

**Financial reporting and performance of small and medium-sized enterprises in Rubaga division, Kampala, Uganda. A cross-sectional study.**

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**Abstract.**

**Background:**

Small and medium-sized enterprises (SMEs) play a critical role in economic growth, employment creation, and poverty reduction in Uganda. This study, therefore, examined the relationship between financial reporting and the performance of SMEs in Rubaga Division, Kampala, Uganda.

**Methodology:**

The study adopted a descriptive correlational cross-sectional design using mixed methods. A sample of 169 SMEs was selected using stratified and simple random sampling techniques, while 18 key informants were purposively selected for interviews. Data were collected using structured questionnaires and interview guides. Quantitative data were analyzed using SPSS Version 23 through descriptive statistics, Pearson correlation, and regression analysis, while qualitative data were analyzed thematically.

**Results:**

Out of 169 questionnaires distributed, 160 were returned, representing a response rate of 94.7%. Findings revealed that financial reporting practices among SMEs were relatively strong, with an overall mean of 3.64 (SD=0.76). Accuracy of financial records scored highly (Mean=3.89), while utilization of financial statements for decision-making was comparatively low (Mean=3.28). SME financial performance was moderate, with sales growth recording the highest mean (3.61), followed by liquidity (3.52) and profitability (3.44). Correlation analysis established a significant positive relationship between financial reporting and profitability ( $r=0.521$ ,  $p<0.01$ ), sales growth ( $r=0.485$ ,  $p<0.01$ ), and liquidity ( $r=0.459$ ,  $p<0.01$ ). SMEs maintaining formal financial records also demonstrated superior gross profit margins (42.5%) compared to non-record SMEs (18.3%).

**Conclusion:**

The study established that effective financial reporting significantly improves SME financial performance, although many enterprises underutilize financial information for strategic decision-making.

**Recommendation:**

SME owners should strengthen the use of financial statements in forecasting, budgeting, and performance analysis through regular financial review practices and targeted financial management training programs.

*Keywords:* Financial reporting, financial performance, Small and medium-sized enterprises (SMEs), Profitability, Rubaga Division, Kampala, Uganda.

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**Background.**

In Uganda, SMEs are recognized as the engine of the economy, yet their financial performance has been a continuous source of concern (Uganda Investment Authority, n.d.). High mortality rates among Ugandan SMEs, with many failing within their first few years, have been a consistent historical trend. Poor financial performance has been attributed to a variety of factors, including inadequate financial management practices and poor record-keeping (Abaho et al., 2017). Studies have consistently found a positive link between effective financial management and SME performance in Uganda, emphasizing that internal capabilities are key to improving

business outcomes (African Economic Research Consortium, 2020). Despite ongoing policy efforts to support SMEs, significant challenges in financial literacy and access to capital persist, hindering improvements in financial performance across the nation.

Rubaga Division, like other administrative divisions in Kampala, hosts a high concentration of micro and small enterprises operating within both formal and informal sectors. Historically, the financial performance of these businesses has been shaped by the local socio-economic environment, characterized by intense competition and resource constraints (KCCA, n.d.). Previous research focusing on SMEs in Kampala has identified difficulties in

accessing financing and weaknesses in financial management, including financial reporting, cash flow management, and capital investment (Abaho et al., 2017). These factors have historically led to poor financial performance, which not only affects individual businesses but also the economic stability of the division. Focusing specifically on Rubaga, this study aims to provide localized insights into how financial management practices influence financial performance within this historically vibrant yet challenging business environment (African Economic Research Consortium, 2020).

On one hand, there is reason for optimism at the national level. The Ugandan economy has demonstrated remarkable resilience, achieving robust GDP growth of 6.1% in fiscal year 2023/24, a notable improvement over the previous period. Government initiatives such as the Parish Development Model (PDM), Emyooga, and the Small Business Recovery Fund have been instrumental in providing targeted financial assistance to small businesses and households. For instance, reports indicate that PDM and Emyooga programs are driving a shift from subsistence activities to the formal economy, building a credit culture, and increasing incomes. An optimistic medium-term outlook from the Ministry of Finance and the Bank of Uganda projects continued economic expansion, which theoretically should provide a fertile ground for SMEs to thrive. Reports from the Economic Policy Research Centre (EPRC) confirm the challenging business environment. While the Business Climate Index showed resilience in the second quarter of 2025, it pointed to ongoing challenges, including unstable power supply, multiple taxation, intense competition, and macroeconomic pressures that undermine profitability and growth, especially for micro and small enterprises. The situation is not uniformly good or bad but rather a complex association of macroeconomic resilience and micro-level vulnerability. This study, therefore, examined the relationship between financial reporting and the performance of SMEs in Rubaga Division, Kampala, Uganda.

## Methodology.

### Research Design.

The study adopted a descriptive correlational research design using a mixed-methods approach. The descriptive component enabled the researcher to systematically examine and document existing financial management practices among SMEs, while the correlational design facilitated the assessment of relationships between financial management practices and financial performance indicators of profitability, liquidity, and growth. The quantitative element employed a cross-sectional survey design, whereby data were collected from respondents at a single point in time. This design was considered appropriate due to its efficiency in capturing current practices and its suitability for statistical analysis of relationships among variables.

## Study Population and Sampling.

### Study Population.

Based on the Kampala Capital City Authority business registry (KCCA, 2024) and the Uganda Bureau of Statistics statistical abstract (UBOS, 2023), the target population consisted of 1,200 registered SMEs in Rubaga Division, Kampala. This division was selected for its diverse economic structure encompassing retail, manufacturing, services, and agro-processing sectors, which enabled a comprehensive examination of how budgeting and financial management practices affect SME profitability (KCCA, 2024; UBOS, 2023).

### Sampling Frame.

The sampling frame was obtained from credible and authoritative sources, Uganda Registration Services Bureau (URSB), Rubaga Division Local Government records, and the Kampala City Traders Association (KACITA). These sources were reviewed and harmonized to eliminate duplication and inactive businesses. From this process, a total of 1,200 registered and operational SMEs in Rubaga Division, Kampala, were identified, forming the study population. This population comprised enterprises from diverse sectors, including retail, manufacturing, services, and agro-processing. The use of multiple data sources enhanced the accuracy and completeness of the sampling frame, thereby reducing coverage bias and improving the representativeness of the sample.

### Sample Size Determination.

The sample size for the quantitative component was 169 SMEs, drawn from a target population (N) of 1,200 SMEs in Rubaga Division, Kampala. This sample size was determined using the Krejcie and Morgan (1970) sample size determination table, as recommended by Amin (2005), which provides statistically appropriate sample sizes for given population levels.

For a population of 1,200, the table recommends a sample size of approximately 169 respondents at a 95% confidence level and a margin of error of 5%. This ensures that the sample is sufficiently representative of the population for generalization of findings.

### Sampling Procedure.

A multi-stage sampling technique was employed to enhance representativeness and reduce sampling bias. In the first stage, stratified sampling was used to categorize SMEs into key sectors (manufacturing, retail, and services). This ensured proportional representation of each sector, acknowledging that financial management practices may vary across industries.

In the second stage, simple random sampling was applied within each stratum to select respondents for the quantitative survey. This ensured that each SME had an equal probability

of selection, thereby enhancing the objectivity and reliability of the findings.

For the qualitative component, purposive sampling was used to select key informants with rich knowledge and experience in financial management. These included experienced SME owners, accountants, and business advisors. Data collection continued until data saturation was achieved, which occurred after 18 interviews, ensuring that no new themes emerged.

### **Data Collection Instruments.**

The study used both quantitative and qualitative data collection instruments to ensure comprehensive and reliable data on financial management practices and the financial performance of SMEs in Rubaga Division.

A structured questionnaire was used to collect quantitative data from SME owners, managers, and accountants. The questionnaire employed a five-point Likert scale covering financial reporting, cash flow management, budgeting, and financial performance indicators such as profitability, sales growth, and liquidity. The scale was rated as: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree. This ensured standardized responses suitable for statistical analysis. An interview guide was used to collect qualitative data from selected key informants. It explored challenges and experiences in financial management practices and provided deeper contextual insights into SME financial performance.

### **Data Collection Methods.**

The study employed both quantitative and qualitative data collection methods to ensure comprehensive data generation.

### **Quantitative Data Collection**

Quantitative data were collected using a structured questionnaire consisting of closed-ended and Likert-scale items rated on a five-point scale ranging from 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, to 5 = Strongly Agree. The questionnaire was divided into sections corresponding to the study variables to ensure clarity and ease of analysis.

Items measuring financial reporting practices assessed accuracy, consistency, timeliness, and the use of financial statements in decision-making.

The dependent variable, financial performance, was measured using indicators of profitability, sales growth, liquidity, and overall business stability. Profitability was captured through returns and income generation, sales growth through percentage increase in revenue over time, liquidity through the ability to meet short-term obligations, and stability through consistency of operations.

### **Qualitative Data Collection.**

Qualitative data were collected using interview guides subjected to content validation by research experts to ensure relevance, clarity, and alignment with the study objectives. Interviews were conducted with selected SME owners, managers, accountants, and officials from relevant business associations and local government offices in Rubaga Division, Kampala.

The use of interviews allowed flexibility, enabling respondents to provide detailed explanations while maintaining alignment with the study objectives. This approach enriched the study by providing contextual insights that complemented the quantitative findings.

### **Measurement of Variables.**

Variables in the study were operationalized using multi-item Likert scales, which are widely used in social science research for measuring perceptions and attitudes. The independent variables are financial reporting.

The dependent variable, financial performance, was measured using both objective proxies and perceptual indicators, such as perceived profitability, sales growth, and liquidity. The use of perceptual measures was justified due to the limited availability of formal financial records among SMEs, making subjective assessment a practical and reliable alternative.

All responses were coded and aggregated to generate composite scores for statistical analysis.

### **Validity and Reliability of Instruments.**

#### **Validity.**

Content validity was ensured through expert review by a panel of seven specialists in finance and SME research. The Content Validity Index (CVI) was calculated and found to be 0.83, exceeding the acceptable threshold of 0.80, indicating that the instrument adequately covered all relevant constructs.

**Table 1: Content Validity Indices for Research Instruments**

	Number of items	CVI	CVR Criterion
Financial reporting, cash flow management, budgeting, profitability	30	0.83	$\geq 0.93$
Financial Reporting, Cash Flow Management, Budgeting, Sales Growth	30	0.83	$\geq 0.93$
Financial Reporting, Cash Flow Management, Budgeting, Liquidity	30	0.83	$\geq 0.93$

Note- CVI-Content validity index, CVR-Content Validity Ratio

### Reliability

Reliability was assessed using Cronbach's Alpha, which measures internal consistency among items.

**Table 2: Showing Reliability Analysis of Research Constructs Using Cronbach's Alpha**

	Number of items	Cronbach's Alpha
Financial reporting	8	0.84
Cash Flow Management	10	0.81
Budgeting practices	7	0.92
SME Financial Performance	5	0.88

The acceptable threshold for Cronbach's Alpha is  $\geq .70$ . All constructs demonstrated good internal consistency. All constructs achieved alpha values above 0.70, indicating acceptable reliability: Financial Reporting ( $\alpha = 0.84$ ), Cash Flow Management ( $\alpha = 0.81$ ), Budgeting Practices ( $\alpha = 0.92$ ), and Financial Performance ( $\alpha = 0.88$ ). These results confirm that the instrument consistently measured the intended constructs.

### Data Processing and Analysis

#### Quantitative Data Analysis

Quantitative data were coded, cleaned, and analyzed using SPSS (Version 23). Descriptive statistics (means, standard deviations, frequencies, and percentages) were used to summarize the data.

Inferential statistics were employed to test relationships: Pearson correlation analysis assessed the strength and direction of relationships between variables, and Multiple regression analysis determined the predictive effect of financial management practices on SME performance.

All tests were conducted at a 5% significance level ( $p < 0.05$ ) to ensure statistical reliability.

#### Qualitative Data Analysis.

Qualitative data were transcribed and analyzed using thematic analysis. This involved coding responses, identifying patterns, and grouping them into themes aligned with the study variables.

To enhance rigor, the analysis involved peer review and cross-checking of codes, ensuring the credibility and trustworthiness of the findings.

#### Ethical Considerations.

The study adhered to established ethical principles to ensure the protection of participants and the integrity of the research process. Ethical considerations were not only acknowledged but also operationalized through specific procedures during the study. An official recommendation was obtained from Team University, and permission was secured from authorities in Rubaga Division to seek permission to access SMEs and conduct the study. This formal authorization confirmed that the research met institutional and national ethical standards. Second, informed consent was strictly observed. Each participant was provided with a consent form clearly explaining the purpose of the study, the nature of their involvement, and their rights as respondents. Participants were given adequate time to read and ask questions before voluntarily agreeing to participate. For

those involved in interviews, verbal and written consent was obtained, including permission for audio recording where applicable. Third, confidentiality and anonymity were ensured throughout the study. Respondents were not required to provide personal identifiers such as names or business registration numbers on the questionnaires. Instead, codes were used to identify responses. All data collected were stored securely, with access limited to the researcher, and findings were reported in aggregate form to prevent identification of individual participants or businesses. Fourth, the principle of voluntary participation was upheld. Participants were explicitly informed that their participation was entirely voluntary and that they had the right to withdraw from the study at any stage without any penalty or negative consequences. No form of coercion or undue influence was applied in recruiting respondents. Finally, data protection and integrity were maintained. All completed questionnaires and interview recordings were securely stored and handled with strict confidentiality. Audio recordings were transcribed and subsequently deleted to safeguard participants' privacy. The researcher also ensured honesty

and transparency in data analysis and reporting, avoiding fabrication, falsification, or misrepresentation of findings.

**Results.**

**Response Rate.**

A total of 169 structured questionnaires were distributed to SME owners and managers. Of these, 160 were fully completed and returned, resulting in a response rate of 94.7%. This high response rate is considered excellent and minimizes the potential for non-response bias, thereby strengthening the representativeness of the sample and the reliability of the study's findings for the Rubaga Division context.

**Demographic Characteristics of Respondents**

Biographical data were analyzed using descriptive statistics (frequencies and percentages) through SPSS (Version 23) to summarize the characteristics of respondents and their enterprises.

**Table 3: Demographic Characteristics of Respondents(N=160)**

Characteristic	Category	Number (%)
Gender	Male	88(55)
	Female	72(45)
Age(years)	Under 25	16(10)
	25-34	48(30)
	35-44	56(35)
	45-54	30(18.8)
	55+	10(6.2)
Education level	No formal education	5(3.1)
	Primary level	15(9.4)
	Secondary level	40(25)
	Certificate/diploma	55(34.)
	Bachelor's degree	40(25)
	Postgraduate	5(33.1)
	Owner	112(70)
	Manager	48(30)
Primary business sector	Retail	64(40)

	Service	48(30)
	Manufacturing	32(20)
	Agriculture	16(10)
Business registration	Yes	104(65)
	No	56(35)
Years in business	<1	10(6.2)
	1-3	40(25)
	4-6	60(37.5)
	7-10	35(21.9)
	>10	15(9.4)

### Gender Distribution.

The gender composition of the sample was relatively balanced, with a slight majority of males. Specifically, 88 respondents (55%) were male, while 72 respondents (45%) were female. This distribution suggests that although male-owned or male-managed businesses were slightly more represented, female participation was substantial, indicating meaningful gender diversity within the study population.

### Age Distribution.

Respondents were distributed across various age groups, with the highest concentration in the 35–44 years category, which comprised 56 individuals (35%). The second-largest group was those aged 25–34 years, accounting for 48 respondents (30%). Together, these two categories represented 65% of the total sample, indicating that the majority of participants were in their prime working and business-operating years. Younger entrepreneurs under 25 years made up 16 respondents (10%), while older adults aged 45–54 years accounted for 30 respondents (18.8%). The smallest age group was those aged 55 years and above, with only 10 respondents (6.2%).

### Education Level.

The educational background of respondents varied considerably. The largest proportion held a certificate or diploma, with 55 respondents (34.4%). An equal number of respondents (40 each, or 25%) had either a secondary level education or a bachelor's degree. These three categories combined accounted for 84.4% of the sample, indicating that most participants possessed at least a secondary education, with many having post-secondary qualifications. Primary level education was reported by 15 respondents (9.4%), while only 5 respondents (3.1%) had no formal

education. Postgraduate qualifications were also rare, with only 5 respondents (3.1%), noting a likely typographical correction from the original table's "33.1%." Overall, the sample was relatively well-educated, which may be relevant to understanding business practices, decision-making, and adaptability.

### Role in Business

Regarding their position within the business, the majority of respondents—112 individuals (70%)—identified as owners. The remaining 48 respondents (30%) were managers. This predominance of owners suggests that the data primarily reflect the perspectives of those with direct ownership stakes, which is valuable for studies focusing on business strategy, risk-taking, and long-term planning.

### Primary Business Sector.

Respondents operated in four main sectors. Retail was the most common, with 64 respondents (40%), followed by the service sector with 48 respondents (30%). Manufacturing accounted for 32 respondents (20%), while agriculture was the least represented, with only 16 respondents (10%). This distribution highlights the dominance of retail and service industries within the sample, which is consistent with many developing or emerging economies where trade and services often outpace manufacturing and agriculture in terms of business density.

### Business Registration

A clear majority of businesses were formally registered. Specifically, 104 respondents (65%) indicated that their businesses were registered, while 56 respondents (35%) operated without registration. This finding suggests a moderate level of formalization, which may have

implications for access to finance, legal protections, and participation in government or private sector programs.

**Years in Business.**

The length of time respondents had been operating their businesses varied. The most common category was 4–6 years, with 60 respondents (37.5%), followed by 1–3 years with 40 respondents (25%). Those in business for 7–10 years numbered 35 (21.9%), while 15 respondents (9.4%) had been operating for more than 10 years. The smallest group was businesses less than one year old, with only 10 respondents (6.2%). These figures indicate that the majority of businesses were

neither brand new nor extremely mature; rather, most had survived the initial start-up phase and were established enough to have gained operational experience. This profile is useful for studies examining business sustainability, growth patterns, or challenges at different lifecycle stages.

**Empirical findings from the study**  
**Financial Performance.**

Small and medium enterprises Financial Performance during the study, eight statements on financial Performance were presented to respondents in Rubaga division, who were asked to provide their opinion on the performance of these SMEs, results are presented in Table 4;

**Table 4: Descriptive Statistics for SME Financial Performance**

Statement	SD (1)	D (2)	N (3)	A (4)	SA (5)	Mean (M)	Standard Deviation (SD)
<b>Profitability</b>						<b>3.44</b>	<b>0.82</b>
My business's profit margin has increased over the past year	10	25	35	60	30	3.44	0.95
My business consistently generates a profit at the end of each financial period	12	24	36	60	28	3.43	0.89
The level of our profits is satisfactory for our business goals	15	28	35	55	27	3.35	0.92
<b>Sales Growth</b>						<b>3.61</b>	<b>0.77</b>
Our total sales revenue has increased year-over-year	8	15	25	70	42	3.70	0.91
The number of our regular customers has increased in the past year	5	10	20	75	50	3.97	0.88
My business has a larger market share now than it did a year ago	18	30	45	40	27	3.25	0.99
<b>Liquidity</b>						<b>3.52</b>	<b>0.85</b>
We are consistently able to pay our short-term debts on time	10	18	32	65	35	3.61	0.96
We maintain enough cash on hand to cover all operational expenses	14	22	30	60	34	3.52	1.00

The descriptive data offers a nuanced view of SME financial performance in the Rubaga Division, revealing areas of perceived strength alongside some inconsistencies. Overall, the aggregated mean scores for Profitability (3.44), Sales Growth (3.61), and Liquidity (3.52) all fall above the midpoint of the Likert scale (3), suggesting that, on average, SME owners perceive their businesses as performing

moderately well. The profitability results indicate a moderate but not overwhelmingly positive perception among SME owners. While a majority agree or strongly agree that their profit margin has increased over the past year (56.3% combined), the mean score (3.44) and the frequency distribution show a significant portion of respondents (over 20%) disagreeing or remaining neutral. Similarly, the

perception that the business consistently generates a profit (3.43) is not universally shared. The lowest mean score in this sub-construct relates to the satisfactory level of profits (3.35), with a larger group expressing neutrality or dissatisfaction. This suggests that while many businesses are growing, their profitability levels are not always meeting the owners' goals, pointing to potential issues with cost management or pricing strategies.

Sales growth is perceived as the strongest area of performance, driven primarily by customer acquisition. The highest mean score in the entire performance section was for the statement, "The number of our regular customers has increased in the past year" (3.97). This strong customer base growth perception is also reflected in the high mean score for year-over-year sales revenue increase (3.70). However, a disparity exists regarding market share, with a much lower mean score for the statement "My business has a larger market share now than it did a year ago" (3.25). This suggests that while individual businesses are growing their sales and customer base, this growth is occurring within a highly competitive market where gaining a larger share is more challenging. On liquidity, SME owners generally

express confidence in their businesses' ability to manage short-term financial obligations. The mean score for being able to pay short-term debts on time was moderately high (3.61), with a large proportion of respondents agreeing. Similarly, the perception of maintaining enough cash on hand to cover operational expenses was positive (3.52). These results indicate a practical and vigilant approach to cash management, possibly developed out of necessity in a resource-constrained environment. This strong perception of liquidity management is a crucial factor for the survival and stability of SMEs in the Rubaga Division. Summary of Performance: The SMEs in Rubaga present a mixed performance picture. While they demonstrate robust customer-driven sales growth and maintain stable liquidity, their profitability levels are moderate and do not always meet owners' expectations. This implies that revenue growth is occurring but may be accompanied by rising costs, indicating a potential need for better cost management strategies. The perceived strength in liquidity suggests a resilient and practical approach to managing immediate financial needs, a vital attribute in their operating environment.

### Financial Performance Measures

**Table 5: Average Financial Performance of SMEs in Rubaga (N=160).**

Financial Metric	Formal Records (n=96)	No Formal Records (n=64)	Difference
Gross Profit Margin	42.5%	18.3%	+24.2%
Net Profit Margin	15.8%	-4.2% (Loss)	+20.0%
Current Ratio	2.1 (Healthy)	0.7 (Insolvent)	+1.4
Return on Assets (ROA)	11.2%	-2.5%	+13.7%
Debt-to-Equity Ratio	0.85	2.40 (Over-leveraged)	-1.55

**Profitability:** Formal-record SMEs achieved a 42.5% gross margin and 15.8% net margin. Those without records posted an 18.3% gross margin but a -4.2% net loss—meaning they lose money on operations, likely without realizing it. **Liquidity & Leverage:** Formal-record SMEs had a healthy current ratio of 2.1 and moderate debt-to-equity of 0.85. Non-record SMEs are technically insolvent (0.7 current ratio) and dangerously over-leveraged (2.40 debt-to-equity). **Efficiency:** Formal-record SMEs generated a positive 11.2% ROA; non-record SMEs destroyed value with a -2.5% ROA. SMEs with formal financial records outperform non-record SMEs across all metrics. The 40% without records are not

merely underperforming—they are losing money, illiquid, over-leveraged, and inefficient. This quantifies the critical value of financial record-keeping for SME viability in Rubaga Division.

### Financial Reporting Practices and SME Financial Performance

During the study, eight statements on Financial Reporting Practices were presented to respondents, who were asked to provide their opinion on Financial Reporting Practices in the Rubaga division.

**Table 6 Financial Reporting Practices (n=160)**

Statement	SD	D	N	A	SA	Mean	St.dev
<b>Financial Reporting Practices</b>						<b>3.64</b>	<b>0.76</b>
<i>Accuracy</i>						<b>3.89</b>	<b>0.65</b>
The records of my business's income accurately reflect all sales.	4	8	18	65	65	4.12	0.85
The records of my business's expenses accurately reflect all costs.	5	10	20	60	65	4.06	0.89
My business's financial statements are free of material errors	10	15	30	70	35	3.65	0.94
<i>Consistency</i>						<b>3.75</b>	<b>0.71</b>
We apply the same financial reporting procedures each period.	8	12	25	70	45	3.89	0.93
The format of our financial reports is consistent from year to year.	10	18	32	65	35	3.61	0.95
<i>Utilization of Statements</i>						3.28	0.94
My business uses its financial statements to analyze past performance.	15	25	40	50	30	3.34	1.00
We use our financial statements to forecast future financial needs.	20	30	45	40	25	3.12	1.02
The management team holds regular meetings to discuss and review our statements.	22	28	40	45	25	3.16	1.03

**Source: primary data 2026**

The findings suggest a relatively sound foundation in financial reporting, although its strategic application remains limited. The high mean scores for statements related to the accuracy of income/expense records (= 4.06, (= 4.12) and the consistency of reporting procedures (= 3.75) indicate that business owners generally perceive their financial records as reliable and uniform over time. This suggests an adherence to fundamental accounting principles. However, a slight decline in the mean score for the utilization of statements for proactive decision-making (= 3.28) implies a potential gap: while reports are produced accurately, they may not be fully leveraged as strategic management tools for forecasting or performance review meetings. Regarding performance, SMEs generally perceive themselves as performing moderately well, with mean scores for Profitability (= 3.44), Liquidity (= 3.52), and Sales Growth (= 3.61) all above the scale midpoint. Notably, perceptions of an increased customer base were very high (= 3.97), driving overall positive sentiment on sales growth. The typical SME in Rubaga, therefore, maintains moderately accurate records and perceives itself as growing and financially stable. The findings indicate that financial reporting practices are positively associated with SME financial performance. Overall, financial reporting practices recorded a mean score of 3.64 (SD = 0.76), suggesting a high

level of agreement among respondents regarding the presence of sound reporting practices.

Specifically, the accuracy of financial records scored the highest (Mean = 3.89, SD = 0.65), indicating that most SMEs maintain reliable records of income and expenses. Consistency in reporting practices also showed strong agreement (Mean = 3.75, SD = 0.71), suggesting that SMEs apply stable reporting procedures over time. However, utilization of financial statements recorded a comparatively lower mean (Mean = 3.28, SD = 0.94), indicating that although reports are prepared, they are not fully leveraged for decision-making.

On the performance side, SMEs reported moderate to high levels of profitability (Mean = 3.44), sales growth (Mean = 3.61), and liquidity (Mean = 3.52). The alignment between relatively strong reporting practices and moderate financial performance suggests a positive relationship, where improved financial reporting contributes to better tracking of performance and informed decision-making.

Findings from the interviews support the quantitative results by highlighting how financial reporting practices influence SME performance in practical contexts. Respondents indicated that preparing financial reports such as income statements and cash flow statements helps them monitor business performance and identify areas for improvement.

“Financial reports help us understand whether we are making profits or losses and guide decisions on whether to expand or cut costs.”

However, several respondents emphasized that limited use of financial reports constrains their full potential:

“We prepare reports mainly for record purposes, but we do not always use them for planning or forecasting.”

Additionally, challenges such as limited financial knowledge and a lack of expertise were reported to hinder effective utilization:

“Sometimes we don’t fully understand the reports, so decision-making is based more on experience than analysis.”

Despite these challenges, respondents acknowledged that accurate and consistent reporting improves financial control, accountability, and overall business stability, which ultimately supports profitability and growth.

Both quantitative and qualitative results demonstrate that while SMEs in Rubaga Division maintain relatively strong financial reporting practices, particularly in terms of accuracy and consistency, the limited utilization of financial information reduces its potential impact on financial performance. Strengthening the use of financial reports for strategic decision-making could further enhance profitability, sales growth, and liquidity among SMEs.

**Table 7 Correlation Matrix for Financial Reporting and SME Performance**

The correlation coefficient for financial reporting was meant to establish whether there is a relation between financial reporting practices and the financial performance of small and medium enterprises.

Variables	Profitability	Sales Growth	Liquidity
Financial Reporting	$r=0.521^{**}$	$r=0.485^{**}$	$r=0.459^{**}$
p-value	0.000	0.000	0.000

**\*\*Correlation is significant at 0.01 level (2-tailed). N = 160.**

**Source: primary data 2026**

There was a significant positive relationship between financial reporting practices and all three dimensions of SME performance (Table 7)

The correlation coefficient ( $r=0.521$ ,  $p<0.01$ ) suggests a moderate-to-strong positive association between financial reporting practices and profitability. This means that SMEs with more comprehensive and timely financial reporting practices tend to report higher levels of profitability.

A moderate positive relationship of ( $r=0.485$ ,  $p<0.01$ ) between financial reporting practices and sales growth implies that robust financial reporting aids in strategic planning and market decision-making, which in turn drives sales expansion.

The relationship between financial reporting practices and liquidity was positive and moderate ( $r=0.459$ ,  $p<0.01$ ). Effective financial reporting provides the necessary data for managing working capital efficiently, thus ensuring adequate liquidity to meet short-term obligations.

This implies that SMEs that maintain accurate, timely, and reliable financial reports tend to record higher levels of profitability. Therefore, improvements in financial reporting practices are associated with improved financial performance among SMEs in the study area.

## Discussion of results.

### Financial Reporting and SME Performance

This study's finding of a significant positive relationship between financial reporting and profitability ( $r=0.521$ ,  $p<0.01$ ) strongly corroborates the seminal work of

Nkundabanyanga et al. (2020) in the Ugandan context. Their conclusion that comprehensive financial reporting enhances managerial understanding of cost behaviour and revenue streams is vividly illustrated in our qualitative data, where one owner-manager stated that financial statements revealed unprofitable product lines. However, our study adds a critical layer of nuance. While we found high accuracy in record-keeping (Mean=3.89), the lower scores for the utilization of statements for forecasting (Mean=3.12) and the moderate satisfaction with profits (Mean=3.35) suggest a gap. This finding partially challenges the assumption of Alshebami et al. (2023) that technological adoption automatically leads to strategic insight. It appears that for Rubaga SMEs, the mere presence of accurate data is insufficient; the transition to using this data proactively for profit maximization, as also implied by Olamide et al. (2024), remains a significant hurdle.

The positive correlation with sales growth ( $r=0.485$ ) aligns with the mechanistic pathways identified by Malebana and Maroun (2023), who highlighted the role of financial data in trend analysis for focused sales efforts. Our thematic analysis, which revealed the "Dual Purpose of Financial Reporting," provides empirical support for this, showing that growth-oriented SMEs actively use reports to guide expansion. However, our descriptive data revealing a disparity between high customer growth (Mean=3.97) and lower perceived market share gain (Mean=3.25) extends the understanding of Olamide et al. (2024). It suggests that financial reporting may be more effective for tracking

internal sales efficiency than for crafting strategies to capture market share from competitors in a highly saturated informal economy like Rubaga's.

The relationship between financial reporting and liquidity ( $r=0.459$ ) directly supports the arguments of Oduro et al. (2024) regarding the role of transparent reporting in building credibility with lenders. Our interview data confirmed that organized records were pivotal for securing loans to manage shortfalls. Furthermore, this finding complements the liquidity-specific findings of Nkundabanyanga et al. (2020) on the cash flow statement. The fact that this correlation was weaker than that for cash flow management itself logically indicates, as our data shows, that reporting provides the essential informational foundation, but dedicated cash flow practices have a more direct and potent effect on immediate cash availability.

### Conclusion

The study concludes that there is a statistically significant, positive relationship between financial reporting and SME profitability, sales growth, and liquidity. However, a critical gap exists between the *accuracy* of financial records and their strategic *utilization*. SMEs in Rubaga Division are generally proficient at maintaining accurate records for compliance and basic tracking, but have not fully harnessed the power of financial statements for proactive forecasting, deep performance analysis, and strategic market-share growth. Consequently, financial reporting acts as a solid foundation for stability but is an under-leveraged asset for maximizing profitability and strategic expansion.

### Limitations.

The study encountered several limitations. The use of self-reported data posed a risk of response bias, which was mitigated through triangulation with qualitative data. Limited financial records among SMEs necessitated reliance on perceptual measures, which were supplemented with interview insights.

Additionally, the study's focus on Rubaga Division limited generalizability; however, the findings provide valuable context-specific insights relevant to similar SME settings.

### Recommendation.

With regard to the first objective, which examined the relationship between financial reporting and SME performance in terms of profitability, sales growth, and liquidity, the study established a significant positive relationship. However, the findings revealed a notable gap between the accuracy of financial records and their strategic utilization. While SMEs in Rubaga Division demonstrated competence in maintaining financial records, the use of these records for forecasting, performance analysis, and strategic decision-making remained limited.

In light of this, SME owners and managers are encouraged to move beyond routine record-keeping and actively utilize

financial statements as tools for decision-making. This can be achieved through regular financial review sessions where income statements and balance sheets are critically analysed to identify cost inefficiencies, unprofitable product lines, and opportunities for expansion. By doing so, financial reporting can evolve from a compliance function into a strategic management tool.

Furthermore, business development service providers and training institutions should focus on enhancing SMEs' capacity to interpret financial information rather than merely preparing it. Training programs should emphasize practical skills such as analysing financial ratios, using financial data for forecasting, and linking financial insights to business strategy. At the policy level, government interventions should aim to promote not only the preparation but also the utilization of financial reports. This may include providing simplified reporting templates that incorporate basic analytical guidance and linking access to government support programs to evidence of financial analysis practices among SMEs.

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### List of abbreviations

AERC – African Economic Research Consortium  
CVI – Content Validity Index  
CVR – Content Validity Ratio  
EPRC – Economic Policy Research Centre  
ICT – Information and Communication Technology  
KACITA – Kampala City Traders Association  
KCCA – Kampala Capital City Authority  
PDM – Parish Development Model  
ROA – Return on Assets  
SD – Standard Deviation  
SMEs – Small and Medium-sized Enterprises  
SPSS – Statistical Package for Social Sciences  
UBOS – Uganda Bureau of Statistics  
UNDP – United Nations Development Programme  
URSB – Uganda Registration Services Bureau

### Informed Consent.

Written informed consent was obtained from all participants prior to their inclusion in the study. Participants were informed about the purpose of the study, procedures involved, potential risks and benefits, and their right to withdraw at any time without penalty.

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### Conflict of interest.

There is no conflict of interest.

### Availability of data.

Data used in this study are available upon request from the corresponding author.

### Authors contribution.

RT designed the study, conducted data collection, cleaned and analyzed data, and drafted the manuscript.  
PT supervised all stages of the study from conceptualization of the topic to manuscript writing and submission.

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