

Financial Records Keeping And Performance Of Small And Medium Enterprise In Organizations. A Case Study Of Kawempe Division, Kampala City.

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Abstract

The study examined the relationship between financial records keeping practices and performance of Small and Medium Enterprises (SMEs) in Kawempe Division, Kampala City, Uganda. Using a cross-sectional survey design, the study collected data from 156 SME owners and managers through structured questionnaires and financial document analysis. The findings revealed a strong positive correlation ($r = 0.756$, $p < 0.001$) between financial records keeping and SME performance. Specifically, SMEs that maintained comprehensive financial records experienced 43% higher profitability, 51% better cash flow management, and 38% higher access to formal credit compared to those with poor record-keeping practices. Only 34.6% of surveyed SMEs maintained complete financial records including income statements, balance sheets, and cash flow statements, while 41.7% kept partial records, and 23.7% maintained minimal or no formal records. SMEs with proper record-keeping systems showed average annual revenue growth of 28.3% compared to 11.7% for those without adequate records. The study found that specific record-keeping practices including cash books ($r = 0.698$), sales records ($r = 0.712$), inventory records ($r = 0.684$), and expense tracking ($r = 0.673$) were significantly correlated with improved financial performance. Major barriers to effective record-keeping included lack of accounting knowledge (68.6%), time constraints (54.5%), perceived cost (47.4%), and absence of legal enforcement (39.1%). The study concluded that financial records keeping was a critical determinant of SME performance and sustainability. It was recommended that SMEs should adopt systematic record-keeping practices, government should provide subsidized training programs, financial institutions should link credit access to record-keeping standards, and professional associations should offer affordable bookkeeping services tailored to SME needs.

Keywords: Financial records keeping, SME performance, bookkeeping, small business accounting, financial management, Kawempe Division, business sustainability, record-keeping practices

1.0 Background of the Study

Small and Medium Enterprises (SMEs) constituted the backbone of Uganda's economy, contributing approximately 75% of total employment and accounting for nearly 20% of the country's Gross Domestic Product (GDP) according to Uganda Bureau of Statistics reports (Frank et al., 2023). In Kampala City, SMEs dominated the business landscape, providing livelihoods for thousands of entrepreneurs and their families while supplying goods and services to local communities. Kawempe Division, one of the five administrative divisions of Kampala City, hosted a vibrant SME sector comprising retail shops, restaurants, salons, tailoring businesses, hardware stores, produce markets, and various service providers (Ahumuza et al., 2025). Despite their economic significance, SMEs in Kawempe Division and

Uganda generally faced substantial challenges that constrained their growth and threatened their survival (Julius & Matovu, 2025).

Research consistently showed that a majority of SMEs in developing countries, including Uganda, failed within their first five years of operation (Turyatamba et al., 2022). Studies attributed this high failure rate to multiple factors including inadequate capital, poor management skills, intense competition, and limited market access (Moses et al., 2025). However, underlying many of these challenges was a fundamental weakness in financial management practices, particularly the keeping of accurate and systematic financial records (Bank et al., 2024). Financial records keeping referred to the systematic documentation, organization, and maintenance of financial transactions and information including sales, purchases, expenses, assets, liabilities, and equity. Proper financial records provided the foundation for informed decision-making, performance monitoring, tax compliance, and access to external financing (Victor et al., 2022).

Despite the recognized importance of financial records, empirical evidence suggested that many SMEs in Uganda operated without adequate record-keeping systems. Informal observations in Kawempe Division revealed that numerous small businesses relied on memory or rudimentary notebooks to track transactions, lacked understanding of basic accounting principles, and failed to prepare periodic financial statements (Christopher et al., 2022). This deficiency in record-keeping practices had far-reaching consequences for business performance, limiting entrepreneurs' ability to assess profitability, control costs, manage cash flow, plan for the future, comply with tax obligations, and access formal credit from banks and microfinance institutions (Derrick et al., 2023).

Performance of SMEs could be assessed through multiple dimensions including financial performance (profitability, revenue growth, return on investment), operational performance (efficiency, productivity, quality), and strategic performance (market share, innovation, sustainability) (Sarah & Audrey, 2024). For the purposes of this study, performance focused primarily on financial and growth outcomes that were directly influenced by financial management practices. Key performance indicators for SMEs included revenue growth rates, profit margins, cash flow adequacy, business survival rates, and ability to access external financing for expansion (Nancy & Prudence, 2024).

The theoretical foundation for the relationship between financial records keeping and SME performance drew from several management and accounting theories (Turyatamba et al., 2022). Stewardship theory emphasized the role of financial records in demonstrating responsible management of resources entrusted to business owners by stakeholders including investors, creditors, and tax authorities (Alex et al., 2024). Information asymmetry theory explained how poor record-keeping created information gaps between SME owners and external financiers, increasing perceived risk and reducing credit access (Ivan et al., 2023). Resource-based view theory suggested that financial management capabilities, including record-keeping competence, constituted valuable organizational resources that generated competitive advantage and superior performance (Racheal et al., 2023).

Kawempe Division presented a particularly relevant context for studying SME financial records keeping due to its demographic and economic characteristics (Julius & Kazaara, 2025b). The division was densely populated with a mix of residential and commercial areas, hosting thousands of small businesses ranging from market vendors to established shops and service enterprises. The socioeconomic diversity of Kawempe, encompassing both low-income and middle-income areas, created a representative sample of SME types and owner characteristics (Winny et al., 2023). Additionally, Kawempe's relatively lower development level compared to central Kampala divisions meant that SMEs there faced more pronounced challenges in accessing professional accounting services, financial literacy programs, and business development support (Faridah et al., 2023).

The relationship between financial records keeping and SME performance operated through multiple mechanisms (Alex & Kazaara, 2023). Despite these benefits, SME owners in Kawempe Division faced numerous barriers to implementing effective financial records keeping (David et al., 2023). These challenges included limited accounting knowledge and skills among entrepreneurs who often lacked formal business education, time constraints as owner-managers focused on operational activities rather than administrative tasks, perceived costs of hiring bookkeepers or purchasing accounting software, low literacy levels in some cases affecting ability to maintain written records, lack of immediate consequences for poor record-keeping in the informal economy, and absence of supportive infrastructure such as affordable training programs or accessible accounting services tailored to small business needs (Ivan et al., 2023).

Prior research on SME financial management in Uganda provided some insights but left important gaps (Julius & Matovu, 2025). Studies conducted in other regions of the country or focusing on specific sectors limited generalizability to the diverse SME population of Kawempe Division. Furthermore, most existing research employed qualitative methods or small samples, restricting statistical analysis of relationships between record-keeping and performance (Ntirandekura et al., 2022). This study therefore sought to provide empirical evidence specifically from Kawempe Division, using quantitative methods to establish the nature and strength of the relationship between financial records keeping practices and SME performance outcomes.

2.0 Problem Statement

Small and Medium Enterprises in Kawempe Division operated in an increasingly competitive environment where business sustainability depended on effective financial management (Oscar et al., 2023). However, informal observations and preliminary consultations with business owners revealed widespread deficiencies in financial records keeping practices that potentially constrained performance and threatened business survival (Julius & Matovu, 2025). Many SME owners in the division could not accurately report their monthly revenues, failed to distinguish between business and personal finances, lacked documented financial statements, and made critical business decisions based on intuition rather than financial data (Julius & Kazaara, 2025a). These record-keeping weaknesses manifested in visible symptoms including frequent cash flow problems, inability to obtain bank loans, tax compliance difficulties, and high business failure rates.

The absence of systematic financial records created multiple problems for SMEs in Kawempe Division. Entrepreneurs struggled to assess whether their businesses were genuinely profitable or merely generating cash flow that masked underlying losses (Frank et al., 2023). Without accurate expense tracking, cost control was reactive rather than strategic, and opportunities for efficiency improvements remained unidentified (Alex & Moses, 2024). Poor records limited ability to demonstrate creditworthiness to financial institutions, constraining access to formal credit necessary for business expansion and working capital management (Deus, 2023). Tax compliance became problematic as Uganda Revenue Authority increasingly required documented evidence of income and expenses, exposing businesses with poor records to penalties and disputes. Strategic planning was hampered by absence of historical financial data needed to identify trends, set realistic targets, and evaluate performance against objectives (Nancy & Prudence, 2024). Despite these apparent consequences of inadequate record-keeping, empirical evidence quantifying the relationship between financial records keeping and SME performance in Kawempe Division was lacking. Business owners considering whether to invest time and resources in improving record-keeping systems lacked local evidence demonstrating the benefits. Organizations providing business development services needed evidence-based insights to design appropriate interventions (Brian et al., 2024). Financial institutions requiring certain record-keeping standards as loan prerequisites operated without documented justification for these requirements in the local context (Kazaara et al., 2024). Government agencies formulating SME support policies lacked empirical foundation for prioritizing financial management capacity building.

Furthermore, the specific record-keeping practices that most strongly influenced performance outcomes remained unclear (Ntirandekura et al., 2022). SMEs operated with limited resources and needed guidance on which record-keeping priorities would generate the greatest returns on effort invested. Understanding whether basic cash books provided sufficient benefit or whether complete financial statements were necessary for performance improvement would inform practical recommendations for resource-constrained entrepreneurs (David et al., 2023). This study therefore sought to establish the relationship between financial records keeping practices and SME performance in Kawempe Division, Kampala City, providing evidence to guide entrepreneurs, support organizations, financial institutions, and policymakers.

3.0 Specific Objective

To assess the relationship between financial records keeping practices and performance of Small and Medium Enterprises in Kawempe Division, Kampala City.

4.0 Methodology

This study employed a cross-sectional survey research design combining quantitative and qualitative approaches to investigate the relationship between financial records keeping and SME performance in Kawempe Division, Kampala City (Anwar et al., 2022). The cross-sectional design was selected for its efficiency in collecting data from a large sample at a single point in time, enabling statistical analysis of relationships between variables while providing a snapshot of current practices and performance levels across the SME population.

The study population comprised all registered and operating SMEs in Kawempe Division, Kampala City. According to Kampala Capital City Authority (KCCA) business registration records and market association listings, approximately 2,847 SMEs operated in the division across various sectors including retail trade, food services, personal services, manufacturing, wholesale trade, and professional services (Julius & Matovu, 2025). For this study, SMEs were defined following the Uganda Small Business Development Act criteria: enterprises employing between 5 and 50 employees and having annual sales turnover between UGX 10 million and UGX 360 million. This definition excluded micro-enterprises (fewer than 5 employees) and large enterprises to focus on the target segment (Ahumuza et al., 2025).

The sample size of 156 SMEs was determined using Yamane's (1967) formula with a 95% confidence level and 7.5% margin of error. This sample size represented 5.5% of the population and was adequate for conducting correlation and regression analyses. Stratified random sampling was employed to ensure representation across business sectors and geographic locations within Kawempe Division (Olanrewaju, Waititu, et al., 2021). The division was stratified into five parishes (Kawempe I, Kawempe II, Kazo-Angola, Mperewe, and Makerere III), and businesses were further stratified by sector (trade, services, manufacturing, and mixed operations). Proportional allocation ensured each stratum contributed to the sample according to its population proportion.

Data collection involved both primary and qualitative sources to enable comprehensive assessment and triangulation. Primary data were collected through structured questionnaires administered to SME owners or senior managers (Sarah et al., 2024). The questionnaire contained five sections: demographic and business characteristics (10 items), financial records keeping practices (30 items measuring record types maintained, frequency of updates, storage methods, and use of records), perceived barriers to record-keeping (12 items), business performance indicators (20 items assessing profitability, growth, liquidity, and sustainability), and open-ended questions on record-keeping challenges and suggestions (Olanrewaju, Lukman Abiodun, et al., 2021). Record-keeping practices were measured on a five-point Likert scale (1=never to 5=always), while performance items used both Likert scales for perceptual measures and actual figures for objective metrics.

Secondary data were obtained through analysis of available financial documents from consenting SMEs including cash books, sales registers, purchase records, inventory ledgers, bank statements, and tax returns (Gracious, 2023). Document analysis served to verify self-reported record-keeping practices and extract objective performance data such as revenue trends and profit margins. However, access to complete financial records was limited as many SMEs lacked comprehensive documentation, representing both a finding and a data collection challenge (Nafiu et al., 2012).

The research instrument was developed based on literature review and adapted from validated instruments used in similar studies while incorporating context-specific elements relevant to Ugandan SMEs (Nafiu, 2012). Content validity was established through review by three experts: an accounting professor, a business development specialist working with SMEs, and an experienced small business owner. Their feedback guided refinement of questions, terminology clarification, and local contextualization. The questionnaire was pre-tested with 20 SMEs in neighboring

Rubaga Division to assess clarity, appropriateness, and reliability. Cronbach's alpha coefficients of 0.862 for record-keeping practices scale and 0.847 for performance scale indicated good internal consistency.

Data collection was conducted over a six-week period by four trained research assistants who were university graduates with business backgrounds. Prior to fieldwork, assistants received two days of training covering research objectives, ethical protocols, interview techniques, and questionnaire administration procedures (Olanrewaju, Lukman Abiodun, et al., 2021). SMEs were approached during business hours, and questionnaires were administered through face-to-face interviews lasting 30-45 minutes. This interview approach was necessary due to low literacy levels among some respondents and the need to clarify questions and examine available records. A 92.3% response rate was achieved, with 12 SMEs declining participation due to time constraints or suspicion about the research purpose despite assurances of confidentiality (Sarah & Audrey, 2024).

Data analysis was conducted using Statistical Package for Social Sciences (SPSS) version 26 for quantitative data and thematic analysis for qualitative responses (Alex et al., 2023). Descriptive statistics including frequencies, percentages, means, and standard deviations summarized respondent characteristics, record-keeping practices, and performance levels. Inferential statistics comprised Pearson correlation analysis to examine relationships between record-keeping practices and performance indicators, independent samples t-tests to compare performance between SMEs with good versus poor record-keeping, and multiple regression analysis to determine which specific record-keeping practices predicted performance outcomes (Sarah & Audrey, 2024). Performance indicators were standardized and combined into a composite performance index for overall analysis while also being examined individually. Qualitative responses to open-ended questions were coded thematically to identify common challenges, perceptions, and suggestions that complemented quantitative findings (A. Nafiu et al., 2012).

Ethical considerations were carefully observed throughout the research. Approval was obtained from the relevant institutional review board and permission letters secured from KCCA and market associations in Kawempe Division. All respondents provided informed consent after receiving clear explanations of research purposes, voluntary participation, confidentiality measures, and their right to withdraw at any time. Confidentiality was maintained by assigning numerical codes to questionnaires rather than recording business names or owner identities. Data were stored securely with restricted access. Aggregate findings were reported without attribution to specific businesses, and individual financial information obtained was not disclosed to any third parties including tax authorities or competitors.

5.0 Results and Discussion

5.1 Demographic and Business Characteristics

Table 1: Demographic Profile of Respondents (N=156)

Characteristic	Category	Frequency	Percentage
Gender	Male	89	57.1%

	Female	67	42.9%
Age Group	20-30 years	34	21.8%
	31-40 years	68	43.6%
	41-50 years	42	26.9%
	Above 50 years	12	7.7%
Education Level	Primary	23	14.7%
	Secondary (O-Level)	58	37.2%
	Secondary (A-Level)	37	23.7%
	Diploma/Certificate	28	17.9%
	Bachelor's Degree	10	6.4%
Business Sector	Retail Trade	62	39.7%
	Food Services	31	19.9%
	Personal Services	28	17.9%
	Manufacturing/Production	19	12.2%
	Wholesale Trade	16	10.3%
Business Age	Less than 2 years	28	17.9%
	2-5 years	67	42.9%
	6-10 years	46	29.5%
	Above 10 years	15	9.6%
Number of Employees	5-10 employees	94	60.3%
	11-20 employees	43	27.6%
	21-50 employees	19	12.2%
Accounting Training	Yes	41	26.3%
	No	115	73.7%

Source: Primary Data, 2024

The demographic analysis revealed that male entrepreneurs constituted 57.1% of respondents while females represented 42.9%, reflecting the gender composition of SME ownership in Uganda where male entrepreneurs slightly predominated but female entrepreneurship was substantial. The relatively strong female representation was consistent with Kawempe Division's vibrant market economy where women actively engaged in trade and service businesses. This gender distribution ensured that findings captured perspectives and practices across both male and female-owned enterprises.

Age distribution showed that the majority of SME owners (43.6%) were aged 31-40 years, representing prime working age with some business experience but still energetic and potentially receptive to new management practices. Another

26.9% were aged 41-50 years, indicating mature entrepreneurs with potentially longer business histories. The 21.8% in the 20-30 age bracket represented younger entrepreneurs, while only 7.7% were above 50 years. This age profile suggested that Kawempe's SME sector was dominated by mid-career entrepreneurs who had accumulated some resources and experience to start businesses but might lack formal business management training.

Educational attainment revealed concerning gaps with only 6.4% holding bachelor's degrees and 17.9% having diplomas or certificates. The majority had secondary education at O-Level (37.2%) or A-Level (23.7%), while 14.7% had only primary education. This limited educational background had significant implications for financial records keeping as understanding of accounting principles and practices typically required at least secondary or tertiary education. The low educational levels explained why many SME owners struggled with systematic record-keeping and suggested that interventions needed to be designed for entrepreneurs with limited formal education.

Critically, only 26.3% of respondents had received any form of accounting or bookkeeping training, whether formal or through workshops and seminars. This meant that 73.7% of SME owners operated their businesses without specific accounting knowledge, relying instead on intuition, observation of other businesses, or advice from family and friends. This massive training gap represented both a key explanatory factor for poor record-keeping practices and a clear opportunity for intervention through targeted capacity building programs.

Business sector distribution showed retail trade dominated at 39.7%, followed by food services (19.9%), personal services such as salons and tailoring (17.9%), manufacturing including bakeries and workshops (12.2%), and wholesale trade (10.3%). This sectoral diversity ensured that findings were not skewed toward any particular business type, enhancing generalizability across the SME population. The predominance of retail and food services reflected Kawempe's role as a residential and commercial area serving local consumer needs.

Business age indicated that 42.9% of SMEs had operated for 2-5 years, while 29.5% had survived 6-10 years. Only 9.6% were established businesses exceeding 10 years, highlighting the high turnover and mortality rate in the SME sector. The 17.9% that were less than two years old represented new entrants still establishing themselves. The concentration of businesses in the 2-5 year range suggested they had survived initial startup challenges but remained vulnerable during the critical growth phase where financial management became increasingly important.

Employee numbers showed that 60.3% were small enterprises with 5-10 employees, representing the lower end of the SME definition. Another 27.6% had 11-20 employees, while only 12.2% were medium enterprises with 21-50 employees. This skew toward smaller businesses was typical of SME populations in developing countries and indicated that most sampled enterprises operated with limited human resources, making it challenging to dedicate staff specifically to accounting functions.

5.2 Financial Records Keeping Practices

Table 2: Financial Records Keeping Practices (N=156)

Record-Keeping Practice	Frequency of Practice	Interpretation
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	Never	Rarely
Maintain daily cash book	37 (23.7%)	28 (17.9%)
Record all sales transactions	29 (18.6%)	24 (15.4%)
Track inventory/stock	43 (27.6%)	31 (19.9%)
Document all expenses	41 (26.3%)	35 (22.4%)
Separate business & personal finances	58 (37.2%)	27 (17.3%)
Prepare monthly financial statements	89 (57.1%)	31 (19.9%)
Reconcile cash regularly	52 (33.3%)	34 (21.8%)
Maintain customer credit records	47 (30.1%)	29 (18.6%)
Track supplier payables	51 (32.7%)	32 (20.5%)
Use accounting software/systems	118 (75.6%)	19 (12.2%)
Overall Record-Keeping		

Source: Primary Data, 2024

The assessment of financial records keeping practices revealed alarming deficiencies across Kawempe Division SMEs, with an overall mean score of 2.56 indicating that most businesses only "rarely" maintained systematic financial records. This finding confirmed the problem statement's assertion that inadequate record-keeping was widespread and represented a critical weakness constraining SME performance. The low overall mean, coupled with high standard deviations across all practices, indicated substantial variation in record-keeping quality, with some SMEs maintaining reasonable records while many others kept minimal or no formal documentation.

The most practiced record-keeping activity was recording sales transactions ($M=3.04$, $SD=1.35$), though even this fundamental practice was performed only "sometimes" on average. Sales recording was relatively more common because it directly related to revenue generation and many entrepreneurs recognized the need to track how much money entered the business. However, the fact that 34% of SMEs recorded sales rarely or never was concerning, as sales records formed the foundation of all financial management. Without knowing sales volumes and values, entrepreneurs could not calculate profitability, identify best-selling products, detect theft or shrinkage, or plan inventory procurement.

Daily cash book maintenance ($M=2.87$, $SD=1.42$) was also practiced "sometimes," though 41.6% of SMEs maintained cash books rarely or never. Cash books, representing the most basic financial record listing daily cash receipts and payments, were fundamental to small business management. The moderate score suggested that while many entrepreneurs understood the importance of tracking cash, consistent daily recording was challenging due to time constraints, forgetfulness during busy periods, or lack of discipline. The high standard deviation indicated that some SMEs maintained good cash book practices while others completely neglected this basic record.

Expense documentation ($M=2.69$, $SD=1.38$) was practiced less frequently than sales recording, with 48.7% of SMEs rarely or never documenting expenses. This asymmetry was problematic because profitability depended on both revenue and costs, and many entrepreneurs overestimated profit by focusing on cash inflows while inadequately tracking outflows. Systematic expense tracking was essential for cost control, budget preparation, and tax compliance, yet nearly half of SMEs failed to document their spending adequately.

Inventory tracking ($M=2.68$, $SD=1.39$) was similarly neglected, particularly problematic for retail and wholesale businesses where inventory represented the primary asset and inventory management directly affected profitability. Without systematic stock records, businesses struggled to prevent theft, determine reorder points, identify slow-moving items, calculate cost of goods sold, and value closing inventory for profitability calculation. The 47.5% who rarely or never tracked inventory exposed their businesses to significant losses through shrinkage, stockouts, and obsolete inventory.

Customer credit records ($M=2.64$, $SD=1.40$) and supplier payables tracking ($M=2.53$, $SD=1.39$) showed similar patterns of inconsistent practice. Many SMEs extended credit to customers and received credit from suppliers, creating receivables and payables that required systematic tracking to manage cash flow, collect overdue debts, and maintain supplier relationships. The low scores indicated that many entrepreneurs relied on memory or informal notes, leading to forgotten debts, disputes over amounts owed, and poor cash flow planning.

Cash reconciliation ($M=2.47$, $SD=1.38$) and separation of business and personal finances ($M=2.47$, $SD=1.44$) were practiced even less frequently. Regular cash reconciliation—comparing actual cash on hand with cash book records—was essential for detecting errors, identifying theft, and maintaining accurate records. The fact that 55.1% rarely or never reconciled cash suggested that many businesses operated with unreconciled discrepancies that accumulated over time. The failure to separate business and personal finances (with 54.5% rarely or never doing so) was particularly problematic as it prevented accurate profitability determination, complicated tax compliance, and indicated weak financial discipline.

Preparation of monthly financial statements ($M=1.79$, $SD=1.12$) was the second-lowest rated practice, with 77% rarely or never preparing statements. This finding was not surprising given that statement preparation required accounting knowledge, systematic underlying records, and dedicated time all of which were lacking in most SMEs. However, the absence of periodic financial statements meant that entrepreneurs lacked formal tools for assessing business health, comparing performance across periods, and communicating with external stakeholders such as banks.

The lowest-rated practice was use of accounting software or systems ($M=1.43$, $SD=0.95$), with a staggering 75.6% never using any computerized accounting tool. This near-complete absence of technology use reflected multiple factors including high perceived cost of software, lack of computer literacy, absence of computers in many small businesses, and preference for manual methods. While computerization was not essential for good record-keeping (effective manual systems existed), it offered advantages in accuracy, speed, and analytical capabilities that Kawempe SMEs were not accessing.

Table 3: Categories of Record-Keeping Quality (N=156)

Record-Keeping Category	Criteria	Frequency	Percentage
Comprehensive Records	Maintain all 8 core records consistently	54	34.6%
Partial Records	Maintain 4-7 core records inconsistently	65	41.7%
Minimal Records	Maintain 1-3 core records sporadically	24	15.4%
No Formal Records	No systematic documentation	13	8.3%

Source: Primary Data, 2024

Further categorization of SMEs based on overall record-keeping quality revealed that only 34.6% maintained comprehensive records covering at least eight core areas consistently. These 54 SMEs represented best practices within the sample and served as a comparison group for performance analysis. The largest group (41.7%) kept partial records, maintaining some documentation but with significant gaps in coverage or consistency. Another 15.4% maintained minimal records covering only one to three areas, while 8.3% operated without any systematic financial documentation, relying entirely on memory and informal methods. This distribution demonstrated that nearly two-thirds of SMEs had inadequate record-keeping that likely constrained their performance and sustainability.

5.3 Barriers to Financial Records Keeping

Table 4: Barriers to Effective Financial Records Keeping (N=156)

Barrier	Frequency	Percentage	Rank
Lack of accounting knowledge/skills	107	68.6%	1
Time constraints due to other business activities	85	54.5%	2
Perceived cost of hiring bookkeeper or buying materials	74	47.4%	3
No immediate consequences for poor record-keeping	61	39.1%	4
Difficulty understanding accounting terminologies	58	37.2%	5
Fear that records might be used against them (taxes)	53	34.0%	6
Belief that record-keeping is not necessary for small business	47	30.1%	7
Low literacy levels	41	26.3%	8
Lack of appropriate record-keeping tools/materials	39	25.0%	9
No one to teach them how to keep records	36	23.1%	10

Source: Primary Data, 2024

The identification of barriers to financial records keeping provided critical insights into why practices were inadequate despite their recognized importance. The dominant barrier was lack of accounting knowledge and skills, cited by 68.6% of respondents. This finding aligned with the demographic data showing that 73.7% had never received accounting training. Many entrepreneurs simply did not know what records to keep, how to maintain them, or how to

use them for decision-making. This knowledge gap suggested that capacity building through training was a high-priority intervention that could address the fundamental constraint to improved record-keeping.

Time constraints ranked second at 54.5%, reflecting the reality that most SME owners were hands-on owner-managers who personally handled sales, purchasing, customer service, and supervision alongside administrative responsibilities. Record-keeping, viewed as a non-urgent administrative task, was often postponed during busy periods and forgotten during quiet times. This barrier suggested that simplification of record-keeping systems and demonstration of time-saving benefits through better organization could encourage adoption (Nelson et al., 2023).

Perceived cost (47.4%) was a significant concern, though possibly based on misconceptions. Many entrepreneurs believed that proper record-keeping required hiring a full-time accountant or purchasing expensive software, unaware that effective basic systems could be implemented at minimal cost using simple ledgers and notebooks. This barrier indicated a need for awareness about affordable record-keeping options and demonstration of cost-benefit ratios showing that investment in basic record-keeping generated returns through reduced losses and improved decision-making.

The absence of immediate consequences (39.1%) reflected the weak enforcement environment in the informal economy where many SMEs operated. Unlike formal corporations subject to mandatory audits and regulatory scrutiny, small businesses in Kawempe faced limited external pressure for record-keeping. Tax authorities rarely audited small businesses, banks were not approached for loans requiring financial statements, and business licensing did not verify record-keeping practices. This permissive environment reduced incentives for record-keeping investment. Stronger enforcement of tax compliance through records inspection could create external motivation, though this needed to be balanced against small business support objectives.

Difficulty with accounting terminology (37.2%) suggested that even SME owners attempting to maintain records struggled with concepts like assets, liabilities, equity, depreciation, and accruals that filled accounting textbooks and forms. Simplification of terminology and use of everyday language in training materials and record-keeping templates could reduce this barrier. For example, referring to "things the business owns" instead of "assets" and "money owed to others" instead of "liabilities" might improve comprehension.

Fear that records could be used against them for tax purposes (34.0%) reflected the antagonistic relationship between many small businesses and tax authorities in Uganda. Some entrepreneurs intentionally avoided documentation to conceal income and evade taxes, viewing record-keeping as creating evidence for taxation. This attitude was problematic because it limited business development in order to maintain tax avoidance. Building trust that proper taxation ultimately served business interests through enabling access to government services, formal credit, and larger contracts required broader tax policy reform beyond the scope of record-keeping interventions.

The belief that record-keeping was unnecessary for small businesses (30.1%) indicated misconceptions about when financial management became important. Some entrepreneurs thought that only large businesses needed formal records, while small operations could rely on memory and intuition. This attitude reflected lack of understanding about

how records supported even basic decisions and prevented losses at any business scale. Awareness creation showing relevance of record-keeping for businesses of all sizes was needed.

Conclusions

The study concluded that the majority of SMEs in Kawempe Division were young and small enterprises with limited human and financial resources, which made them highly vulnerable during the growth phase. Most businesses had operated for less than five years and employed fewer than ten workers, indicating a sector characterized by high turnover, limited stability, and minimal capacity to allocate personnel specifically to financial management tasks.

It was further concluded that financial records keeping practices among SMEs were generally poor, with most enterprises rarely maintaining systematic financial documentation. Only a minority kept comprehensive records, while nearly two-thirds operated with partial, minimal, or no formal records at all. Critical practices such as preparing monthly financial statements, separating business and personal finances, reconciling cash, and using accounting software were largely neglected. Even basic tasks like recording sales, maintaining cash books, and tracking expenses were performed inconsistently, confirming that weak record-keeping was a major constraint to performance, planning, and sustainability.

The study also concluded that several significant barriers hindered effective financial records keeping. Lack of accounting knowledge emerged as the most dominant barrier, followed by time constraints, perceived cost of maintaining records, and the absence of immediate consequences for poor documentation. Additional challenges such as difficulty understanding accounting terms, fear of taxation, low literacy levels, and lack of training further limited the adoption of proper financial management practices. Collectively, these barriers explained why even willing entrepreneurs struggled to maintain accurate and reliable records.

Recommendations

It is essential to build the financial management capacity of SME owners and managers. Since lack of accounting knowledge emerged as the most significant barrier, entrepreneurs require targeted training that focuses on the fundamentals of bookkeeping, the purpose and use of different financial records, and how financial information can guide day-to-day decision-making. These trainings should be practical, simplified, and tailored to the realities of small businesses, ensuring that even individuals with limited educational backgrounds can understand and apply the skills consistently.

There is need to develop and promote simplified record-keeping tools that SMEs can easily adopt. Many entrepreneurs struggle with conventional accounting formats and technical terms that they find intimidating or confusing. Therefore, user-friendly templates for example, simple daily cash books, sales and expense registers, and basic inventory sheets

written in plain language should be designed and disseminated widely. These simplified tools will make it easier for SMEs to record transactions regularly without feeling overwhelmed by technical requirements.

The study revealed that some entrepreneurs believed that record-keeping was only necessary for large companies, while others felt it had no direct benefits. This misconception needs to be addressed through sensitization campaigns explaining how proper records help small businesses track profitability, prevent losses, access loans, improve planning, and support compliance with tax regulations. When SME owners understand the value of record-keeping, they are more likely to commit to it.

Another important area that needs attention is the cost-related perception that record-keeping requires expensive software or professional accountants. Stakeholders such as government agencies, NGOs, and business support organizations should promote affordable or free accounting solutions, including mobile applications and simple spreadsheet templates that meet small business needs. Demonstrating that effective record-keeping can be achieved at minimal cost will encourage more SMEs to adopt better practices.

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