientific & Technology Research*, 1(10)
- [12] European Commission. (2005). *European Economic Forecast Winter 2005*.
- [13] Garcia-Teruel PJG, Solano PM (2007).Effects of Working Capital Management on SME Profitability”, *Int. J. Managerial Finance.* 3(2): 164-177
- [14] Grande, E. U., Estebanez, R. P., & Colomina, C. M. (2011). The impact of accounting information systems on performance measures . *Emprical Evidence in Spanish SMEs. international journal of digital accounting Research* , 25-43.
- [15] Halabi, A. K., Barrett, R., & Dyt, R. (qualitative research in accounting and management). Understanding financial information used to assess small firm financial performance. *An australian Qualitative study* , 160-179.
- [16] Harash, E., Al-timimi, s., & Radhi, A. H. (2014). The Influence of Accounting Information on finanical performance of Small and medium and enterprise in Iraq. *Journal of business and Management*
- [17] Hunton, J. E. (2002). Blending information and communication technology with accounting research, *Accounting Horizons*,16(1), 55-67.
- [18] Islam, M. A., Khan, M. A., Obaidullah, A. Z. M., & Alam, M. S. (2011). Effect of entrepreneur and firm characteristics on the business success of small and medium enterprises (SMEs) in Bangladesh. *International Journal of Business and Management*, 6(3), 289-299.
- [19] Ismail, N. A. (2007). The impact of information technology on performance: The mediating role of management accounting systems . *journal technology* , 27-44.
- [20] Hair Joseph, William, Barry, Rolph (2006) *Mulivariate Data Analysis*, Pearson, Prentice Hall, Seventh Editions.
- [21] James, k. w., & Muka, j. m. (2013). Antecedents and Organizational Performance Implication of internal Audit efeectiveness. *International Journal of Business* , 190-209.
- [22] Kitonga, K. G. (2008). the relationship between financial management practices and financial performance in the shipping industry in kenya.

- [23] Kothari, C.R (2004). Research Methodology: Methods and Techniques (2nd Ed). Wishira Prakashan
- [24] Mazur, K. (2007). The Determinants of Capital Structure Choice: Evidence from Polish companies. journal of interantional economics , 495-514.
- [25] Mugenda, O. M., & Mugenda, G. A. (2003). Research Methods: Quantitative and Qualitative Approaches. African Center for Technology Studies (ACTS)-Press, Nairobi Kenya
- [26] Niu, x. (2008). theoritical and practical review of capital structure and its determinants. international journal of business and management , 133-139.
- [27] Paramasivan, C., & Subramanian, T. (2009).Financial management (1st).New Age International (P) Ltd., Publishers
- [28] Petersen, M.A. & Rajan, R.G. (2008). Trade credit: theories and evidence. Review of Financial Studies; 10: 661-91.
- [29] Rayan K, 2008. Financial leverage and firm value, Gordon Institute of Business Science, University of Protoria