

Assessment of Accounting Practices and Its Effect on Access to Finance: Evidence from Small and Medium Enterprises in Jigjiga City

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Abstract

The study was conducted in Jigjiga City. It examined the accounting practice of small and medium sized enterprises and its effect on access to finance in Jigjiga city. For the achievement of the objective, the study used descriptive research design with quantitative and qualitative methods. Sample of 251 was selected from 673 total population of registered SME in Jigjiga by using Yamane (1969) sample size determination formula. This study used random sampling method and grouped by stratified sampling method in order to select the enterprise leader respondents of SME's operating in the study area. Questionnaires were used in order to collect primary data whereas secondary data were collected from source of document, report and other written material available to the study from sampled SMEs. The findings from the study revealed that the accounting practices of SMEs was poor to produce required information to both external and internal users for decision making purposes. The study concluded that SMEs did not keep proper accounting record because of a lack of accounting knowledge. The SMEs in the town were using the various source documents/vouchers and journals. But, very small number of SMEs keep advanced forms of records such as ledger and financial statement. The study also concluded that SMEs have not an access to credit for financing their business due to their poor accounting practices and lack of acceptable and/or sufficient collateral. From these findings, it is recommended that both governmental and non-governmental authorities are also advised to provide short-term training in accounting practice and reporting standards so as to boost the knowledge of accounting system of SMEs. SMEs owners should establish accounting department that will help to maintain complete financial information of the firm. Which can improve meeting bank's loan requirements and SMEs access to credits.

Key Words: *Access, Accounting, Finance, Practices, Records, Transactions, ME (Small & Medium sized Enterprises)*

1.1. Introduction

Accounting records play a critical role in the success or failure of contemporary business institutions. Accounting systems are responsible for recording, analysing, monitoring and evaluating the financial condition of enterprises, preparation of documents necessary for tax purposes, providing information support to many other organizational functions. In the context of SMEs, accounting information is important as it can help the firms to manage their short-term problems in critical areas like costing, expenditure and cash flow, by providing information to support monitoring and control (Mitchell, Reid, & Smith, 2000)

Even if SMEs are considered as backbone for economic development particularly in developing countries, they are facing a number of challenges. Among the challenges, access to finance and making informed business decisions are noted as the major constraints to the growth of SMEs in different countries including Ethiopia (Emeizie, 2017; Getahun, 2016; and John and Sylvester, 2011). According to the World Bank (2015) report, the government of Ethiopia has been given major emphasis to the SMEs expecting the hopes of transforming the country's economy in Growth and Transformation Plan/GTP developing support packages concerning different stakeholders such as financial service providers, technical and vocational education institutions and various levels of government institutions. Despite the support packages, lack of access to adequate finance remains the most critical constraining factor for SMEs growth due to lack of acceptable and/or sufficient collateral and lack of credit history with banks. As indicated by Nega and Hussien (2016) banks and Micro Finance Institutions (MFIs) in Ethiopia acknowledged poor accounting records by SMEs as one of the firm specific obstacles to provide credit to the SMEs. Therefore, the purpose of this research is to examine the accounting practice of SME's and its effect on access to finance in Jigjiga city.

1.2. Statement of the Problem

The access to-credit environment is not conducive to businesses that are struggling for growth, require external finance, and are shortage of the collateral amount demanded by financial institutions. Therefore, one of the strategies to improve the SMEs access to financing and ensuring their sustainability and growth is improving their financial recording so as to enable the lenders of money/primary users of accounting information to make analysis regarding to the credit worthiness of these firms based on relevant and faithful financial reports. Beyond getting finance, having proper financial report has benefit to enable businesses to make informed decisions and enable intra and inter business comparisons thereby enhance competition and growth in each business sectors.

Access to finance is essential to small and medium-sized businesses' (SMEs) expansion. It enables business owners to innovate, increase productivity, enter new markets, and create millions of employments. However, most SMEs in developing nations are unable to obtain the funding necessary for them to realize their full potential. Lenders may find it costly and dangerous to finance SMEs in developing nations, which has resulted in an estimated \$1 trillion USD financing gap (International Finance Corporation, 2011).

Based on the study done by Hailai, Claire, Kibrom, Luback, Mahlet, NegasiHagos&Yemane (2019) on contributions of Micro, Small and Medium Enterprises

(MSMEs) to Income Generation, Employment and GDP: Case of Ethiopia stated that one of the major obstacles of MSMEs in Ethiopia is lack of credit.

There had been no such study tried to assess the accounting practice of SMEs and its effect on access to finance in Somali Regional State, Ethiopia. Therefore, the purpose of this research is to examine the Accounting practice of SME's and its effect on access to finance in Jigjiga city.

1.3. Research Questions

1. How the SME in Jigjiga city maintain formal accounting practice?
2. What are the effects of accounting practice on access to finance?

1.4. Objective of the Study

1. To assess whether SME does maintain formal accounting practice.
2. To examine the effect of accounting practice on access to finance.

3. Review of Literature

Empirical Evidence

Researches have been carried out on the accounting practice and the access to finance of the SME's. So this part of the paper presents the empirical evidence on the idea of the research. The empirical evidence below is presented consecutively based on the concept of evidence.

3.1. Accounting Practices

The empirical evidence about the accounting practice of SME is organized in terms of evidence such as; record keeping, financial accounting, financial management and cost and management accounting.

Record Keeping: A study involving more than 1,000 SMEs in Australia, found that majority of the respondents (85.7%) has a computer-based in-house general ledger accounting system (McMahon, 1998). Larger enterprises tend to statistically use more of computer-based general ledger accounting system compared to smaller enterprises. Study examined private limited companies in the UK found that 57 per cent of the respondents had a computerized accounting system and 25 per cent had a partly computerized system suggesting moderate level of sophistication of accounting system (Collis and Jarvis, 2002). Similarly other study found that SMEs that are concerned with procedural controls activities and use financial plan as part of their preparation for startup are more likely to employ computerized accounting system (Gorton, 1999). In addition to their internal accounting staff, SMEs often employ outside professionals to provide accounting advice. It has been found that the most frequently form of outsourced accounting services are for taxation purposes and preparation of accounting reports (Collis and Jarvis 2002, McMahon 1998).

A study jointly conducted in Nigeria and UK with a sample size of forty-five (45) questionnaires each between the UK and Nigeria. The study conducted by having the variable that was measured with the question: "Do you agree that Poor Accounting and Book Keeping practices lead to SMEs failure in your country?" and the results showed that 68 percent and 57 percent of the respondents in the UK and Nigeria respectively agreed that it influenced

SMEs failure. This reflects that in both countries, the respondents quite agree that poor accounting and book-keeping practices influenced SMEs failure (Kamla-Raj, 2009).

Financial Accounting related: In Australia, there have been a large number of empirical studies conducted on SMEs such as (McMahon 1998). These studies investigate the types of financial reports produced by SMEs, the frequency of their preparation and their perceived usefulness for management purposes. According to the research, external accountants often generate SMEs' annual financial reports, which typically only include the balance sheet and the profit and loss statement. It appears that taxation and company statutory reporting requirements have a significant impact on the content and presentation of financial reports.

Other studies were conducted in various countries to examine the usefulness of accounting reports within the context of SMEs, for examples McMahon (1998) in Australia Collis and Jarvis (2002), Gorton (1999) and Nayak and Greenfield (1994) in the UK; and Hopper, Koga and Goto (1999) on SME Japanese companies. According to the findings of these studies, owner-managers of SMEs do not find financial reports to be especially helpful when making decisions. The limited use of financial and management accounting reporting by SMEs was another finding of these investigations. In addition, it has been argued that accounting reports produced by SME's are usually limited to a few types of simple reports comprising mainly profit and loss account and balance sheet. The studies using a postal questionnaire to small private limited companies in the UK, found that 82 per cent of the companies use monthly or quarterly management accounts, 87 per cent of the companies prepare profit and loss statement and 78 per cent prepare balance sheet (Collis and Jarvis 2002). Conversely, small and medium-sized enterprises (SMEs) believe that the most commonly utilized information sources are bank statements, cash flow statistics, and monthly management accounts; budgets are used less frequently, the state of order book and the additional annual accounts (Collis and Jarvis 2002).

Financial Management: A review of the literature on the financial management practices of small firms, revealed that owner-managers' personal and business goals dictate partly their approach to short term financial management of their businesses (Collins and Jarvis, 2002). There is also theoretical justification that the business life cycle model lends support to the evolutionary approach to financial management practices of small firms (Scott and Bruce, 1987).

Based on a literature review on financial management practices of SMEs in North America, McMahon and Holmes (1991) concluded that "the state of knowledge about financial management and the exercise of financial controls and techniques remain inadequate in small businesses." Study conducted on 200 manufacturing firms employing less than ten people in the U.K. It shows that just one-third of businesses used any kind of budgeting or systematic profit monitoring (Nayak and Greenfield, 1994).

The ability of small business owners to handle their finances appears to have not changed much, despite the rising importance given to small scale economic activity around the world. It is surprising to note that no specific research has been undertaken to tap the potential benefits that SMEs can reap by adopting a good framework of financial and accounting routines. This area has not received the same consideration as the many other areas, ranging from start-ups to schemes promoting the growth of the sector (Dewhurst and Burns, 1989; Johnson and Soenen, 2003). There is a sizable body of literature offering small business

owners in-depth, carefully crafted guidance on financial management. But none of them have specifically looked into the benefits that firms can derive from formal accounting systems.

Cost and Management Accounting: A study found similarities between costing systems used by SMEs and larger companies (Hopper et al., 1999). The SMEs used costing systems and cost management techniques mostly for budgeting and product costing, placing less of an emphasis on either performance evaluation or decision-making. Additionally, they discovered that engineering and quality control frequently used highly thorough cost management processes.

The management accounting reports studied include budgets and different types of budget variance analysis, production cost statement, cost volume profit (CVP) analysis and benchmarking report. The findings show that among the management accounting reports, majority of the respondents (92.1%) prepared budget, followed by production cost statement (82.9%), variance analysis (80.3%), and CVP analysis (73.7%) and benchmarking reporting (57.9%). The findings might indicate that most of the SMEs are mainly utilizing a traditional management accounting technique as compared to the more contemporary management techniques such as activity based costing or total quality management. Among the different types of budgets, cash budget is the most frequently prepared (93.4%), followed by sales budget (92.1%), expenses budget (86.8%) and lastly production budget (85.5%). The least prepared management accounting report is benchmarking report (Isa, Saleh and SharojaSapiei, 2007).

To sum up findings from various studies, it is disappointing to find that SMEs frequently lack or use insufficient financial reporting, management accounting, and control techniques. Other statements such the balance sheet, cash flow statement, fund statement, production report, and variance report are made on a yearly basis in addition to tax returns and some type of profit and loss statements are infrequently used. The relatively low adoption of financial and management accounting reports may be linked to SMEs' inability to hire experienced managers with functional expertise, particularly in the financial domain, due to their limited financial resources. Without sufficient, efficient, and timely financial reports and analysis, SMEs miss out on the advantages of those practices, including better monitoring of financial health and progress, improved ability to predict successes or failures, better assessments of financial risks, and easier financial planning and control. Most significantly, regular financial reports can show whether SMEs have the capacity to generate consistent cash flows and service debt in the context of SMEs needing additional capital to grow. The implementation of suitable financial reporting and management accounting techniques has been shown to have a positive impact on business survival, particularly for SMEs (Gorton, 1999).

3.2. Access to finance of SME

There are two sources of finance available to SME which includes; internal and external sources (Chizea, 2002). Internal sources are the primary source of funding for the majority of small enterprises. A survey conducted by the World Bank (1995) on business environment in transitional economies showed that the share of internal funding is significantly lower in advanced reforming countries as follows: Estonia 33 percent, Poland 34 percent and Lithuania 37 percent. In the United States, internal financing accounts for 54% of all

financing for SMEs that are under two years old. And for most businesses, internal sources of finance constitute retained earnings for the period including provisions made for depreciation which is essentially a book transfer.

Bank lending and other institutional types of credit are the external sources of funding. According to the World Bank (1995), commercial banks, credit unions, and informal channels all contribute to the provision of external financing in India. All three of these institutions are equally important. These sources are certainly not dissimilar to the complement of sources of external finance available to most businesses in Ethiopia. Public equity must be a part of the external sources of funding.

The study carried out in Ethiopia indicates that access to finance is one of the crucial problems for the SME. Although encouraging progress has been achieved in liberalizing the domestic financial industry, it nevertheless acts as a barrier to the sector's rapid expansion and development. In the study, 79% of MSMEs stated that getting credit finance from formal financial institutions is a key problem (Wole, 2004).

In order to obtain finance, a business's size is crucial. Small firms in Ghana are more credit constrained compared to large firms; the study observed a positive relationship between size and access to credit report by (Aryeetey, Baah-Nuakoh, Duggleby and Hettige, 1996). Credit risk and inflation risk are two major important variables affecting small business credit hence, lenders prefer granting credit to old firms who have established good credit records (Collier and Pattillo, 2000). Along with credit risk, inflation raises the price of credit.

Around the world, small firms encounter more obstacles during the early stages of development than they do once they are operational. Due to a lack of resources and expertise, 85% of SMEs in Africa, for instance, fail out of every 100 businesses (Fadahunsi, 1997). It is typical of SMEs in Africa to be lacking in business skills, lack record and collateral to meet the existing lending criteria of risk adverse banks (World Bank, 2000).

Very little financial supports have been provided by the traditional financial institutions (the commercial banks) to the SMEs a study by (Ekpenyong 1997). The reasons are that small businesses have serious inherent structural defects that make them high risk borrowers, and the traditional banks are not structured to cater for the type of credit demanded by the small businesses owing to the nature of their credit assessment procedures (Hammond, 1995).

A study conducted on the sources of investment financing for SMEs in Nigeria, found out that about 96.4 percent of the SMEs finance their enterprises through owner-savings, 2.92 percent through relatives and friends, 0.32 percent from banks, 0.94 percent from government institutions or agencies, 0.06 percent from cooperatives societies, 0.33 percent from money lenders, and 0.03 percent from NGOs in a total of 21,950 respondents (Odetola, 1997).

In Ghana SMEs rely primarily on personal savings of owners, business profits, family members or friends for their financial needs (Okraaku and Croffie 1997). They have limited, if any, access to outside financing. As a result, both working capital and fixed capital are insufficient. The consequences of these are very slow growth rate and frequent failures among small businesses. At the regulation level, the problems identified are high interest rates charged by banks thus making bank borrowing very expensive.

3.3. Research Gap

As previously mentioned, SMEs are a significant component of developing economy like Ethiopia and there is a lack of empirical evidence concerning their accounting practice and its effect in raising credit from banks and making investments of SMEs in Jigjiga. Therefore, this study examined SMEs accounting practice and its effect on accessing finance in Jigjiga to provide empirical evidence of this gap.

3.4. Conceptual Framework of the Study

According to Jonker & Pennink (2010), conceptual model can be helpful in structuring the problem, identifying relevant factors and then providing the connections that make it easier to map and frame the problem. The conceptual model of this study is to examine the accounting practice and its effect on access to finance of SME's in Jigjiga city. In this regard, as our variables of interests are accounting practices and access to finance, the conceptual framework of modeling them is dealt with as follows.

Relation between dependent and independent variables:



Figure: 2.1. Conceptual Frameworks of the Study.

Source: Author's Computation

3. Research Methodology

3.1. Description of Study Area

The area of study is Jigjiga city. Jigjiga is the capital of Somali Region State, Ethiopia. Jigjiga is an eastern part of Ethiopia and located at a distance of 627.1 km east of Addis Ababa .the city is in Fafan zone approximately 80 km east of Harar and 60 km west of the border with Somalia known as Tog wajale, it has an elevation of 1609 m above sea level. The city has 20 kabeles and more than 101 sub kabeles.

3.2. Research Approach

The researcher employs a quantitative research approach through a structured questionnaire method in assessing the accounting practices and its effect on access to credit.

3.3. Research Design

This study used descriptive research design.

3.4. Target Population

The selected target population to achieve the objective of this study were small and medium sized business enterprise registered in Jigjiga city. According to the registration record, 673 SMEs are operating in different sectors in the city (Jigjiga city administration, office of MSME, 2022).

3.5. Sampling Technique & Sample Size

The stratified sampling used by the researchers and divided the target population in to Five-sub population (Merchandise, construction, Service, Manufacturing and Urban agriculture) that was individually more homogeneous than the total population or into strata and select item from each stratum to constitute sample. The researcher used simple random sampling to select the sample from each stratum. Yamane (1969) sample size determination formula is used to determine the sample size. Sample size is 251.

3.6.Data Source and Method of Data Collection

The researcher used both primary and secondary source of data. Primary data were collected using closed and open-ended self-administered questionnaire distributed to owners and managers of sampled SMEs. The secondary data that were used/reviewed include source of document, report and other written material available to the study from sampled SMEs.

3.7.Method of Analysis and Interpretation

After data required for the study collected, further research procedure like processing and analysing of collected data were conducted using descriptive statistics and simple linear regression techniques using SPSS Version 20.

Description of the Study Variables and their Scale of Measurement

The study variables composed of both dependent and independent variables through which the independent variables effects on the dependent variables.

Dependent Variable

Dependent variable in this study is access to finance. As it discussed earlier under the statement of the problem lack of access to adequate finance remains the most critical constraining factor for SMEs growth (International Finance Corporation, 2011 World Bank, 2015). There are two sources of finance available to SME which includes; internal and external sources. The internal sources are sources from the owner of the business or finance from the capital of the firm. Bank lending and other institutional types of credit are the external sources of funding.

Independent Variable

The independent variables that are expected to influence the dependent variable (access to finance). The independent variable in this study is accounting practice. For the test of access to credit accounting practice is an independent variable which takes a value (0= do not maintain any records, 1=maintain minimum records and 2= maintain a formal accounts).

Measurement of Accounting Practices: Based on the evidence presented previously the accounting practice of SMEs is measured based on their normal recording system, preparation of balance sheet and income statement. Based on this firms with no recording system and other accounting tasks is seen as firms do not maintain any accounts, firms with only keeping records do not maintain financial reports is considered as maintaining minimum accounts, and firms with standardized recording system based on IASB, prepare balance sheet and income statement is considered as firms maintaining formal accounting practice.

Measurement of Access to Finance: In order to provide evidence on who gets credit among SMEs, the firms are divided in two based upon their response to question whether they have a

bank loan. If the firm answered “Yes”, they are classified as non-constrained firms. There may be two options if they said "No." They might not require credit or not have applied for credit for reasons related to their religion or culture (voluntary exclusion), for example. Others might not have loans because they applied for a bank loan and were turned down by the bank, or they may not have applied for loans because they believed they would be turned down by the bank. All of these types of firms are classified as non-borrowers and categorised as constrained firms in this research. Therefore access to finance is measured by the number of times (frequency) firms get access to credit from banks each year.

Depending on the theoretical model and the measurements of the variables explained above, the empirical model that this study employs is as follows:

$$AF = \alpha + \beta ACP + \varepsilon$$

Where;

AF= Access to Finance

α = Coefficient

β = Beta

ACP = Accounting Practice

ε = Error Term

4. Result and Discussion

The objective of this study is to construct an empirical study of the accounting practice and its effect on access to finance of SME's in Jigjiga city. To achieve the objective of the study, the researcher distributed 251 questionnaires to managers and owners of SME's in Jigjiga city who are directly related with the subject matter of the study. From the total of 251 questionnaires distributed, 229 questionnaires from SME were completed and retrieved successfully, representing 91% response rate.

4.1. Accounting practice of SME

This sub topic is concerned with presenting and discussing the results of the descriptive statistics of accounting practice of SMEs in Jigjiga city. The results of descriptive statistics described below, generally, provide summaries of data such as frequency and percentages of the variables of interest in the study.

As a guiding concept for the financial accounting and reporting practice to the reporting entities, Ethiopia implemented IFRS at the end of 2014 that is based on the double entry system where SMEs considered as reporting entities in the country (proclamation No. 847/2014). To get relevant and faithful financial information from the system, the IASB's conceptual framework (2010) also sets the basic assumptions guiding the accounting process. Economic entity and accrual basis of accounting assumptions are two fundamental presumptions that cannot be ignored. In order to communicate useful information to the stakeholders for assisting them to undertake decision, there are some basic financial records that SME managers or owners need to keep. These basic records will normally include the sales day book, purchases day book, cash book, general journal, general ledger, receivables' ledger and payables' ledger (Onaolapo and Adegbite, 2014).

To understand the accounting practice of SMEs in Jigjiga city the current study presented the results of the descriptive statistics as follows.

Table 1. Accounting practice of SME

Accounting system	Numbers	Percentages
Do not maintain any records	-	-
Keep minimum records	181	79%
Keep formal accounts	48	21%
Total	229	100%

Source: Survey Data and Author's Computation

Table 1 displays the firms that maintain only minimum records is accounted for 79 percent of the sampled SME's and firms maintain formal accounting is accounted for 21 percent of the sample. The result indicates that most of the sampled SMEs is not maintaining a formal accounting. The result is in support to Mehari and Pasha (2017) and Ali et al. (2014) that revealed, accounting practices of SMEs are not structured at low level to produce required information to both external and internal users for decision making purposes. Thus in the majority of the case the failure of firms in getting access to finance may be because of not maintaining a formal accounting.

4.2. Transactions recorded by the SMEs

This sub topic is concerned with presenting and discussing the results of the survey data about the transactions recorded by the SMEs in Jigjiga city.

Table 2. Transactions recorded by the SMEs

Transactions	Numbers
Purchase of goods and service	221
Sales of goods and services	211
Depreciation	22

Source: Survey Data and Author's Computation

Table 2 shows that majority of the sampled SMEs were keeping record for purchase transactions and sales transactions. Very small numbers of sampled SMEs were keeping record of depreciation in relation to fixed assets. The result is in support to Tesfaye (2019) which indicated that there were no complete recording of all measurable economic transactions and other events which can change financial position, financial performance and cash flow status of the entities. This is contrary to the IASB's conceptual framework which require complete recording for faithfulness of accounting reports.

4.3. Accounting records maintained by the SMEs

This sub topic is concerned with presenting and discussing the results of the survey data about the accounting records maintained by the SMEs in Jigjiga city.

Table 3. Accounting records maintained by the SMEs

Accounting records	Numbers
Source documents	214
Chart of accounts	17
Journals	148
Ledger	14
Trial balance	12

Source: Survey Data and Author’s Computation

Table 3 shows that among the accounting records considered majority of the sampled SMEs were using the various source documents/vouchers and journals. But very small numbers of sampled SMEs keep advanced forms of records such as chart of accounts and ledger.

4.4. Factors affect SME’s Access to Finance

This sub topic is concerned with presenting and discussing the results of the descriptive statistics of factors affect SME’s access to finance in Jigjiga city.

The respondents were asked whether they have access to finance or not. For this question 86% of respondents answered that they have not an access to credit for financing their business (table 4. below). The result is in support to Emeizie (2017); Getahun (2016) which noted that access to finance as the major constraints to the growth of SMEs in different countries including Ethiopia. Also the result is in support to World Bank (2015) report which concluded that lack of access to adequate finance remains the most critical constraining factor for SMEs growth due to lack of acceptable and/or sufficient collateral and lack of credit history with banks.

Table 4. Effects of Accounting Practices on SME’s Access to Finance

	Numbers			Percentages		
	No	Yes	Total	No	Yes	Total
Would you be able to obtain credit to fund your business?	198	31	229	86%	14%	100%
factors may hinder SME in accessing credit						
Collateral	81			41%		
Accounting records	73			37%		
Age of the firm	16			8%		
Others	28			14%		
Total	198			100%		

Source: Survey Data and Author’s Computation

Table 4.shows that 37 percent of sample SME’s lack access to finance because of poor (minimum) accounting practice, collateral claim 41 Percent, age of the firm 8 percent, and other factors claim 14 percent of the sample. This indicates that accounting practice of the SME is significantly affects access to credit of the firm. The result is in support to Bass & Schrooten (2005) which revealed that one of the reason for small firms to have less access to credit is that the inability of businesses to give financial information is one example of information opacity.

Also the result is in support to study done by Mole and Namusonge (2016) which concluded that among the factors that lending procedures, collateral requirement, credit bureau referencing policies and training provided by financing Institutions have a big impact on how easily a SME can receive credit from financial institutions.

For additional information from supply side (banks), the researcher interviewed managers of 4 different banks in Jigjiga city. The researcher obtained from banks data regarding the credit service that they offer to SMEs in Jigjiga city. The visited banks are included the Development Bank of Ethiopia, Awash international Bank, Oromia international Bank, and Birhan international Bank. The responses indicated that age of the SMEs, Accounting practices (Financial information) of SMEs and Collateral is important requirement for the provision of the loan to small and medium sized enterprises .The result is in support to Nega and Hussien (2016) stating that banks and Micro Finance Institutions (MFIs) in Ethiopia acknowledged poor accounting records by SMEs as one of the firm specific obstacles to provide credit to the SMEs.

4.5. Regression Results and Discussion

Following the descriptive results presented above, this section presented the result of regression analysis. The reliability and validity of data were checked properly. Moreover before conducting the regression model the major assumptions such as linearity, normality, multicollinearity and homoscedasticity tests were conducted and all of them were within the recommended limit.

The regression analysis to measure the impact of one variable on the dependent variable, holding constant, the influence of the other variables in the equation, is a remarkable advantage of regression analysis over correlation analysis. The following tables from table 5 to 7 presented the regression result for each model specified in the methodology of this study.

Table 5. Model Summary^b

R	R Square	Adjusted R Square	Standard error of the estimate
0.756 ^a	0.571	0.569	0.257

a. Predictors: (Constant), Accounting practices

b. Dependent Variable: Access to finance

Source: Survey Data and Author’s Computation

An analysis of a model's R square reveals how well it explains the dependent variable. As shown in table 5 above the model is good fit at Adjusted R square of 0.569. This implies that the independent variable included in the model explain the dependent variable well and the better is the model.

Table 6. ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	22.157	1	22.157	76.206	0.000 ^b
	Residual	66.000	227	0.291		
	Total	88.157	228			

a. Dependent Variable: Access to finance

b. Predictors: (Constant), Accounting practices

Source: Survey Data and Author's Computation

As shown in table 6 above ANOVA statistics indicate that the overall model was significant. This was supported by an F statistic of 76.206 and p value of 0.000. The results indicates that accounting practice positively influence the access to credit of the firm. That is accounting practice positively influence a firm access to credit at a P-value of (0.000).

Table 7. Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.638	0.102		-6.253	0.000
	Accounting practices	0.702	0.080	0.501	8.730	0.000

a. Dependent Variable: Access to finance

Source: Survey Data and Author's Computation

As shown in table 7 above Coefficient of the variable is positive implies that the variable has a positive effect on access to finance. The result is in support to Nega and Hussien (2016) stating that banks and Micro Finance Institutions (MFIs) in Ethiopia acknowledged poor accounting records by SMEs as one of the firm-specific challenges to lending to SMEs.

5. Conclusion and Recommendations

5.1. Conclusion

Following the study findings it was possible to conclude that accounting practices of SMEs was poor to produce required information to both external and internal users for decision making purposes. This was arrived at since because majority of the respondents replied not maintaining a formal accounting

A lack of accounting understanding, according to the study's findings, caused SMEs to maintain improper accounting records. Inability of these small and medium firms to pay good salaries to their employees made it very difficult to attract qualified accounting staff. The

study also concluded that the SMEs in the city were using the various source documents/vouchers and journals. But, very small number of SMEs keep advanced forms of records such as ledger and financial statement.

SMEs were no complete recording of all measurable economic transactions and other events which can change financial position, financial performance and cash flow status of the entities. This is contrary to the IASB's conceptual framework which require complete recording for faithfulness of accounting reports.

The study also concluded that SMEs have not an access to credit for financing their business due to their poor accounting practices and lack of acceptable and/or sufficient collateral.

5.2. Recommendations

Based on the findings of the study an adoption of formal accounting information system is advisable for all firms to insure correctness in reporting and general record. So as it can improve providing complete financial information of the firm to users (including financial institutions).

Both governmental and non-governmental authorities are also advised to provide short-term training in accounting practice and reporting standards so as to boost the knowledge of accounting system of SMEs. SMEs owners should establish accounting department that will help to maintain complete financial information of the firm. Which can improve meeting bank's loan requirements and SMEs access to credits.

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