

**Full Length Research Paper****Assessment of Accounting Practice and Access to Finance of Small and Medium Size Enterprises with Special Reference to Hawassa City Administration, SNNPRS, Ethiopia.****Ayele Bogale Fikade**

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**Corresponding Author:****Ayele Bogale Fikade**Lecturer, College of  
Business and Economics,  
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Ethiopia.**Abstract**

This study was aimed at assessing effective accounting practices and access to finance of SME's with special reference to Hawassa City Administration, SNNPR, with the specific objectives of the study is determining whether SME does maintain formal effective accounting practices or not, identifying sources and types of access to finance available to SME's, examining the determinants of the effective accounting practices of the SME and examining the factors that affect access to finance of the SMEs. For this study the researcher made use of primary and secondary data. The data were generated by individual interview schedules and key informants interview using semi structured questionnaires and checklists, respectively. The OLS result of this study revealed that SME's size, capital market, education status, and professional support were factors significantly affect accounting practices and age of the business, interest rate, bureaucracy, accounting practices and average income of SME's were factors significantly affect access to finance in the study area. The need for clear national development objectives to meet the needs of the SMEs sector, sound policies and regulations should be developed, the government needs to adopt simplified financial reporting standards set for SME's, government should accelerate the development of market for financial services suited to the special characteristics of SME's by promoting product innovation and building institutional capacity, improving SME's access to credits requires an increase in the number of financial institutions, easy accessibility to credit through specialized or development oriented banking or financing institutions, studies must be initiated regarding access to finance and accounting practices.

**Key words:** accounting practices, access to finance, SME's, accounting record, finance

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**Introduction**

Small and Medium enterprises (SMEs) and financial institutions are vital contributors to the overall performance of an economy. SMEs play a crucial role in developing the economy and in creating employment. They do not only provide employment and income opportunities to a large number of people, but also are at the forefront of technological innovations and export diversification. Similarly, financial institutions play an indispensable role in firm's growth and thus industry productivity and economic growth. SME's provide a sound medium of exchange and facilitate trading, encourage mobilization of resources through savings and allocate resources to activities with highest returns, monitor investments and exert corporate governance, and spreads risks by offering a diversity of financial instruments. Furthermore, they provide financial assistance to fulfill the varied needs of enterprises. Small and medium sized enterprises are an important ingredient for stable and equitable growth in any national economy. Ethiopia takes the development and expansion of SME's as the main way to solve many of the social problems. Hawassa (hub of the region) is a city with several socio-economic problems. The unemployment rate is estimated to be about 13.2% of male and 25.8% of female. The total average of unemployment is 18.3 % (C.S.A, 2007). At present various reforms and development activities are being carried out. One of these is the promotion and development of SME's in the city. The program has been started seven years (2002/03 G.C) ago to enhance the promotion of the sector, emphasizing on employment creation through the development of SME's. Yet despite specific global efforts to strengthen the SME sector, these businesses face a number of stifling financial and regulatory barriers, particularly in developing countries. In Ethiopia one of the main problems of SME's may be their access to finance and effective accounting practices (HCATID, 2013).

*Statement of the problem*

It appears that considering the enormous potentials of the SME sector, and despite the acknowledgement of its immense contribution to sustainable economic development, its performance still falls below expectation in many developing countries. SMEs frequently lack access to institutional credit (WB, 1978), causing them to encounter high financing costs and high failure rates (Byron & Friedlob, 1984). The possible reasons for SME failures include among others 1) the poor management and/or administrative skills of the owner/manager, 2) insufficient capital invested by the owner, 4) an over-reliance on external borrowings, and 5) poor record-keeping, and etc. (Brooks et al.,1990). Poor record keeping and inefficient use of accounting information are a major cause of the above (Siop, 1997: Walton, 2000: Wichmann,1983: WB,1978). The inefficient use of the accounting information to support their financial decision-making and the low quality and reliability of financial data are part of the main problems of SME's.

Considering the enormous potentials of the SMEs sector, and despite the acknowledgement of its immense contribution to sustainable economic development, its performance still falls below expectation in many developing countries. Most of SME's in HCA frequently lack access to institutional credit, causing them to encounter high financing costs and high failure rates. Similarly in this SME's continue to exist with many problems among others are; inability to maintain accounting practice and lack of access to credit. They lack of access to credit and high interest rates charges are partially the result of incomplete (or no) accounting records, and the inefficient use of accounting information. Poor record keeping and accounting information make it difficult for financial institutions to evaluate potential risks and returns, making them unwilling to lend to SMEs. Therefore, this study try to assess the accounting practices and access to finance with special reference to Hawassa City Administration, SNNPRS.

*Objectives of the study*

- To determining whether SME does maintain formal effective accounting practices or not.
- To identify sources and types of access to finance available to SME's
- To study the determinants of the effective accounting practices of the SME.
- To examine the factors that affect access to finance of the SMEs.

*Research Questions*

- Dose SME maintain formal effective accounting practices or not?
- What type and sources of access to finance does the SME uses?
- What are the main determinants of access to finance of the SMEs?
- What are the source of credit available to SMEs and the types of finance used?

**Research methodology***Research Design*

The main objective of this study is to examine the effective accounting practices of SMEs and its impacts on access to finance in Hawassa City Administration, SNNPRS. To this end, the study had been employed both quantitative and qualitative approaches with cross sectional survey design because it is possible to obtain the desired information at one time.

*Quantitative Method*

Quantitative research approach carried out for this study. The reason for the adoption of this approach includes; there is the cause and effect relationship in the study, to make generalization from a sample to a population, it is an efficient way of collecting information from a large number of respondents, Statistical techniques used to determine validity, reliability, and statistical significance, because they are standardized they are relatively free from several types of errors, they are relatively easy to administer, there is an economy in data collection due to the focus provided by standardized questions (Creswell,2002).

*Qualitative Method*

Qualitative research approach is the one in which the investigator often makes knowledge claims based on the multiple meanings of individual experiences, socially and historically constructed meanings, participation in issues, collaboration or change oriented with an intent of developing a theory or pattern. In contrast to quantitative research design, qualitative approach is rooted on the philosophy constructivist.

To sum up, quantitative and qualitative research methods investigated and explored the different claims to knowledge and both methods were designed to address a specific type of research question. While the quantitative method provides an objective measure of reality, the qualitative method allows the researcher to explore and better understand the complexity of a phenomenon.

*Sampling and Sampling procedure*

Three stage sampling procedure employed to select sample of small and medium enterprises (SME's). First, it will employ purposive sampling method to select Hawassa City Administration as a study area. In the second stage, by employing Probability Proportional to Size (PPS) the number of SME's was drawn each sub-cities. Finally, based on the sampling frame to be collected from each sub-cities, Systematic Random Sampling is used at the third stage to select the sample SME's based on their economic activity (Table 1). The determination of sample size is resolved by means of Slovin's sampling formula with 90 percent confidence level.

Populations for quantitative data collection for this study were SME's from eight sub-cities of Hawassa City Administration. So, it is 1,320 SME's representing 100 from eight sub-cities of Hawassa City Administration. The researcher deemed necessary to take independent sample for each sub-cities to ensure equal representation of households as the eight sub-cities have different number of SME's.

Therefore, sample size was determined on the total number of SME's 1,320 and independent sample were considered from SME's in each sub-cities, 150 Tabor sub-city, 211 Menharia sub-city, 152 Haike Dar sub-city, 211 Bahel Adarash sub-city, 184 Misrak sub-city, 157 Hawella Tulla sub-city, 111 Adiss Ketema sub-city and 139 Mehale Ketema sub-city used random sampling method. The sample size for collecting quantitative data for this research was determined using Cochran's (1977) formula as indicated on Bartlett Kotrlik and Higgins (Bartlett and Higgins,2001). This study uses the following formula to calculate sample size:

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

The following step is used to determine sample size derived from the above formula to collect quantitative data using questionnaire:

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

$n$  = sample size for the research use

$N$  = total number of SME's in the study area

$e$  = margin of errors at 10%

Therefore:

$$n = \frac{N}{1 + N(e)^2} , \quad n = \frac{1230}{1 + 1230(0.1)^2} = 100$$

Sum of sample sizes that was taken from eight sub cities become 100 SME's.

Generally, quantitative data collection sample had been taken from eight sub-cities in Hawassa City Administration. Data was collected from 11 SME's in Tabor sub-city, 16 SME's in Menharia sub-city, 13 SME's in Haike Dar sub-city, 16 SME's in Bahel Adarash sub-city, 14 SME's in Misrak sub-city, 12 SME's in Hawella Tulla sub-city, 8 SME's in Adiss Ketema sub-city and 10 SME's in Mehale Ketema sub-city using questionnaires.

**Table 1..** Sample size determination in different business sectors in HCA, 2013/14

Sub cities	Producers		Merchandises		Service Givers		Total	
	Pop.	sample	Pop.	sample	Pop.	sample	Pop.	sample
<b>Tabor</b>	44	3	81	9	25	2	150	13
<b>Menharia</b>	110	7	76	4	25	2	211	13
<b>Hayekdar</b>	56	4	72	5	24	2	152	11
<b>Bahil Adarash</b>	103	7	73	8	35	4	211	18
<b>Misrak</b>	73	6	83	6	28	2	184	14
<b>Hawela Tula</b>	51	4	72	5	34	3	157	12
<b>Adis Ketema</b>	43	3	52	4	16	1	111	8
<b>Mehale Keteme</b>	48	3	56	5	35	3	139	11
<b>Total</b>	<b>528</b>	<b>37</b>	<b>565</b>	<b>46</b>	<b>227</b>	<b>17</b>	<b>1320</b>	<b>100</b>

*Source:* Hawassa City Administration Trade and Industry Department (2015)

#### Instrument and Data Collection Methods

Both primary and secondary data were used for the achievement of the study objective. The primary data for this study gathered through distribution of structured questionnaire for the owner or management of the enterprises and other separate close ended question was developed for the face to face interview of the banks management or other concerned body questions related to precondition for the provision of loans to SME's. Both close ended questions were developed by the researcher. The reason for selecting face to face interview is primarily it is impossible to apply other means of interviewing in our country because it is difficult to get their telephone, it very costs interviewing through telephone and additionally face to face interview helps to make clarification about the question to interviewee. A total of 10 key informants selected and interviewed, of which 4 branch bank managers and MFI. This includes 1 from Commercial bank of Ethiopia, 1 from Omo micro finance, 1 from Sidama micro finance, 1 from Construction and Business bank of Ethiopia and 6 experts from Hawassa city administration Trade and industry department and sub city SMEs organizers. Reasons for selecting these banks and MFI are; they are banks providing service for the large user, they provide special service for such business (e.g- Omo micro finance) and banks with modern service. The secondary data was obtained by reviewing 2013/14 financial records and other published and unpublished sources. The reason for using the record of this study period was its reasonable that the paper emphasis more on the current situation of the firm. Therefore, the latest data was preferred. Data collection was carried out in the month of April 2015.

In this section the methods and techniques of estimating and analyzing the above models are both inferential and descriptive methods are discussed. To start with, under inferential analysis the models of effective accounting practice and access to finance developed under the empirical model section was estimated using simple ordinary least square (OLS) method. The sources of fund and other variables, on the other hand, had been analyzed using descriptive analysis tools such as tables, percentages and graphs. As explained in different econometric models, there is a need to test the presence of multicollinearity as its presence leads to biased estimates. This study employed simple correlation coefficients between the explanatory variables to test the presence or absence of multicollinearity. Following some authors (e.g., Studenmund, 2001) it is argued that the test does not detect the existence of severe multicollinearity of explanatory variables if the values of the correlation coefficients between the explanatory variables are lower than 0.8. This study also used the same argument. In addition to testing the presence of multicollinearity, this study also considered the goodness of fit of the model. As it is discussed in different econometric models, the goodness of fit of a model for a simple OLS model is tested by R-square. The R square of a model explains how good the model is in explaining the dependent variable. In other words, it explains the explaining power of the explanatory variables on the dependent variable. In this regard, if the independent variables included in the model explain the dependent variable well, the better is the model and the more R square approaches to one. On the other hand, if the independent variables included in the model do not explain the dependent variable well, the goodness of the model is not fit and the value of R square approaches to zero (Gujurati, 2004).

### Dependent Variables

*Effective accounting practices (ACP)*; - effective accounting practice of SMEs is measured based on their normal recording system, preparation of balance sheet and income statement. Based on this firms with no recording system and other accounting tasks is seen as firms do not maintain any accounts, firms with only keeping records do not maintain financial reports is considered as maintaining minimum accounts, and firms with standardized recording system based on IASB, prepare balance sheet and income statement is considered as firms maintaining formal effective accounting practice. For the test of access to credit effective accounting practice is an independent variable which takes a value (0= do not maintain any records, 1=maintain minimum records and 2= maintain a formal accounts. Depending on the theoretical model and the measurements of the variables explained above, the empirical model that this study employs is given by:

$$ACP = \beta_0 + \beta_1 CAP + \beta_2 EDU + \beta_3 AGE + \beta_4 GP + \beta_5 CM + \beta_6 SSME + \beta_7 PS + \beta_8 AS + \beta_9 SY + \epsilon$$

*Access to finance (AF)*; - In order to provide evidence on who gets credit among SMEs, the firms are divided in two based upon their response to question whether they have a bank loan. If the firm answered "Yes", they are classified as non-constrained firms. If they answered "No" there may be two possibilities. One possibility may be that they do not need credit or did not apply credit due to religious or cultural reasons (voluntary exclusion). Others may not have a loan due to the reason that they applied for a bank loan and rejected by the bank or did not apply for a loan thinking it will get rejected by the bank. All of these types of firms are classified as non-borrowers and categorized as constrained firms in this research. Depending on the theoretical model and the measurements of the variables explained above, the empirical model that this study employs is given by:

$$AF = \alpha_0 + \alpha_1 COL + \alpha_2 ACP + \alpha_3 AGE + \alpha_4 BU + \alpha_5 IR + \alpha_6 LPP + \alpha_7 TC + \alpha_8 AI + v$$

### Independent Variables

*Capital of SMEs (CAP)*; - Capital is an independent variable which is measured using capital to total asset ratio. It is measured as:-

$$Capital = Capital / total asset$$

*Age of the SMEs (AGE)*; - The number of years in business has been identified as an important variable in the previous studies which determines the effective accounting practice and creditworthiness of the business. The information required by the lenders at the time of granting credit may be limited for younger firms due to lack of established track record. Hence, the transaction costs associated with lending to younger firms are likely to be relatively high. Further, the younger firms may not be able to offer collaterals acceptable to the banks as those firms have not accumulated sufficient fixed assets. Age of the business is measured by the number of years the business in operation. For this analysis purpose the average of each age interval is taken and the ceiling age used was 20 years.

*Educational level of Managers of SMEs (EDU)*; - Education of the principal owner manager is redefined by categories from 0 to 4, corresponding to whether manager is illiterate, less than grade 9, grade 9 to twelve complete, TVET/Diploma and BA/BSC degree and above. The education variables is managers level of education (illiterate =0, less than grade nine =1, grade nine to twelve complete = 2, TVET/Diploma= 3, BA/BSC Degree and above=4).

*Collateral (COL)*; - The collateral of the firm is measured using fixed asset to total asset ratio. It is measured as follows:

**Tangible asset/collateral = tangible net fixed assets/total assets;** *Interest Rate (IR)*; - If the interest rate pay by the bank is relatively better compared to other commercial banks the depositors choose the bank. On the other hand if the interest rate payed by the bank is relatively low depositors may be discourage to deposit their money in the bank.

*Loan Supervision (LSU)*:- the probability of using loan funds for non-intended purposes decreases if adequate loan supervision is made regarding loan utilization. In such cases we expect a negative sign for this variable.

*Average Income (AI)*:- it is the average income of SME's per year.

*Loan Payback Period (LPP)*:- If loan is disbursed in time, it is unlikely that it will be diverted to non-intended purposes. Johnson and Rogaly (1997) noted that timeliness of loan disbursement is important when loans are used for seasonal activities such as agriculture. They argued that complicated appraisal and approval procedures, which might delay disbursement, influence a program of seasonal loans for farmers who use to buy inputs. Further they noted that this could in turn worsen the prospects of repayment by diverting loan to non-intended purpose. In such cases a positive sign is expected.

*Government policy (GP)*:- The government policy plays an important role in effective accounting system in many developing countries (Jermakawicz, 2007, Chamisa, 2000).

*Capital Market (CP)*:- Among the factors noted to be influencing the accounting practices in developing countries, availability of capital market is singled out as very cogent (Zeghal and Mhedhbi,2006). Capital market here is referred to a market for securities (debt or equity), where business enterprises and governments can raise long term funds. Most authors argue that capital markets in developing countries are small and inefficient and hence the effective accounting practice is irrelevant to these countries.

*Professional Support (PS)*:- professional body is a group of people in a learned occupation who are entrusted with maintaining control or oversight of the legitimate practice of the occupation; also a body acting to safeguard the public interest; organizations which represent the interest of the professional practitioners, act to maintain their own privilege and powerful position as a controlling body.

*SME's Size (SSIZ)*:- It is the size of the SME's based on the number of employees they accommodate and the amount of capital they are performing their activities.

*Service Year(SY)*:- it is the time in which the owner of the SME's engaged in the business and the experience he got due to managing the works of SME's

*Area of Specialty (AS)*:- It is the area of the specialty of his educational background if the owner is graduate of Diploma /TVET or above.

### Background Characteristics of Sample Respondents

A total of 100 questionnaires were distributed across the various SME in Hawassa City Administration, SNNPRS. All questionnaires were completed, retrieved and fully returned. This representing 100% response rate. Out of the 100 questionnaires administered 53 and 47 were distributed to Small and Medium scale enterprises, respectively. The type of business SME's engaged was analyzed in terms of whether they are manufacturers, merchandisers and service providers. The study result is depicted below on the type of business of SME of Hawassa City Administration. The result revealed that, merchandizing represent 46 percent of the sample SME, 37 percent was engaged in manufacturing sector and the remaining 17 percent of SME's were service providers. The result revealed that, large number of SME's were merchandisers. As some scholars discussed, business life cycle model has an impact on the sample firms accounting systems. A similar finding was reported by Dodge and Robbins (1992) and Padachi (2008). The survey result is depicted in the following figure.

Above figure depicted that, the years of establishment of the enterprises in the city administration ranged from one to more than fifteen years. There is an indication that most of the SME's (78 %) were established less than five years ago as shown by the survey results. 13% of the enterprises were established between 6-10 years ago, 6% fall between 11-15 years ago. Similarly business lines that fall above 15 years accounted for 3 percent. However, the distribution of enterprises that were established more than 15 years ago has relatively fewer and business firms below five years is greater. This analysis of the distribution based on year of establishment shows that, new firms in the city administration were established less than five years ago. Very few enterprises indicated that they were established before 15 years ago. With regards to number of employees in SME's, majority (83%) of SME's surveyed had employees between one and ten while, 9 percent had employees between 11 and 20.

**Table 2:** Percentage distribution of SME's by average annual sale

Amount of annual sale	Frequency	Percent
10,000 or less ETB	51	51
10,001 – Birr 50,000 ETB	40	40
50,001 – Birr 100,000 ETB	9	9
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Primary data (2015)

Survey respondents were also asked to identify the sources they normally use to meet their finance needs for working capital and medium & long term investment separately. The results are given in tables . It can be observed that, own savings/retained earnings (44%) and loan from MFI's (37%) were rated as the most important sources of finance both for working capital and medium & long term investment.

**Table 3:** Percentage distribution of SME's by Source of finance to meet working capital needs

Source of finance to working capital	Frequency	Percent
Own saving/retained earn	44	44
Borrowing from banks	5	5
Borrowing from microfinance institutions	37	37
Government advance	6	6
Borrowing from relatives, Iqub, associations	8	8
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Primary data (2015)*

Despite this, government advances, banks and relatives and some other social institutions like iqub...etc also provided financial resources to finance working capital and investment needs. MFIs were primarily providing short-term loans. However, bank loans were good for financing investment needs. The role of the manager is the main determinant for the firm's success. The main role of the manager is categorized as; overall responsibility, administrative and finance and some other responsibility. The survey report is depicted in the table below.

**Table 4:** Percentage distribution of SME's by role of the manager in SME firms

Role of the managers	Frequency	Percent
Overall responsibility	58	58
Administrative and finance	31	31
Some other responsibility	11	11
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Primary data (2015)*

The survey has indicated that the largest proportion of the SME managers' main role is the overall responsibility of the firms. The study result shows that, 58 percent of sampled SME managers' role is overall responsibility. Whereas, managers responsible only in administrative and finance is accounted for 31 percent of the sampled SME. Thus, in the majority of the cases, the manager oversees all the operational aspects of the enterprise and may thus have no time to perform even some of the basic accounting routines. In addition to this, a significant number of manger is also engaged in administrative and finance, which indicates that manager education is the determinant variable for the firm accounting practice.

**Table 5.** Percentage distribution of SME's by practicing accounting standards and principles in their accounting system

Accounting principles and standards	Do not maintain records						Yes		No		Total	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%		
Accounting record is based on the principles of accounting	58	58	26	26	16	16	100	100				
Accounting record conform and enforce rules and laws(Principle of Regularity)	58	58	26	26	16	16	100	100				
Accounting record is consistently apply the same methods and procedures(Principle of Consistency)	58	58	26	26	16	16	100	100				
Accounting record reflect good faith and reality of SME's financial status(Principle of Sincerity)	58	58	23	23	19	19	100	100				
Accounting record provide coherence and allow comparison of financial information published(Principle of The Permanence of Methods)	58	58	26	26	16	16	100	100				
Accounting record disclose all the necessary accounting record or financial information's and values in the records(Principle of Full Disclosure/Materiality)	58	58	19	19	23	23	100	100				

*Source: Primary data (2015)*

With regards to accounting records is based on principle of accounting, majority of the respondents(58%) after all don't maintain records were as, 26 percent of respondents accounting records were based the principle and the remaining 16 percent kept records but, did not follow basic accounting principles. This result indicated that, nearly only third of SMEs formal accounting principles

which affects accounting system and access to finance to firms. Regularity principle is conformity to enforced rules and laws and it is one of the standards of accounting practices. In this regard, majority of the respondents (58%) after all don't maintain records whereas, 26 percent of respondents accounting records were based the principle of regularity and the remaining 16 percent kept records did not base itself in regularity principles. This result indicated that, nearly only third of SMEs follow a regularity principle which affects accounting system. The consistency principle in accounting requires accountants to apply the same methods and procedures from period to period. In this regard, majority of the respondents (58%) after all don't maintain records whereas, 26 percent of respondents accounting records were based the principle of consistency and the remaining 16 percent kept records did not base it in these principles. This result indicated that, nearly only third of SMEs follow a consistency principle which affects accounting system. According to sincerity principle, the accounting unit should reflect in good faith the reality of the company's financial status. With this regard, majority of the respondents (58%) after all don't maintain records whereas, 23 percent of respondents accounting records were based the principle of sincerity and the remaining 19 percent kept records did not base itself in these principles. This result indicated that, nearly only third of SMEs follow a sincerity principle which affects accounting system.

**Table 6:** Percentage distribution of SME's by reasons for lack of access to finance

Reasons for lack of access to finance	Having access		Yes		No		Total	
	Freq	%	Freq	%	Freq	%	Fre	%
Inadequate collateral	37	37	55	55	8	8	100	100
No need of credit	37	37	9	9	54	54	100	100
Fear of inability to repay a loan	37	37	27	27	36	36	100	100
High interest rate	37	37	51	51	12	12	100	100
Too difficult process/bureaucracy	37	37	53	53	10	10	100	100

*Source: Primary data (2015)*

Some financial institutions failed to provide credit to SMEs. The most frequently mentioned reasons were: enterprises business size was beyond the target for financial institutions credit facilities; SMEs were unaware to institutions loan facilities; difficulty to form a group which is a requirement for loans, and no institutions were operates in the area. Other reasons were also given by survey respondents such as inadequate collateral (55%), no need of credit (9%), high borrowing cost or high interest rate (51%), fear of inability to repay (27%) and difficulty of the process (53%). Key important interview also confirmed that added there are various reasons for lack of access to finance to SME's like inadequate collateral, fear of inability to repay loan, high interest rate of loan and too much bureaucracy. But, banks/MFI's do not accept that high interest rate is major hindrances to lack access to finance rather they associated the problem particularly with SME's. Added to this due to the above mentioned problem and it aggravated majority of do not get access to finance in the study area.

**Table 7:** Percentage distribution of SME's by criteria's for access to finance

Criteria as easy to meet	Freq	%
Yes	20	20
No	80	80
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Primary data (2015)*

Respondents were asked how do they fill about criteria's set by financial institutions, the result revealed that, majority(80%) of them believed the criteria's were beyond their capacity as a result they were difficult to meet whereas, the rest 20% believed the criteria's were easy to meet. Majority of the respondents (67%) believed that, the financial access provide by banks are not adequate for expanding of their business. In terms of loans purposes, about 46 percent of survey respondents indicated that loans were most commonly used for the purchase of inputs/raw materials while 51 percent and 3 percent said that, they were used to purchase long lived assets like business house, machinery and payment of previous loans, respectively (table 4.14).

**Table 8:** Percentage distribution of SME's by usage of bank/MFI's loan

Usage of bank loans	Frequency	Percent
Purchase of inputs/raw materials	46	46
Purchase of long lived assets (like machinery, business building)	51	51
Payment of previous loans	3	3
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Primary data (2015)*

Survey respondents were also asked about the additional product/services apart from financial services offered by financial institutions. In this regard, 21 percent of the respondents indicated that, banks/MFIs help them in setting up their business plans and

control their business activities. About 54 percent indicated that saving, insurance and asset management were additional products/services provided by banks/MFIs. The remaining 13 percent provide third part asset management.

**Table 9:** Percentage distribution of SME's by support of bank/MFI's beside financial services

Bank/MFI support	Frequency	Percent
Set business plans and regular control of business	21	21
Saving and Payment services	54	54
Third parties asset management (trustee)	13	13
Others	12	12
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Primary data (2015)

The outcomes of the interviews regarding the banks/MFIs products and services show that MFIs/banks also provide financial as well as non financial services. MFIs/banks typically provide variety financial services (loans, savings, cash management, insurance, and payment facilities) which are crucial for SMEs growth. Loans provided by MFIs/banks that were available to SMEs are term loans and installment loans. The Loan term and size was depending on the purpose of the loan, the capacity of the borrower to pay the loan, and the lending capacity of the institution. According to key informants particularly banks/MFI's savings and saving mobilization are other financial services provided by MFIs/banks. MFIs/banks provide two types of savings products: voluntary and compulsory saving facilities. Compulsory saving may have an advantage of developing saving culture among borrowers and used as collateral for loan. Enterprises were also used this savings as one of the instruments for arrears settlement. Cash collections, savings mobilization activities, and loan disbursements were made both at center or branches level. MFIs/banks also provided some supplementary services to SMEs such as accepting contracting document (between SMEs and their customers) for granting loans, refinancing future potential SMEs projects, and act as trustee. Apart from financial services, MFIs also provide non-financial services to SMEs. The major non-financial services include setting up business plans, counseling, marketing, bookkeeping, monitoring, and experience sharing among clients. Business development training about marketing, record keeping, and pricing was delivered for every client. Also they provide experience-sharing forums by preparing workshops, panels, and publicizing bulletin, occasional thesis s and other materials.

#### *Determinants of Accounting Practices of SME's*

Here in this section determinants that affect accounting practices of SME's have been examined by estimating linear regression model. In this section, one dependent variable against nine independent variables was investigated. The dependent variable is the accounting practices of SME's, while the independent variables are Government Policy, Professional Bodies, SME's Size, Capital Market, Age of SME's, Capital of SME's, Area of Specialty, Service year of SME's and Educational status. This section will present the results of regression model. In examining the factors that could determine accounting practices of SME's in Hawassa City Administration, the researcher used a regression analysis to test the effect of nine independent (explanatory) variables on the dependent (explained) variable i.e. the accounting practices of SME's. Thus, in this study the researcher used multiple regression analysis, in which tests have been made to examine whether one or more independent variables influence the variation on dependent variable.

The functional relationship between variables in this study is therefore, the accounting practices is a function of government policy, capital market, SME's size, educational level, area of specialty, service year, capital of SME's and professional bodies. However, to show how well the model containing those of nine explanatory variables actually explains the variations in the dependent variable, i.e. accounting practices, it is necessary to test it through goodness of fit statistic.

**Table 10:** Testing the model through ANOVA (Goodness of fit statistic)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	34.691	9	3.855	10.291	.000 <sup>b</sup>
Residual	31.836	85	.375		
Total	66.526	94			

a. Dependent Variable: Accounting practice

b. Predictors: (Constant), Service year, Capital of SME's, Capital Market Size of SME's, Educational level, area of specialty, Professional support, Government policy and Age of business

Source: SPSS regression result(2015)

The above table summarizes the information about the variation of the dependent variable explained by the existing model used for this study and the residual that indicates the variation of the dependent variable that are not captured by the model. It is observed that the independent variables give a significant effect on the dependent variable, where F-value is 10.291 with a p-value of less than 0.05 (i.e.  $p < 0.000$ ) indicating that, over all, the model used for the study is significantly good enough in explaining the variation on the dependent variable. To ensure the statistical adequacy of the model, the goodness of fit can also be measured by the square of the correlation coefficient also called  $R^2$ .

Table 11. Goodness of fit through R Square

Model	R	R square	Adjusted R Square	Std. Error of the Estimate
1	.722 <sup>a</sup>	.721	.791	.61199

a. **Predictors:** (Constant), Service year, Capital of SME's, Capital Market Size of SME's, Educational level, area of specialty, Professional support, Government policy and Age of business

**Source:** Source: Primary data (2015)

As shown in the table above, both  $R^2$  and adjusted  $R^2$  measure the fitness of the model i.e. they measure the proportion of the variation in dependent variable explained by the model. But since adjusted  $R^2$  is the modification for the limitation of  $R^2$  the value of the adjusted  $R^2$  is considered to measure the fitness of the model. Thus, as it is shown on table 4.18, the value of adjusted  $R^2$  is 0.791, indicating that; the independent variables in the model are explaining 79.1% variation on the dependent variables. Thus, we can understand that the model of the study is providing a good fit to the data. This outcome empirically indicates that the independent variables in this study are the major determinants of accounting practices of SME' in the study area.

Table below shows the results of the regression model. The result reveals that, with the government policy, area of specialty of the owner, age of SME's and service year of the owner in the business were insignificant. Whereas, there exists a significant relationship between independent variables such as company size, capital market, education status, and professional support and dependent variable, i.e. effective accounting practices.

Table 12: Regression analysis on effective accounting practice

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	3.698	.540		6.848	.000
Government policy	.048	.056	.076	.861	.392
Capital Market	-.073	.069	-.093	-1.055	.008**
Size of SME's	-.042	.058	-.063	-.719	.044**
Professional Support	-.093	.063	-.123	-1.469	.014**
Educational Status	-.176	.059	-.286	-3.011	.003**
Area of specialty	.005	.048	.010	.108	.914
Age of SME's	-.045	.092	-.042	-.487	.628
Capital of SME's	-.650	.104	-.508	-6.269	.000***
Service year	.147	.095	.139	1.545	.126

**Source:** SPSS regression result

As shown in the above table, of the total nine explanatory variables tested in this study, SME's size (p-value= 0.044), education status (p-value=0.003), capital market (p-value=0.008), and professional support (p-value=0.14) were statistically significant at 5 percent or lower. In this study, there is insignificant positive relationship between government policy, area of specialty, age of SME's, service year and effective accounting practices with a regression p-value of 0.39, 0.941, 0.628 and 0.126, respectively. The result also reveals that there is a positive relationship between all the independent variables and effective accounting practices.

Finally, the researcher discusses the effect of each independent variable tested under this study using multiple regression is discussed and analyzed based on the theoretical predictions, prior empirical studies and research questions formulated for this study.

#### Capital Market

In this study, the regression result shows that, there is a significant positive relationship between capital market and effective accounting practices of SME's. As it is presented on table 4.18, the regression result also shows a significant relationship between capital market and effective accounting practices of SME's, with a regression coefficient of -0.093, t-statistic of -1.005 and P-value of 0.008. Thus, from the result it can be conclude that capital market influences the effective accounting practices of SME's.

Consistent with the result of this study a number of prior empirical evidence found significant relationship between capital market and effective accounting practices of SME's; (e.g Chamisa (2000), Sharif (2010) and Zeghal and Mhedhbi (2006). In conformity with this Al-Shammari, et al, (2008), states that the rapid growth and opening up of capital markets has led governments to effective accounting practices of SME's, in the expectation that adoption would meet demands by local and international investors for more detailed and comparable accounting practices.

#### Factors affecting access to finance of SME's

In this section, nine selected independent variables were entered in to Ordinary Least Squares (OLS) model to identify the major determinants of SME's access to finance. These variables were selected on the basis of the result of univariate analysis. Initially, OLS regression was selected due to its relative easiness to check the model assumptions such as linearity, constant variance and the effect of outliers using simple graphical methods (Hutcheson and Sofroniou, 1999). Prior to the estimation of the model parameters, it was

crucial to look into the problem of multicollinearity or association among the potential candidate variables. The Variance Inflation Factor (VIF) is a measure of multicollinearity among the continuous independent variables. As 'a rule of thumb', if the mean VIF of variables exceeds ten, that variable is said to be highly collinear and it can be concluded that multicollinearity is a problem (Gujarati, 1995). The average value of VIF for continuous variables was 1.4718 i.e., less than ten (see Appendix table 3). Access to finance to SME's was used as dependent variable. This dependent variable was regressed separately against independent variables expected to affect them. The relationship between each independent variables and dependent variables, controlling for all confounding factors, was determined using the multivariate analysis. A set of nine independent variables were included in the model and used in the OLS analysis. To determine the best subset of independent variables that are good predictors of the dependent variables; the OLS were estimated using statistical tools of SPSS version 20. The regression coefficients are interpreted as the change in the expected value of Y associated with a one-unit increase in an independent variable, with the other independent variables held constant. The beta( $\beta$ ) coefficients of the regression on tables 20, was in the expected sign that tell us the magnitude of the contribution of the individual independent variable, that is to say, the larger the value of beta ( $\beta$ ), the greater its effect on the dependent variables to be.

Multiple independent variables are presented as a linear function in much the same way as a single variable. The additional independent variables are simply added to the model (the model is thus said to be additive). For instance, the models look like:-

$$Y_i = \beta_0 + \beta_1(\text{IR}) + \beta_2(\text{LPP}) + \beta_3(\text{BU}) + \beta_4(\text{TC}) + \beta_5(\text{LS}) + \beta_6(\text{COL}) + \beta_7(\text{ACP}) + \beta_8(\text{AGE}) + \beta_9(\text{AI})$$

Dependent variable can be predicted, at least to some extent, by taking in to account the independent variables. The partial depression coefficients identify the effect that each independent variable has on the dependent variable.

As with single OLS regression, confidence interval for the  $\beta$  parameters can be easily computed using SPSS software at 95percent confident. In other words, for a unit of increases in independent variable in 95 percent of cases one would expect dependent variable to change by units. As the confidence intervals predict a change in the independent variable, we can conclude that at the 95 percent too tailed level of significance; independent variables do have significant effect on the dependent variable in the model.

From the estimates provide in the table 20 for predicting dependent variable by using the regression coefficients for each of the independent variables were presented. The provided variable independent variables in the range of observations recorded during the study are interest rate, payback period, bureaucracy, terms of credit, loan supervision, collateral accounting practices, Age of the business, and income can predicted the dependent variable (SME's Access to Finance).The range of observation recorded during the study score for the  $i^{\text{th}}$  ( $i = 1,2,3,4,\dots,100$ ) SME's is  $Y_i = \beta_0 + \beta_1X_{i1} + \beta_2X_{i2} + \beta_3X_{i3} + \beta_4X_{i4} + \dots + \beta_KX_{iK} + E_i$ , Where K denotes the number of predictor variables (factor explaining the dependent variable ,i.e.,  $K=1,2,3,\dots,9$ ). To predict dependent variable substituting theses values in to the above equation; for instance,  $Y_i$  (Access to finance) =  $4.495 + .105(\text{IR}) + .098(\text{LPP}) + .038(\text{BU}) + .033(\text{TC}) + .145(\text{LS}) + .092(\text{COL}) + .063(\text{ACP}) + .120(\text{AGE}) + .085(\text{AI})$ . Similarly, access to finance of SME's was predicted by the same multiple regression equation to obtain the prediction scores.

According to the final OLS model result, the sign of the regression coefficients on table 20 was found to be as expected. The regression results have also showed five major predictors which are statistically significant in multivariate model that influence dependent variable. Some of the predictors are found to have relatively stronger influence on dependent variable while some others have medium effects, and the rest are found to have no significant effects on the dependent variable. The regression result on table 4.21 shows that, out of the nine independent variables considered in the model. Around nine variables were regretted of which, five found to be significant. These were age of the business, interest rate, bureaucracy, accounting practices, and average sale/income of SME's.

**Table 13.** Testing the model through ANOVA (Goodness of fit statistic)

	Sum of Squares	df	Mean Square	F	Sig.
<b>Regression</b>	4.024	8	.503	2.330	.026 <sup>b</sup>
<b>Residual</b>	18.565	86	.216		
<b>Total</b>	<b>22.589</b>	<b>94</b>			

*a. Dependent Variable: Access to finance*

*b. Predictors : (Constant), interest rate, payback period, bureaucracy, terms of credit, loan supervision, collateral, accounting practices, age of the business and income of SME's.*

*Source: SPSS regression result(2015)*

The above table summarizes the information about the variation of the dependent variable explained by the existing model used for this study and the residual that indicates the variation of the dependent variable that are not captured by the model. It is observed that the independent variables give a significant effect on the dependent variable, where F-value is 10.291 with a p-value of less than 0.05 (i.e.  $p < 0.000$ ) indicating that, over all, the model used for the study is significantly good enough in explaining the variation on the dependent variable. To ensure the statistical adequacy of the model, the goodness of fit can also be measured by the square of the correlation coefficient also called  $R^2$ .

Table 14: Goodness of fit through R Square

Model	R	R square	Adjusted R Square	Std. Error of the Estimate
1	.422 <sup>a</sup>	.781	.802	.46462

a. *Predictors* : (Constant), Interest rate, payback period, bureaucracy, terms of credit, loan supervision, collateral, accounting practices, age of the business and income of SME's.

Source: SPSS regression result (2015)

As shown in the table above, both  $R^2$  and adjusted  $R^2$  measure the fitness of the model i.e. they measure the proportion of the variation in dependent variable explained by the model. But since adjusted  $R^2$  is the modification for the limitation of  $R^2$  the value of the adjusted  $R^2$  is considered to measure the fitness of the model. Thus, as it is shown on table 4.21, the value of adjusted  $R^2$  is 0.802, indicating that; the independent variables in the model are explaining 80.2% variation on the dependent variables. Thus, we can understand that the model of the study is providing a good fit to the data. This outcome empirically indicates that the independent variables in this study are the major determinants of SME's access to finance in the study area. Table below shows the results of the regression model. The result reveals that, with the payback period, terms of credit, loan supervision and collateral were insignificant. Whereas, there exists a significant relationship between independent variables such as age of the business, interest rate, bureaucracy, accounting practices, and average sale/income of SME's and dependent variable, i.e. access to finance.

Table 15: Regression analysis on SME's Access to finance

Model	Un standardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	1.282	.391		3.277	.002
Age of business	.051	.063	.083	.820	.014**
Accounting practices	-.055	.075	-.095	-.733	.011**
Bureaucracy	.106	.083	.140	1.280	.004**
Collateral	.249	.140	.200	1.775	.972
Interest rate	-.002	.135	-.002	-.017	.036**
Payback period	.185	.182	.145	1.018	.312
Terms of credit	-.089	.060	-.175	-1.490	.140
Average income	-.079	.100	-.106	-.795	.029**

Source: SPSS regression result (2015)

As shown in the above table, of the total nine explanatory variables tested in this study, Age of the business (p-value= 0.14), Accounting practices (p-value=0.11), Bureaucracy (p-value=0.04), Interest rate(p-value=0.036) and average income(p-value=0.029) were statistically significant at 5 percent or lower. In this study, there is insignificant positive relationship between collateral, payback period and terms of credit and access to finance. Finally, the researcher discusses the effect of each independent variable tested under this study using multiple regression is discussed and analyzed based on the theoretical predictions, prior empirical studies and research questions formulated for this study.

#### Interest Rate

In this study, the regression result shows that, there is a significant positive relationship between interest rate and access to finance to SME's. As it is presented on table 20, the regression result also shows, a significant relationship between interest rate and access to finance to SME's, with a regression coefficient of -0.002, t-statistic of -0.0171 and P-value of 0.036. Thus, from the result it can be conclude that interest rate influences the access to finance to SME's.

#### Bureaucracy

As it is presented on table 4.21, the regression result shows a significant positive relationship between access to finance to SME's and bureaucracy, with a regression coefficient of 0.140, t-statistic of 1.280 and P-value of 0.004. This indicates that, bureaucracy with in financial institutions influences the access to finance to SME's and the result is consistent with the result of the study.

#### Accounting Practices

As it is presented on table 4.21, the regression result shows a significant positive relationship between access to finance to SME's and effective accounting practices, with a regression coefficient of 0.095, t-statistic of -.733 and P-value of 0.011. This indicates that effective accounting practices influence access to finance to SME's.

#### Conclusion

This study paper is prepared to assess effective accounting practices and access to finance of SME's with special reference to Hawassa City Administration, SNNPRS. To do so, both the primary and the secondary data were gathered by using structured questionnaire, key informant interviews and written documents. On the whole 100 structured questionnaires were distributed to SME's by using PPS sampling techniques and structured questionnaires and interview guides were prepared to gather data from owners of SME's and key

informants, respectively. Both qualitative and quantitative descriptions were applied on the data gathered to analyze the information obtained. By undertaking a detailed analysis of the situation, the following points are obtained:

- I. Majority of respondents do not maintain any form of records and the remaining SME's maintain either minimum or formal account.
- II. Concerning applying accounting principles and standards almost all principles like regularity, consistency, sincerity, permanence of methods and full disclosure were not applied by majority of SME's.
- III. Most of the SME's prepare records for the purpose of taxation, inventory and cost control, periodic management accounts, keep records and payrolls.
- IV. Majority of SME's have no access to finance which hinder their effort to expand their business.
- V. The major reasons for lack of access to finance were inadequate collateral, high interest rate and bureaucracy. However, no need of credit and fear of inability to repay loan were less important reasons for lack of finance.
- VI. Substantial number SME's have a problem to meet criteria's set by financial institutions for accessing finance.
- VII. Majority of the respondents were using the loan for the purpose of saving and payment services.
- VIII. SME's size, capital market, education status, and professional support were factors significantly affect accounting practices. However, government policy, area of specialty, age of SME's and service year were less significant factors.
- IX. Age of the business, interest rate, bureaucracy, accounting practices and average income of SME's were factors significantly affect access to finance. However, collateral, payback period and terms of credit were less significant factors.

### Recommendations

Based on the findings of the study, the following recommendations can be drawn:-

- There is the need for clear national development objectives to meet the needs of the SMEs sector.
- Sound policies and regulations should be developed since this sector is the missed sector in the country particularly medium sized business.
- Since there is international acceptance that SME's require simplified financial reporting standards fitting their reduced size and narrow stakeholder base, the government needs to adopt Simplified financial reporting standards set for SME's.
- Government should accelerate the development of market for financial services suited to the special characteristics of SME's by promoting product innovation and building institutional capacity.
- Improving SME's access to credits requires an increase in the number of financial institutions that find lending to SMEs to be profitable and therefore sustainable.
- Easy accessibility to credit through specialized or development oriented banking or financing institutions. Funds being made available through these sources should be given at preferential interest rates.
- Studies must be initiated regarding access to finance and accounting practices. Researchers must be encouraged to carry out an extensive research projects regarding access to finance and accounting practices.
- SME's size, capital market, education status, and professional support were significant variables affecting SME's effective accounting practices.
- Therefore, stakeholders should consider SME's size expansion should be compatible with access to finance, government should attempt to introduce capital market, the owners should have access to education specially in business areas, and government should provide professional support to SME's.
- Age of the business, interest rate, bureaucracy, accounting practices and average income of SME's were significant variables affecting SME's access to finance.
- Therefore, stakeholders should consider improvement in service delivery of those offices following SME's, encourage and support SME's to have effective and formal accounting practices and the SME's owners should search other alternative investments.

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