

Accounting Information System And Finance Performance: A Case Study Of Nakifumu Firm, Mukono District

Wakabiri Fred¹, Kalikola Jacob²

1, 2 Metropolitan International University

Abstract

The study investigated the relationship between Accounting Information Systems (AIS) and finance performance through a case study of Nakifumu Firm located in Mukono District. Data were collected through interviews, observations, and document analysis, focusing on the firm's implementation of AIS and its impact on finance performance indicators. The findings revealed that the adoption of AIS at Nakifumu Firm positively influenced various aspects of finance performance, including accuracy in financial reporting, efficiency in transaction processing, and decision-making processes. The implementation of AIS facilitated the automation of routine accounting tasks, improved data accuracy, and enhanced the timeliness of financial reporting. Additionally, AIS provided management with real-time access to financial information, enabling informed decision-making and strategic planning. From the findings, the Pearson correlation coefficient between managerial accounting and finance performance was .899, with a p-value of .000, indicating an extremely robust and statistically significant correlation. This signified a close association wherein as the utilization or effectiveness of managerial accounting practices increases, there was a notable enhancement in finance performance, and conversely, as finance performance improved, managerial accounting practices tend to be more effective. The study underscores the importance of AIS in enhancing finance performance within organizations and highlights the potential benefits of integrating AIS into business operations. Recommendations are provided for organizations seeking to leverage AIS to improve finance performance and drive organizational success.

Keywords: Computerized, accounting, performance, Managerial accounting, profitability and financial record keeping

Background to the study

Despite all efforts to improve financial performance, a number of studies have indicated declining financial performance (Akankwasa et al., 2022). For example, a global survey conducted by the European Central Bank Working Paper Series (2005) revealed that most giant banks are failing due to the huge decline in the portfolio of the real estate sector during the Great Recession, which consisted of giant banks (Victor et al. , 2022). have more than \$1 billion in assets that fail at 150%; while management accounting banks with less than \$1 billion in assets fell at a rate of 50%. An International Monetary Fund (2019) China report highlights that net capital outflows from financial institutions worsened from US\$650 billion in 2016 to US\$30 billion in 2018 due to changes in financial reforms and high levels of external demand easing (Gracious, 2023). . Similarly, in India, the return on assets of microfinance institutions decreased from US\$123.7 to US\$122.8 and the loan origination process decreased sharply from 94% in 2016 to 85% in 2017 (Moses et al., 2023). Africa is struggling with poor financial performance. For example, in Tanzania, Lotto (2017) argued that on average, foreign banks were more profitable with a return on equity of 21% and a return on assets of 2.8% compared to domestic financial institutions with a return on equity of 4% and above. return on assets 1.1%.

In Kenya (Alex et al., 2023) argued that deteriorating financial performance is a result of limited mortgage financing, which has fallen below 15% against 54% of total bank assets. The problem is more pronounced in Uganda, where the banking sector underwent restructuring, during which several banks were declared insolvent and eventually liquidated, and 2 banks were taken over by the central bank (Gracious, 2023). These banks included Uganda Corporative Bank, Greenland Bank and International Credit Bank between 1990 and 2000. In 2012 Bank of Uganda closed National Bank of Commerce (Uganda) and Crane Bank took over deposits. More recently in 2016, Crane Bank collapsed due to mounting bad loans and was acquired by DFCU Bank. In the Centenary Bank Annual Report (2018), the firm's return on assets (ROA) decreased to 3.7% in 2018 from 5.1% in 2016 and return on equity (ROE) decreased from 19.2 in 2017 to 2018 % to 17.9% (Paul et al., 2023). The situation is similar to the report of the Development Finance Company of Uganda bank (DFCU) which reported a decrease of 2.7 in assets from UGX 3.03 trillion to UGX 2.89 trillion (Dfcu 2018).

In addressing the declining financial performance of financial institutions, the study will be guided by contingency theory and institutional theory (Racheal, Kazaara, et al., 2023). The contingency theory proposed by Gordon and Miller (1976) assumes that the financial performance of institutions is dependent on factors such as innovation, organizational culture and accounting information system (Musaibah et al., 2023). While the institutional theory proposed by Martinez and Dacin (1999) posits that if organizations are to live longer and improve financial performance, they should listen to and accept the ways in which they interact with their cultural environment through creating change and adopting the organizational mission. Numerous studies have shown a direct link between organizational culture, defined as the expectations and values of the organization that allow members to change their behavior in terms of internal functioning and interactions with the environment, to financial performance (Ramadhan et al., 2023). However, these studies do not show the mechanisms by which organizational culture affects financial performance, and without them, the relationship remains partial and unexplained. (Ntirandekura, Ainebyoona, et al., 2022) advocated a third process variable to explain the relationship between the independent variable and the dependent variable. In line with his argument 3 (Christopher, Moses, Muhindo, & Muhammad, 2022) proposed an accounting information system, which means the process of integrating computer subsystems with regard to transaction data and financial information processing as a mediating variable or factor. to explain this hypothesized relationship, as it was previously found to be a significant mediator in other studies. Numerous studies that relate to organizational culture, accounting information system and financial performance have been conducted in countries such as India, China, Indonesia, Nigeria and Kenya with the exception of (Musaibah et al., 2023) who studied the effect of accounting information quality. and financial performance. in the public sector of Uganda.

Therefore, based on this existing knowledge gap, the current study seeks to establish the mediating effect of accounting information system in the relationship between organizational culture and financial performance to bridge the gaps in the existing literature using Nakifumu (Christopher, Moses, Muhindo, & Komunda, 2022). Mukono is one of the districts in the central region of Uganda. Mukono town is home to the district's main commercial center and district headquarters. Mukono District is bounded by Kayunga District to the north, Jinja District to the east, Kalangala District to the southwest, Kira Town and Wakiso District to the west and Luweero District to the northwest. The town of Mukono is about 21 kilometers (13 mi) by road, east of Kampala, Uganda's capital and largest city. This is about 55 kilometers (34 mi) west of the town of Njeru, where Nalubaale Power Station is located, on the Kampala-Jinja highway

Problem statement

Accounting is the process of identifying, measuring and communicating economic information that enables users of the information to make informed judgments and decisions (Moses et al., 2023). Accounting provides managers with information that they can use in running a business. In addition, accounting provides information to other stakeholders that can be used in evaluating the economic performance and state of the business (Faridah et al., 2023). Accounting information presented in financial reports aids decision making by showing where and when money was spent or earned, what liabilities were incurred, and helps predict the future effects of decisions (Racheal, Enock, et al., 2023). In addition, accounting information is used to evaluate the profitability of alternative practices, performance measurement and the evaluation of the position of enterprises in terms of profitability, liquidity and leverage can be used to improve the performance of banks, especially when making financial decisions (Annet et al., 2023). They are important and ensure the well-being and also the survival of the organization. Therefore, financial institutions must use quality data in making quality decisions to increase their performance (Christopher, Komunda, & Milton, 2022). Despite the above, managers tend not to use accounting data because most Ugandan banks have completely collapsed like a crane bank, attributed to poor accounting decisions by top management. (BOU report 2018) (Racheal, Kazaara et al., 2023). This study therefore seeks to determine the impact of accounting information system on the quality of financial reporting in commercial banks with reference to a case study of Nakifumu, Mukono District (Racheal, Kazaara, et al., 2023).

Specific objectives of the study

1. To examine the effect of Computerized accounting on the performance of Nakifumu firm.
2. To find out the effect of Managerial accounting on the profitability of Nakifumu firm,
3. To find out the effects of proper financial record keeping on the financial performance of Nakifumu firm

Methodology

The study used cross-sectional correlation research design which is at examining the accounting information system and financial performance of an organization in selected trading companies in Nakifumu firm Mukono district (A & Ahmed, 2019). This design enabled the researcher to observe two or more variables at the point in time and was useful for describing a relationship between two or more variables (Nafiu et al., 2013). The short coming of this type of design was that results obtained from this kind of analysis do not allow for strong findings to be made concerning a cause and effect relationship between variables (Lu et al., 2013). Mukono is one of the districts in the Central Region of Uganda. The town of Mukono is home to the district's main commercial center and district headquarters . Mukono District is bordered by Kayunga District to the north, Jinja District to the east, Kalangala District to the south-west, Kira Town and Wakiso District to the west, and Luweero District to the north-west. The town of Mukono is about 21 kilometers (13 mi) by road, east of Kampala, the capital and largest city of Uganda. This is about 55 kilometers (34 mi) west of the town of Njeru, where the Nalubaale Power Station is situated, on the Kampala–Jinja Highway (Nafiu, 2012). The geographical coordinates of Mukono

District are 00°28'50.0"N, 32°46'14.0"E (Latitude:0.480567; Longitude:32.770567). The number of sample was determined by Slovene 1970s formula for sample size determination as follows; $n = \frac{N}{1 + N(e)^2}$ Where, n = Sample Population N = Total Population

1 Statistical Constants

E = level of significant (0.05)

$$n = \frac{N}{1 + N(e)^2} = \frac{180}{1 + (180(0.05)^2)}$$

$$n = \frac{180}{1 + (180 \times 0.0025)} = \frac{180}{1 + 0.45}$$

$$n = \frac{180}{1.45}$$

N = 124 Respondents

Therefore, the trading companies was selected and questionnaires was given out to 124 respondents for the study. The researcher used quantitative approach where random sampling was applied and structured interviews questionnaires' was distributed to the Nakifumu firm Mukono district in the following department Finance and Accounting, Logistics and Procurement, Human resource and Sales and marketing department (Nafiu, 2012). The study used questionnaires to collect data from 124 staff ranging from junior, senior and executive members from the Nakifumu firm Mukono district for the study (Nafiu et al., 2012). The questionnaires was used because it allows easy collection of data from a large group of respondents (Mugenda and Mugenda, 1999). A questionnaire with the topical issues was designed by the researcher. The items on the questionnaire was tapped on a 5-point Likert scale. The Likert Scale is an ordinal psychometric measurement of attitudes, beliefs and opinions. The study used questionnaires to collect data from 124 staff ranging from junior, senior and executive members from the selected trading companies in Nakifumu firm Mukono district for the study. The questionnaires was used because it allowed easy collection of data from a large group of respondents (Olanrewaju et al., 2021). The data obtained from the field was in raw form and was cleaned, coded, and key-punched into a computer and analyzed. The statistical package which was used for analysis of data in this study was SPSS version 16.0 (Nelson et al., 2022). Different statistical techniques was used namely: descriptive, correlation and regression analyses. The upper level of statistical significance for hypothesis testing was at the 0.05 level of significance.

Results

Received: 19.05.2024

Accepted: 24.05.2024

Published on: 30.05.2024

Table 1: Correlation between Computerized accounting and Finance Performance

		Computerized accounting	Finance Performance
Computerized accounting	Pearson Correlation	1	.506**
	Sig. (2-tailed)		.000
	N	124	124
Finance Performance	Pearson Correlation	.506**	1
	Sig. (2-tailed)	.000	
	N	124	124
**. Correlation is significant at the 0.01 level (2-tailed).			

Source; Primary Data, 2024

The table presents the correlation between computerized accounting and finance performance, indicating a significant positive relationship between the two variables. Specifically, the Pearson correlation coefficient between computerized accounting and finance performance is .506, with a p-value of .000, indicating a strong and statistically significant correlation (Nelson et al., 2023). This implies that as the level of computerized accounting increases, finance performance tends to improve, and vice versa. The correlation coefficient being significant at the 0.01 level (two-tailed) underscores the robustness of this relationship. The findings, sourced from primary data collected in 2024, suggest that employing computerized accounting systems may positively influence financial performance, potentially enhancing efficiency, accuracy, and decision-making within financial operations (Christopher, Moses, Muhindo, & Nturanabo, 2022).

Table 2: Correlation between Managerial accounting and Finance Performance

		Managerial accounting	Finance Performance
Managerial accounting	Pearson Correlation	1	.899**
	Sig. (2-tailed)		.000
	N	124	124
Finance Performance	Pearson Correlation	.899**	1
	Sig. (2-tailed)	.000	
	N	124	124
**. Correlation is significant at the 0.01 level (2-tailed).			

Source; Primary Data, 2024

The table illustrates the correlation between managerial accounting and finance performance, revealing an exceptionally strong and positive relationship between these two variables. Specifically, the Pearson correlation



coefficient between managerial accounting and finance performance is .899, with a p-value of .000, indicating an extremely robust and statistically significant correlation. This signifies a close association wherein as the utilization or effectiveness of managerial accounting practices increases, there is a notable enhancement in finance performance, and conversely, as finance performance improves, managerial accounting practices tend to be more effective (Ntirandekura, Friday, et al., 2022). The significance of the correlation at the 0.01 level (two-tailed) underscores the reliability and strength of this relationship.

Table 3: Correlation between financial record keeping and Finance Performance

		Financial record keeping	Finance Performance
Financial record keeping	Pearson Correlation	1	.739**
	Sig. (2-tailed)		.000
	N	124	124
Finance Performance	Pearson Correlation	.739**	1
	Sig. (2-tailed)	.000	
	N	124	124
**. Correlation is significant at the 0.01 level (2-tailed).			

Source; Primary Data, 2024

The table displays the correlation between financial record keeping and finance performance, revealing a notably strong and positive relationship between these two variables. Specifically, the Pearson correlation coefficient between financial record keeping and finance performance is .739, with a p-value of .000, indicating a robust and statistically significant correlation. This suggests that there is a significant association between the effectiveness of financial record keeping practices and the overall finance performance of the organization. As the quality and accuracy of financial record keeping improve, there tends to be a corresponding enhancement in finance performance, and vice versa. The significance of the correlation at the 0.01 level (two-tailed) underscores the reliability and significance of this relationship. Based on primary data collected in 2024, these findings imply that maintaining thorough and accurate financial records is crucial for achieving optimal finance performance within an organization, potentially leading to improved financial reporting, compliance, and decision-making processes.

Conclusion

Based on the analysis of the correlation between various accounting practices and finance performance as depicted in Tables 1, 2, and 3, it is evident that there exists a strong and statistically significant relationship between each of these accounting practices and finance performance. The findings reveal that computerized accounting, managerial accounting, and financial record keeping all exhibit positive correlations with finance performance, with Pearson correlation coefficients ranging from .506 to .899 across the different accounting practices. These correlations are all significant at the 0.01 level (two-tailed), indicating a high level of confidence in the observed

Received: 19.05.2024

Accepted: 24.05.2024

Published on: 30.05.2024



associations. Specifically, the results suggest that as organizations enhance their utilization or effectiveness of these accounting practices, there is a corresponding improvement in finance performance metrics. This implies that investing in and prioritizing efficient accounting systems and practices can potentially lead to better financial outcomes, including improved efficiency, accuracy, decision-making, and overall financial health. Furthermore, the findings underscore the importance of maintaining thorough and accurate financial records, as evidenced by the strong correlation between financial record keeping and finance performance. This highlights the crucial role that meticulous record-keeping plays in driving financial success within organizations, facilitating better financial reporting, compliance, and strategic planning.

Recommendation

It is imperative for organizations to prioritize investments in modern accounting technologies, particularly computerized accounting systems. By embracing innovative software solutions tailored to their specific needs, organizations can streamline financial processes, enhance data accuracy, and improve overall efficiency. This includes implementing robust accounting software capable of automating routine tasks, generating real-time financial reports, and facilitating seamless integration with other business systems.

Organizations should place a strong emphasis on enhancing managerial accounting practices. This involves adopting proactive strategies to analyze financial data, identify cost drivers, and optimize resource allocation. By implementing effective managerial accounting techniques such as activity-based costing, budgeting, and variance analysis, organizations can gain valuable insights into their financial performance and make informed decisions to drive profitability and growth.

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Received: 19.05.2024

Accepted: 24.05.2024

Published on: 30.05.2024

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