

The Influence of the Computerised Accounting System on the Financial Performance of Small and Medium Enterprises: A Case of Iringa Municipality

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ABSTRACT

This study assessed the influence of computerised accounting systems on the financial performance of Small and Medium Enterprises in Iringa Municipality. The study's overall objective was to assess the impact of the computerised accounting system on the financial performance of Small and Medium Enterprises. This study used a descriptive research design, with 80 small and medium enterprises participating. The data were collected through the administration of questionnaires, analysed descriptively using Statistical Package for the Social Sciences software, and presented in the form of tables and figures. The study findings indicated a positive correlation between technology utilisation and accounting practices, demonstrating that computerised accounting systems significantly impacted the performance of Small and Medium Enterprises. Furthermore, the findings suggested that the implementation of computerised accounting systems improved efficiency within Small and Medium Enterprises. Lastly, the research revealed that the majority of Small and Medium Enterprises produced accurate financial reports, which had a notable influence on their overall financial performance. The study recommended Small and Medium Enterprises to install computerised accounting systems due to their associated benefits.

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1.0 Introduction

Computerised accounting systems refer to software applications installed on a company's computer, network server, or accessible remotely via the internet. These systems enable users to establish income and expense accounts, such as rental or sales income, salaries, advertising expenses, and material costs. Additionally, they facilitate tasks such as managing bank accounts, paying bills, and creating budgets. Depending on the specific programme, some accounting systems also offer features for preparing tax documents, managing payroll, and handling project costs (Schofield, 2015).

In a broader context, financial performance refers to the degree of achievement of financial goals and plays a crucial role in financial risk management. It entails evaluating the monetary outcomes of a company's strategies and activities. This evaluation allows for the measurement of a firm's overall financial well-being during a specified timeframe and enables comparisons between similar firms within the same industry or across different industries or sectors (Verma, 2020).

In Tanzania, Small and Medium Enterprises (SMEs) refer to businesses categorised based on their workforce and activities in non-farm sectors such as manufacturing, mining, commerce, and services. Specifically, a microenterprise is characterised by having fewer than five employees, while a small enterprise comprises 5 to 49 employees, and a medium enterprise consists of 50 to 99 employees (UK Essays, 2018).

Before the advent of computerised accounting systems, all accounting processes, including data receipt, recording, processing, and reporting, were conducted manually using pen and paper. The manual system presented several challenges, including the risk of document loss or misplacement, the potential for fraudulent activities leading to fund mismanagement and unnecessary debts to the government, and the burdensome nature of manual record-keeping. Manual accounting remained the predominant method until recent times, requiring businesses to employ full-time or part-time accountants or bookkeepers to manually record transactions, maintain books and ledgers, and prepare financial statements (Stephen, 2018).

Computerised accounting systems have significantly enhanced financial control by enabling organisations to

maintain accurate records, analyse data, classify transactions, summarise information, and facilitate communication (Ghasemi et al., 2011). One of the most significant impacts of information technology on accounting systems is the development and utilisation of computerised systems to record and track accounting transactions. Networks and computer systems have streamlined the accounting process, reducing the time required by accountants to prepare and present financial information.

Despite the importance of computerised accounting systems and various government initiatives, a considerable number of SMEs in Tanzania continue to refrain from adopting such systems. For example, the 2003 SMEs policy scarcely addressed the issue of poor record-keeping practices among SMEs. According to Kengere (2010), inadequate record-keeping practices were prevalent among SMEs, posing significant challenges. Similarly, Sanga (2014) conducted a study in Dodoma City and identified widespread deficiencies in record-keeping among SMEs. Furthermore, Masuke (2017) conducted research at CRDB Bank and found that improper business record-keeping hindered SMEs from accessing finance, highlighting a lack of transparency in their accounting records and financial statements as a major obstacle.

Despite the importance of computerised accounting systems, numerous small and medium enterprises (SMEs) in Tanzania have yet to adopt this technology. This lack of implementation has resulted in instances of accounting misconduct, delays in financial report preparation, misrepresentation of financial statements, and the dissemination of distorted financial information within many SMEs. Additionally, it has facilitated fraudulent activities perpetrated by accountants or accounting practitioners within private companies. These challenges have adverse effects on the overall financial performance of SMEs in Tanzania. In response to these issues, the present study aimed to evaluate the impact of computerised accounting systems on the financial performance of SMEs in Iringa Municipality, Tanzania. The research objectives included assessing the relationship between technologies and accounting practices in SMEs, evaluating the efficiency of computerised accounting systems, and examining the effects of financial report preparation using these

systems in SMEs. It was expected that this study would furnish Tanzanian SMEs with vital insights regarding the implementation of computerised accounting systems.

2.0 Materials and Methods

2.1 Study Area

The study area was Iringa, Tanzania, with a particular focus on a significant number of SMEs operating within the Iringa Municipality. The target population comprised 100 SMEs from various locations within Iringa Municipality, with a final sample size of 80 SMEs.

The subsequent formula was used to determine the sample size:

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

Where:

N = number of populations

n = sample size

e^2 = margin error

$$n = N / 1 + Ne^2$$
$$e^2 = 5\%$$

$$n = 100 / (1 + 100 (0.05)^2)$$

$$n = 80$$

Hence, the study sample for this research consisted of 80 SMEs in various localities of Iringa Municipality.

2.2 Data Collection Instruments

The data for this study was collected using Likert scale questionnaires. The Likert scale encompassed responses ranging from strongly agree, agree, neutral, disagree, to strongly disagree. Participants were instructed to use this scale to indicate their opinions on predetermined statements regarding the impact of computerised accounting systems on SME performance.

2.3 Data Analysis

The data, presented in tables and figures, underwent descriptive analysis using the SPSS software. Then the findings presented in the tables and figures were supplemented with explanatory narratives.

3.0 Results

The study objectives guided the research findings' organization. After presenting the primary results, the

researcher conducted discussions to interpret the findings' implications.

3.1 Relationship between Technology and Accounting Practice

Table 1 below provides the results regarding the relationship between technologies and accounting practice. The findings presented in Table 1 above indicate that a majority (58.96%) of respondents acknowledged the existence of a relationship between technology availability and accounting practice. Hence, it can be deduced that computerised accounting systems have a substantial impact on the financial performance of small and medium-sized enterprises (SMEs) in Iringa Municipality. Conversely, the average percentage of respondents who disagreed with this relationship was only 14.82%.

According to the research findings, a majority of respondents agreed that there is a positive relationship between technology availability and accounting practice, suggesting that computerised accounting systems influence the financial performance of SMEs in Iringa Municipality. These findings are consistent with the results of similar studies conducted by Soudani (2013) in Dubai, United Arab Emirates, and Akesinro (2016) in Nigeria, both of which demonstrated the positive effects of implementing e-accounting systems on financial performance. Furthermore, the present research aligns with the findings of Masanja (2019) in Arusha, Tanzania, who found that the implementation of computerised accounting systems led to significant reductions in management costs for selected private companies. Overall, these results accentuate the impact of technology on the financial performance of SMEs, although it is crucial for SMEs to proceed with caution during implementation, considering the minority who may oppose the use of technology.

Concerning how useful computerised accounting systems are, Table 2 shows that most of the people who answered (50.36%) said that these systems did make things more efficient and had a positive effect on the financial performance of small businesses in Iringa Municipality. Conversely, 20.71% of respondents disputed the role of computerised accounting systems in enhancing SME performance, indicating a lesser proportion of dissenting opinions. This suggests that, overall, computerised accounting systems did enhance

efficiency in SME operations. Overall, the analysis suggests that computerised accounting systems enhance efficiency and positively influence the financial performance of SMEs. However, it is advisable for SMEs

to exercise caution when implementing computerised accounting systems, given the minority of dissenting opinions against their implementation.

Table 1

The Relationship between Technology and Accounting

Relationship between technology and accounting practice	Disagree		Neutral		Agree	
	Frequency	%	Frequency	%	Frequency	%
Technology enhance financial performance	17	21.25	17	21.25	46	57.5
Technology enable to secure economic resources of SMEs	9	11.25	22	27.5	49	61.25
Computerize accounting system reduce fraud	17	21.25	22	27.5	41	51.25
Computerized accounting system increase returns	7	8.75	21	26.25	52	65
Computerized accounting system reduce internal cost	12	15	18	22.5	50	62.5
Computerized accounting system enhance SMEs, to control their liability	14	17.5	22	27.5	44	55
Computerized accounting system enhance maintenance of equity	7	8.75	17	21.25	56	70

Source: Research Data (2023)

Table 2

Efficiency of Computerized Accounting System

Efficient of computerized accounting system	Disagree		Neutral		Agree	
	Frequency	%	Frequency	%	Frequency	%
Computerized accounting system is capable of offering quick and quality reporting because of its speed and accuracy	24	30	27	33.75	29	36.25
Computerized accounting system reduce paper work	17	21.25	18	22.5	45	56.25
The reporting is flexible in computerized accounting system	19	23.75	21	26.25	40	50
The computerized accounting system is capable of large number of transactions with speed and accuracy.	23	28.75	28	35	29	36.25
cost of handling the business transactions is low	11	13.75	25	31.25	54	67.5
Computerized accounting system offers online facility to store and process transaction data so as to retrieve information to generate and view financial reports	14	17.5	32	40	34	42.5
The system can cope easily with the increase in the volume of business	8	10	21	26.25	51	63.75

Source: Research Data (2023)

According to the research findings, the majority of participants affirmed that computerised accounting systems indeed enhanced efficiency and positively

influenced the financial performance of SMEs in Iringa Municipality. Kaluarachchi (2015), whose research focused on the impact of computerised accounting

information systems on the efficiency of human capital in the financial departments of public universities in Sri Lanka, also obtained similar findings. Kaluarachchi's (2015) findings generally suggested a positive correlation between the level of skill and innovation and the efficiency of computerised accounting information systems in finance departments.

Similarly, the findings of the present study align with those of Sugut (2012), whose research examined the effects of computerised accounting systems on the financial reports of Non-Governmental organisations (NGOs) in Nairobi County. Sugut's (2012) study revealed that an increase in transparency led to a 0.478 increase in the quality of financial reports, holding all other independent variables constant. Additionally, an increase in leadership was associated with a 0.143 increase in the quality of financial reports, and an increase in the use of computerised accounting systems led to a 0.0915 increase in the quality of financial reports for NGOs.

3.2 Preparation of Financial Reports Using the Computerized Accounting System

Table 3 shows that a lot of the people who answered (48.93%) agreed that financial reports made with

computerised accounting systems are correct and have a positive effect on the financial performance of small businesses in Iringa Municipality. Conversely, 21.79% of respondents disagreed with this statement, while those who remained neutral accounted for 29.29%, slightly higher than those who disagreed.

In summary, the research findings suggest that the preparation of financial reports through computerised accounting systems is accurate, a factor that likely contributes to the financial performance of SMEs in the area.

In general, the research findings indicate that the majority of respondents agree that financial reports prepared through computerised accounting systems are accurate and positively influence the financial performance of SMEs in Iringa Municipality. These findings are consistent with those of Shiraj (2015), who investigated the impact of using computerised accounting systems on financial reporting among SMEs in the south-eastern region of Sri Lanka. Shiraj's (2015) research revealed that computerised accounting systems had a significant impact on the quality of financial reports.

Table 3
Preparation of Financial Report

Preparation of financial report through the use of computerized accounting	Disagree		Neutral		Agree	
	Frequency	%	Frequency	%	Frequency	%
Financial reports are timely generated for decision making	15	18.75	22	27.5	43	53.75
There is accuracy and efficiency in account record keeping through computerized accounting systems	14	17.5	33	41.25	33	41.25
Material misstatement in financial report is easily minimized through application of computerized accounting systems	22	27.5	15	18.75	43	53.75
Auditing of the financial statement is ease with the use of computerized accounting systems	26	32.5	20	25	34	42.5
Clear statement of assets, liability, equity, income and expenses	16	20	23	28.75	41	51.25
International accounting standard are applied effectively	13	16.25	36	45	31	38.75
system information and reports generated are accurate and quite reliable for decision-making Computerized accounting	16	20	15	18.75	49	61.25

Source: Research data, 2023

Similarly, the findings of the present study align with those of Mark (2011), whose research focused on computerised accounting and financial reporting at Stanbic Bank's Garden City Branch. Mark (2011) discovered that the computerised accounting system significantly influenced the quality of financial reports, generating numerous financial statements.

4.0 Conclusions and Recommendations

The research findings indicate a positive correlation between technologies and computerised accounting systems in improving SMEs' performance. Indeed, the financial sector heavily relies on technology for its operations. However, accounting practices must adhere to regulatory frameworks, as nothing should be undertaken without recognising them. This highlights the importance of faithfulness during the preparation of financial reports, as it promotes transparency and accountability. Therefore, it is crucial to prioritise reliance on regulatory frameworks that provide guidance for accounting activities, a notion with which the majority of respondents agreed.

Challenges affecting the efficiency derived from computerised accounting systems include insufficient proficiency in utilising these systems and a lack of understanding of their capabilities. However, as previously discussed regarding the efficiency resulting from computerised accounting systems on the financial performance of SMEs, the majority of respondents agreed that many SMEs possessed the necessary skills and knowledge to leverage the efficiency of computerised accounting systems. Nonetheless, it is essential to acknowledge that the efficiency of computerised accounting systems encompasses the accurate and timely recording, analysis, and reporting of financial data, which depends on the level of technology integrated throughout the entire process.

The researcher also examined whether SMEs responded positively to the use of computerised accounting systems. The findings indicated that a majority of participants demonstrated a positive response from SMEs to the preparation of financial reports through the use of computerised accounting systems. Furthermore, the majority of respondents' research findings revealed that financial reports prepared using computerised accounting systems were accurate and positively influenced the financial performance of SMEs in Iringa Municipality.

It is generally conclusive that computerised accounting systems significantly impact the financial performance

of Small and Medium Enterprises (SMEs) in Iringa Municipality, Tanzania.

Several recommendations were proposed regarding the influence of computerised accounting systems on the financial performance of SMEs in Iringa Municipality. Firstly, SMEs that have not yet adopted computerised accounting systems are advised to do so, considering the numerous benefits offered by these systems. Second, the Tanzanian government should review its tax collection policies and mandate that SMEs use computerized accounting systems. Thirdly, there is a need to educate SMEs and their employees on basic accounting skills and the use of computerised accounting systems. Additionally, the government should implement policies, strategies, and programmes to ensure widespread education about computerised accounting systems among individuals working in the financial sector.

Furthermore, it is recommended that further research be conducted to examine the applicability of international accounting standards and financial reporting standards. Another area for future research could be assessing the extent to which SMEs' knowledge, understanding, and skills in accounting practices and computerised accounting systems influence their performance.

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