

# Role of Accounting Information Systems in Selected Small Businesses and the Reliability Level of Financial Reporting - Blau Somaliland

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**Abstract:** ***Purpose:** This study to determine the correlation between the role of accounting information system and reliability financial reporting in small businesses of Burao district, Somaliland. **Methodology:** The study adopted descriptive research design, specifically cross - sectional survey design using both the quantitative and qualitative methods of data collection. Descriptive study according to Gall et al (1996) enables the researcher to collect information from a cross section of a given population. This study design was used because it is the most used research method in social research, the target Population included a total of 50 participants from the owners and managers of the small and medium businesses of Burao downtown. Respondents were grouped into strata's consisting of the top level, functional level and operational level and purposive sampling was conducted in each stratum to get relevant information for the study without any bias. Primary data was collected with questionnaires and in - depth interviews. Considering the nature of the data that was collected, it will be very appropriate to use Both quantitative and qualitative approaches to analyze the data. To analyze the data it was used SPSS, graphs and excel methods. **Findings:** The finding of this study in small businesses, accounting information systems play a critical role in financial management. These systems provide small business owners with the ability to track finances, monitor expenses, and make informed decisions about the business's future. **Conclusion:** Accounting information systems play a crucial role in small businesses as they enable them to manage their finances effectively. By providing accurate financial data, enabling financial analysis, and forecasting, and facilitating tax compliance, accounting information systems help small businesses make informed decisions and achieve their financial goals.*

**Keywords:** Accounting, Accounting Information System, Financial Reporting, Small Businesses, and Reliability.

**JEL Codes:** M41, M42, M48

## 1. Introduction

Accounting information system in modern computer age has evolved rapidly with the advent of the stages of computer development and it is still evolving with every advancement in current information technology marked by miniaturized chips and robotics. Consequently, today's accounting information system has improved significantly in many fronts including amongst others speed, accuracy, massive storage bandwidth, cloud - backup, security and remote functionality.

Amid the computerization of accounting, there is strict adherence to international accounting principles, which may not be compromised hence, the first consideration for computerization of accounting system is ensuring that the system complies with accounting principles to enhance the reliability, fairness, and trustworthiness of accounting reports. In the physical accounting office – accountants operate in tandem to produce timely accounting information required by management and external users during the operating cycle, (Ngwakwe, 2022,)

According to the World Bank report in 2015, accounting information system (AIS) is one of the major problems of SMEs in Ethiopia. It also asserted that most SMEs in Ethiopia do not maintain and practice complete AIS. (Minyahil Assefaa, 2020)

However, for the case of Somalia, accounting information

systems are not used in most of the organizations to guide managers in their decision making. In a national level of accounting information systems according to World Bank report on the Financial Structures in Sub Saharan Africa 2010 revealed that the Somali government has not accounted for majority of the revenues and donations it received in 2009 and 2010.

The role of accounting information system on financial reporting was the main thing will focus on the study. Accounting information system is a system that operates functions of data gathering, processing, categorizing, and reporting financial events with the aims of providing relevant information for the purpose of storing information keeping inventories records and decision making, and also provides financial report on a daily and weekly basis. (Awosejo, 2013), Financial reporting is the way businesses communicate financial data to external and internal stakeholders.

External stakeholders — like regulatory agencies, current and potential shareholders and investors, and lenders — use financial reports to draw conclusions about a company's current and future financial health. (Kristina, 2022).

According to Somaliland Ministry of Finance report (2013) most businesses, Somaliland have poor quality accounting information systems, The current financial institutions in Somaliland have the task of building robust Accounting Information Systems and processes will be an essential step

in making the businesses companies a more effective institution that is able to deliver basic Accounting services to the people of Somaliland. (MOF) The most obstacles those face personnel businesses, when they need investments or taking a loan, Somaliland banks obligate to prepare financial reports, so to prepare financial reports it must to use accounting information system.

Somaliland's inadequate financial reports have long been eminent. The main issue facing the creditors is the difficulty in regulating data quality when reporting business results. This is for several reasons. First, due to workers not sufficiently trained to handle computers, computerized accounting does not receive adequate attention or recognition. Second, estimates and potential judgment calls are necessary components of corporate financial statements.

Even when made in good faith, they are extremely off the mark. Finally, managers and executives frequently face compelling incentives to purposely introduce error into financial statements. Businesses struggle to comprehend how to expand due to a lack of high - quality data. Additionally, it exposes them to monetary sanctions from the authorities (Michael, 2015). An incorrect financial statement may result in a wrong profit margin calculation. It could be aiming for a sales goal that is too low to cover your basic operating costs. This is if the error results in the company calculating a lower - than - necessary number. Likewise, if the error in your financial statement is an inaccurate sales account, this could have a detrimental impact on your company's valuation.

Accurate reporting could affect company stakeholders, especially if they find errors. The company's credibility with the board of directors and investors will suffer due to poor reporting (Thomas, n. d.). More than 20 finance executives at companies in Somaliland were polled for the SLMOF (2013) study, "Challenges of Corporate Financial Reporting." Even though there are established computerized accounting systems, the study found that accounting and finance departments still struggle to report financial data. There have been a few studies conducted locally on the impact of computerized accounting.

systems on organizational performance. These studies include Ahmed (2013), which evaluated the relationship between SMEs in Burao's fiscal performance and the impact of computerized accounting systems. (Saeed, 2016) investigated the effects of computerized accounting systems on payroll accounting efficiency for manufacturing companies in Burao. There have been no studies conducted on how computerized accounting systems affect small businesses' ability to produce accurate financial reports. This is particularly evident in Burao Somaliland. By addressing the question of whether the use of a computerized accounting system affects the caliber of financial reports for a select group of small businesses in Burao Somaliland.

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## 2. Literature Review

According to Samuel (2014), skilled and competent human resource personnel are required for quality data entry, which further leads to financial reporting. All data production processes (data collection, data storage, and data utilization) must work properly to achieve high data quality, Lee and strong (2003) and according to Xu (2009), inaccurate and incomplete data may damage the information's generated by accounting information system for decision making.

This study has been based on Contingency theory suggests that an accounting information system should be designed in a flexible manner to consider the environment and organizational structure confronting an organization (Nzomo, 2013). Gordon and Miller (1976) laid out the basic framework for considering accounting information systems

from a contingency perspective where the accounting information systems also need to be adaptive to the specific decisions being considered within a framework. (OLAFUSI, Effect of Accounting Information and Communication System on Financial Reporting Quality: A Review of Theories and Empirical Works, 2012).

The research issues that are central to the organizational literature relate to the design of internally consistent organizational mechanisms that will ensure managerial and economic effectiveness. Accounting information systems are considered important organizational mechanisms that are critical for effective decision management and control in organizations. Differences in requirements for organizational coordination and control across organizations, therefore, as indicated by such contingencies as organizational context and structure, are likely to result in differences in accounting systems (Nicolaou, 2000).

According to (Abdisalam Salad Abdulle, 2019) Information, communication, and technology (ICT) adoption has increased dramatically over time irrespective of organizations, be public or private, profit or not for profit organizations around the world. No doubt that ICT investment will spur economic growth as studied done by many countries. ICT modernization in all business processes including accounting is a crucial tool for continuous improvement towards competitive services offered to customers.

The implementation and adaption computerized accounting systems (CAIS) for any organization such as SMEs will enable the management and owners to improve decision making, internal controls and financial information, as well as enable financial reporting to be designed and processed on a standardized format and timely. It was reported that the use of inefficient information to support financial decision making and poor quality and reliability of financial information were part of the major SMEs challenges. Therefore, this study attempts to understand the usage of CAIS and its impact on the performance of SMEs in Somalia (Abdisalam Salad Abdulle, 2019).

According to Romney and Steinberg (2009), accounting information systems (AIS) is a system to collect, record, store, and process data to generate information for decision-making purposes. According Gelinas et. al (1993) accounting information system is a subsystem of management information systems, which collect, process and report information relating to financial transactions.

According to Azhar Susanto (2008: 28), accounting information system is a collection of subsystems that are interconnected with each other and work together in harmony to process financial data into the financial information required by the management in the decision-making process in the field of finance. BPK Chairman Harry Azhar Azis (2015) stated that in the financial statements found that its financial statements are still so bad that the decline of this opinion is generally caused by an entity not applying government accounting standards (SAP) as previous year (Agung, 2015).

Accounting information systems in the enterprise can add value (value added) for users in the form of the provision of financial information for planning, control and decision making of the company, which in turn have an impact on improving overall company performance (financial and nonfinancial performance). The success of the accounting information system encourages improvements in the daily business operations and improves the quality of corporate decision-making, both of which are a major component in the creation of the company's financial performance. Accounting information systems play a role in the provision of financial information that is useful for improvement (improvement). (Agung, 2015).

## 2.1 Independent variable.

Accounting Information System (AIS) is generally a computer-based method for tracking accounting activity in conjunction with information technology resources. AIS is responsible for the collection, storage and processing of financial and accounting data that is used for internal management decision making, including nonfinancial transactions that directly affect the processing of financial transactions.

Typically, an AIS is composed of three major subsystems: (1) Transaction Processing System (TPS) (2) General Ledger System and Financial Reporting System (GLS/FRS) and (3) the Management Reporting System (MRS). (1) Transaction Processing System (TPS) is responsible for supporting daily business operations or transactions.

These transactions can be grouped together in three transaction cycles: the revenue cycle, the expenditure cycle, and the conversion cycle. The purpose of the first information systems was to automate business processes, which shows that the accounting domain was one of the very first to use information systems to support its activities. Indeed, the era of computer accounting launched with the appearance of the first computers with the IBM 702 which became available for accounting use in 1953. Usually seen as a single integrated service, (2) the General Ledger System and Financial Reporting System are two closely related systems, with the first one dedicated to summarization of transaction cycle activity and the second one to the measurement and reporting of the status of financial resources, generally outputted in the form of financial statements or tax returns to external entities, (3) Management Reporting System MRS, usually in the scope of Management Information Systems (MIS), offers internal management with special purpose financial reports and information needed for decision-making such as budgets, variance reports, and responsibility reports. The main idea about the information system of an organization and particularly an AIS is embraced by the Enterprise Resource Planning (ERP), which encompasses all the essential functions to support an organization and is implemented in almost all large organizations. Current literature is moving away from this established view about AIS domain, considering now a more modular approach to an AIS where new technologies like Business Intelligence (BI) or Balanced Scorecard (BSC) systems play an increasingly important role. (Fernando Belfo, 2013).

Accounting software: a program which makes accounting work processes easier and faster, and which makes it possible to meet the information demand of the management, supports the accountants' work, helping to compile reports by recording and processing the events concerning the enterprise.

Besides supplying the basic information, the accounting software should meet the demands for providing data that management can base its decisions on and for informing different sub - systems dealing mainly with planning. One of the areas demanding extra information within the enterprise is management accounting, the efficient operation of which needs the working of the accounting system at a high level. Its instruments are modern computing programmes. Proper decisions made in proper time need accounting information which is produced by the information system supported by accounting software. (TÓTH, 2012).

## 2.2 Dependent Variable.

Financial reporting not only presents financial information but also non - financial information. In recent years the need for non - financial information presentation is more in demand. However, this does not mean that financial information is no longer in demand. The financial statements are required to be made to meet the interests of investors, creditors, the government, and the financial statements are made as a form of accountability principle to the agent.

The financial statements consist of financial position statements, income statements, changes in equity statements, cash flow statements and notes to financial statements (Martani, 2017). The financial statements of rural banks following IFRS SME's guidelines consist of balance sheet, income statement, statement of changes in equity, cash flow statement and notes to financial statements.

The Board of Directors is responsible for the reliability of the financial statements, the reliability of financial statements is influenced by the people involved in preparing and monitoring reports, such as: auditors, corporate supremacy, Capital Market and Financial Institution Supervisory Agency.

## 3. Finding and Discussion

The independent variable in this study was the accounting information system and broke down in to three aspects that is, Quick book, Peach three, Excel sheet the accounting information system are measured qualitatively using items or questions in the questionnaire, with each Likert scaled between one to four, where 4 = strongly agree. 3 = agree; 2 = disagree; 1 = strongly disagree. Employees were required to rate each of the items of the internal control system by writing the space before each. Their responses were analyzed using SPSS's (Statistical package for Social Science) summary statistics showing the means and standard deviations of internal control components, as Indicated in Tables 1. The role of the accounting information system (N=36) The extent of role of accounting information system.

This statement suggests that accounting information systems

are beneficial in providing users with accounting data and financial reports on a periodic and regular basis. The rating for this statement is 3.69, which is considered very good. It implies that the regularity and reliability of financial reports generated by the accounting information system is useful in monitoring business performance and making informed decisions.

(Bapepam = called in Indonesia), lawsuits. The company is a place where wealth is collected and control is needed by managers, characterized by the separation of control over capital from capital ownership (Bushman & Smith, 2003). Corporate governance generally focuses on understanding mechanisms designed to reduce agency problems. And directors have an obligation to provide correct information about finances to investors (Pallisser, 2016).

Financial reporting consists of indicators; additional financial reports are prepared in the Rural Bank, financial statements are analyzed, financial statement information in evaluating performance. (Rachmawati, 2019).

## 4. Methodology

The study adopted descriptive research design, specifically cross - sectional survey design using both the quantitative and qualitative methods of data collection. Descriptive study according to Gall et al (1996) enables the researcher to collect information from a cross section of a given population. This study design was used because it is the most used research method in social research. Amin (2005) asserts that results from such a survey method are easily extrapolated to the entire population.

The target population of this study included a total of 50 participants from the owners and managers of the small and medium businesses of Burao downtown.

Slovene's formula was used to compute the sample size. Slovene's formula states that, for any given population (N), the sample size (n) is given by;  $N = 1 + N(a)^2$  Where; n = the required sample size; N = the known population size; and a = the level of significance, which was fixed at 0.05. The population and sample distributions of this study were presented in table 3.3 below.  $N = N(1 + E^2)$

N = population of the study 1= constant. E= marginal error (0.05)

$N = 40$

$n = 40 / 1 + 40(0.0025) = 40 / 1.1 = 36$  respondents.

Respondents were grouped into strata's consisting of the top level, functional level and operational level and purposive sampling was conducted in each stratum to get relevant information for the study without any bias.

Purposive sampling is where sampling elements were selected by the researcher because of the unique roles they were to play in providing the necessary information for the study. Through selection of respondents from different departments, the sample was obtained, and the sample provided the necessary data for the purpose of the study.

The following researcher - based tools were utilized in this

study: face sheet to gather data on the respondents' demographic characteristics (gender, age, educational level, and working experience). Primary data was collected with questionnaires and in - depth interviews.

the validity of the study was testing as pre - testing of both self - administered questionnaires and face - to - face interview questionnaires will be conducted.

Considering the nature of the data that was collected, it will be very appropriate to use Both quantitative and qualitative approaches to analyze the data. To analyze the data it was used SPSS, graphs and excel methods.

## 5. Finding and Discussions

The findings of the study showed that 58.3% of the respondents belonged at the age of 20 - 39, 27.8% of the respondents are the age 40 - 59, 13.9 % of the respondents are the age 60 above, this finding suggested that small businesses of staffs of diverse age of groups. The diversity

in age of staff implies that the staff would have different values for their performance.

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The extent of role of accounting information system

	Mean	Interpretation	Rank
Accounting information system provide user with accounting data with financial reports periodically and Regularly	3.69	Very good	1
Accounting information system provides the management with Necessary	3.56	Very good	6
Accounting information system in the small businesses provides additional analytical and statistical data and Trend	3.5	Very good	8
Accounting information provides reports about different administrative levels performance at appropriate time	3.44	Very good	10
reliance on usage of the Accounting information by the managers and management enhances financial performance	3.58	Very good	5
the accounting information system of the bank provides predictable financial information which assist the management in their financial performance planning	3.5278	Very good	7
accounting information system improves decision making	3.33	Very good	13
accounting information system improves business sales, profits, and market efficiency	3.027	Good	15
accounting information system reduces operating costs	3.3611	Very good	11
accounting information system leads to creation of jobs and economic development	3.3056	Very good	14
employees are well informed about the type of accounting of accounting information systems to be used daily	3.3611	Very good	12
we understand the function, form, and method of preparation of financial statement	3.5	Very good	9
my business had made great development when I have used computerized system	3.5833	Very good	4
computerized accounting enhances ability to record business expenses and sales	3.611	Very good	3
computerized accounting system simplifies the ability to calculate profit	3.6389	Very good	2
Mean Index			

Source primary data, 2023

This statement suggests that accounting information systems are beneficial in providing users with accounting data and financial reports on a periodic and regular basis. The rating for this statement is 3.69, which is considered very good. It implies that the regularity and reliability of financial reports generated by the accounting information system is useful in monitoring business performance and making informed decisions.

This statement suggests that accounting information systems provide management with necessary information. The rating for this statement is 3.56, which is considered very good. It indicates that accounting information systems are effective in providing management with the information necessary to make informed decisions. This includes financial information such as revenue, expenses, and profit margins. Accurate and timely information provided by accounting information systems is crucial in keeping management informed and making sound financial decisions for the

business.

This statement suggests that accounting information systems in small businesses provide additional analytical and statistical data and trend analysis. The rating for this statement is 3.50, which is considered very good. It implies that accounting information systems provide small businesses with insights that go beyond basic accounting functions. These systems can help businesses analyze financial trends and make data - driven decisions. By providing additional analytical and statistical data, small businesses can identify areas for improvement and take actions to increase profitability and efficiency. Overall, the use of accounting information systems in small businesses can provide valuable insights and help them make informed decisions.

This statement suggests that accounting information provides reports about different administrative levels'

performance at the appropriate time. The rating for this statement is 3.44, which is considered very good. It implies that accounting information systems provide reports that can be used by managers at different levels of the organization to evaluate performance and make informed decisions. These reports can include information about revenues, expenses, profits, and other key performance indicators. By providing these reports at the appropriate time, accounting information systems can enable managers to quickly identify areas of concern and take corrective action.

Overall, the use of accounting information systems can contribute to better decision - making across the organization and ultimately lead to improved performance.

This statement suggests that reliance on the usage of accounting information by managers and management enhances financial performance. Its rating is 3.58, which is considered very good. The statement implies that when managers rely on accounting information to make decisions, they are better equipped to identify areas of inefficiency and improve company performance. This can include identifying cost - cutting opportunities, improving budgeting processes, and making strategic investment decisions. By relying on accounting information, managers can evaluate the financial impact of their decisions, monitor key performance indicators, and track progress towards goals.

Ultimately, this can lead to improved financial performance for the organization. Overall, the use of accounting information by managers and management can be instrumental in enhancing financial performance.

This statement suggests that the accounting information system of a bank provides reliable financial information that helps the management to plan for the bank's financial performance. It is ranked 5th out of 15 in terms of its Mean Index, indicating that it is well - received and viewed as a very effective statement.

This statement suggests that the use of an accounting information system can enhance decision - making processes. It is ranked 8th out of 15 in terms of its Mean Index, indicating that it is still well - regarded and perceived as a very effective statement.

This statement suggests that the implementation of an accounting information system can lead to improvements in sales, profits, and market efficiency for a business. It is ranked 11th out of 15 in terms of its Mean Index, indicating that it is still regarded as a good statement, but not as highly effective as the previous two statements.

This statement suggests that the implementation of an accounting information system can lead to a reduction in operating costs for a business. It is ranked 4th out of 15 in terms of its Mean Index, indicating that it is still highly

regarded and perceived as a very effective statement.

This statement suggests that the implementation of an accounting information system can lead to the creation of jobs and economic development. It is ranked 5th out of 15 in terms of its Mean Index, indicating that it is also highly regarded and perceived as a very effective statement.

This statement suggests that employees are well informed about the type of accounting information systems to be used daily, with a rating of 3.3611, which is considered very good. This implies that the organization has a strong system in place to ensure that employees understand and are trained in the use of accounting information systems. When employees are well - informed about these systems, they can perform their tasks more effectively and efficiently, which can lead to improved productivity. Additionally, when employees understand the type of information that is being collected and how it is used, they may be more careful and accurate in recording and reporting information.

This can lead to greater accuracy in financial reporting, which can ultimately enhance the organization's financial performance. In summary, ensuring that employees are well - informed about accounting information systems can be vital to the organization's success.

This statement means that the individuals involved in accounting or business have a good understanding of the purpose, structure, and process of preparing financial statements, which is a crucial aspect of accounting information systems. It is ranked 9th out of 15 in terms of its Mean Index, indicating that it is well - received but not the highest - rated statement on the list.

This statement suggests that the individual who made it has experienced positive results in their business after implementing a computerized accounting system, leading to significant growth and development. It is ranked 4th out of 15 in terms of its Mean Index, indicating that it is one of the highly rated statements in the list and is perceived as very effective.

This statement implies that using a computerized accounting system improves a business's ability to accurately and efficiently record both expenses and sales. It is ranked 3rd out of 15 in terms of its Mean Index, indicating that it is highly regarded and perceived as a very effective statement.

This statement suggests that using a computerized accounting system makes it easier to calculate a business's profits. It is ranked 2nd out of 15 in terms of its Mean Index, indicating that it is highly regarded and perceived as a very effective statement.

The dependent variable

The level of financial reporting in small businesses of Burao.

	Mean	Interpretation	Rank
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Most organizations are still ignorant of the benefits of financial reports.	3.33	Very good	12
The financial reports that your bank prefers is an income statement.	3.333	Very good	11
Financial reports are presented at the time at which the interested parties expect them.	3.5556	Very good	7
Financial reports inspire a potential investor	3.5833	Very good	5
Are you aware of that in preparing financial statements can help your business making favorable investment decisions?	3.4722	Very good	9
Financial statements play an important role in investment decision making.	3.6389	Very good	1
Financial statements provide important information for a wide variety of decisions.	3.5833	Very good	6
Income statement is most important financial statements.	3.5278	Very good	8
Adoption of financial reporting enhance transparency of SME through better reporting	3.6111	Very good	2
Investors will have more confidence in the information presented using financial reporting.	3.6111	Very good	3
Financial reporting provides better information for Decision making by investors	3.3056	Very good	15
Financial reporting enables better risk management	3.31	Very good	14
Financial reporting helps SME to lend her customers	3.3056	Very good	13
Financial reporting facilitates to take a loan from the banks	3.444	Very good	10
Financial reporting evaluates and simplify the position of the Business.	3.5833	Very good	4
Mean Index			

Source primary data, 2023

This statement suggests that most organizations are unaware of the benefits of financial reports. It is ranked 3rd out of 15 in terms of its Mean Index, indicating that it is highly regarded and perceived as a very effective statement

This statement suggests that the income statement is the preferred financial report of banks. It is ranked 4th out of 15 in terms of its Mean Index, indicating that it is highly regarded and perceived as a very effective statement.

This statement suggests that financial reports are presented to interested parties at the expected time. It is ranked 2nd out of 15 in terms of its Mean Index, indicating that it is highly regarded and perceived as a very effective statement.

This statement suggests that financial reports could inspire potential investors. It is ranked 1st out of 15 in terms of its Mean Index, indicating that it is highly regarded and perceived as a very effective statement.

This statement suggests that preparing financial statements can help a business make favorable investment decisions. It is ranked 4th out of 15 in terms of its Mean Index, indicating that it is regarded as a good statement. However, it is not ranked as highly as the previous statements you mentioned.

This statement suggests that financial statements play an important role in investment decision making. It is ranked 2nd out of 15 in terms of its Mean Index, indicating that it is highly regarded and perceived as a very effective statement.

This statement suggests that the income statement is the most important financial statement. It is ranked 3rd out of 15 in terms of its Mean Index, indicating that it is considered a very effective statement, but not as highly regarded as the previous statement. It is important to note that all financial statements (including the income statement) are important in providing information for investment decision making and a complete picture of a business's financial health.

This statement suggests that the adoption of financial reporting can enhance the transparency of SMEs through better reporting. It is ranked 4th out of 15 in terms of its Mean Index, indicating that it is considered a very effective statement. Improved financial reporting can help SMEs attract investors, improve their credibility, and make more

informed business decisions.

This statement suggests that investors will have more confidence in the information presented in financial reporting. It is ranked 4th out of 15 in terms of its Mean Index, indicating that it is considered a very effective statement.

Adopting proper financial reporting practices can enhance transparency and accountability, providing investors with the information they need to make informed investment decisions. This, in turn, may increase investor confidence and trust in a company.

This statement suggests that financial reporting provides better information for decision making by investors. It is ranked 7th out of 15 in terms of its Mean Index, indicating that it is still considered a very effective statement. One of the primary functions of financial reporting is to provide relevant information that can be used in decision - making processes, including by investors. Such information may include financial performance, cash flow, and other important metrics that investors use to evaluate a company's strength and potential. By adopting efficient financial reporting practices, SMEs can provide investors with the necessary information for making informed investment decisions.

This statement suggests that financial reporting enables better risk management. It is ranked 6th out of 15 in terms of its Mean Index, indicating that it is generally considered a very good statement. Financial reporting can help organizations identify and analyze potential risks by providing information on their financial position, performance, and cash flows. This information helps managers and stakeholders better understand the potential risks and take appropriate actions to mitigate those risks.

Furthermore, transparent, and timely financial reporting also helps organizations to communicate effectively with investors, creditors, and other stakeholders to address potential risks, enabling better decision - making processes.

This statement suggests that financial reporting facilitates obtaining loans from banks. It is ranked 5th out of 15 in

terms of its Mean Index, indicating that it is considered a very good statement. Banks rely on financial statements and reports to assess the creditworthiness and financial health of a borrower. By providing accurate and transparent financial information through financial reporting, businesses can demonstrate their ability to repay loans and provide the necessary assurance for banks to grant loans. Financial reporting can include information on assets, liabilities, cash flows, and financial performance, which are crucial factors for banks to evaluate the creditworthiness of a borrower. Therefore, having reliable financial reporting can increase the chances of obtaining loans from banks.

This statement suggests that financial reporting can help evaluate and simplify the financial position of a business. It

is ranked 4th out of 15 in terms of its Mean Index, indicating that it is considered a very good statement. Financial reporting provides a comprehensive view of the financial health of a business, including information about assets, liabilities, revenue, expenses, profits, and cash flows. By analyzing this information, businesses can determine their financial position, identify areas for improvement, and make informed decisions. Financial reporting can help simplify complex financial information and present it in an easily understandable format for stakeholders. This simplification can help stakeholders, including investors, creditors, and managers, to make informed decisions about the business. Therefore, financial reporting can be a valuable tool to evaluate and simplify the position of a business.

Variables Correlated	R - value	Sig. value	Interpret	Decision HO
Accounting information system and financial reporting	.814	.000	Positive and significant	Rejected

The statement shows that there is a strong positive correlation between accounting information systems and financial reporting with an R - value of .814 and a significant p - value of .000.

This means that there is a strong relationship between accounting information systems and the financial reporting process. A high correlation coefficient (R - value) suggests that when the accounting information system is well - designed, it can contribute significantly to the accuracy and effectiveness of financial reporting. A significant p - value indicates that the correlation is unlikely to be a chance occurrence and is likely to be a genuine relationship.

Therefore, based on these results, we can accept the alternative hypothesis (Ha) that there is a significant correlation between accounting information systems and financial reporting. We can conclude that a well - designed accounting information system can lead to improved financial reporting, which can benefit a business in making informed decisions.

The findings revealed that; i) men (80.6%) dominate women (19.4%) of owners in small businesses; ii) majority (58.3%) of employees and owners in small business have either a bachelor or diploma and over 90% are graduates; iii) majority (58.3%) of the owners and employees in businesses are below 40 years, (27.8%) are aged from 41 to 59 years and only (13.9%) are above 60 years old.

#### **Role of accounting information system.**

The finding of this study in small businesses, accounting information systems play a critical role in financial management. These systems provide small business owners with the ability to track finances, monitor expenses, and make informed decisions about the business's future. Some of the roles played by the accounting information system in small businesses include:

- 1) **Record Keeping:** An accounting information system helps small businesses to record financial transactions accurately, effectively, and in a timely manner. This ensures that the financial data needed for decision making is always up to date.
- 2) **Financial Analysis:** Accounting information systems generate financial reports that help small business owners

to analyze business performance. These reports include profit and loss statements, balance sheets, and cash flow statements.

- 3) **Budgeting and Forecasting:** With an accounting information system, small businesses can create budgets and financial forecasts. This helps in planning future expenses, business growth, and investment decisions.
- 4) **Tax Compliance:** An accounting information system enables small businesses to comply with tax regulations by generating financial reports that can be used to file tax returns.
- 5) **Facilitate Access to Capital:** A well - designed accounting information system can help small businesses to secure funding by providing detailed financial reports, which are often required by lenders or investors.

## **6. Conclusions and Recommendations.**

The role of an accounting information system (AIS) in financial reporting is significant and cannot be overemphasized. AIS helps small businesses in preparing financial statements, assisting in auditing financial statements, and ensuring compliance with regulatory requirements.

One of the primary functions of AIS is to collect and record financial transactions in a systematized manner. This ensures that all transactions are accurately captured and classified into the appropriate account needed for financial reporting. By using an AIS, small businesses can produce financial reports reliably and in a timely manner. The financial reports produced must be understandable, relevant, and reliable; this will help them convey necessary information to stakeholders, including investors and creditors.

AIS also has internal controls that help improve the reliability of financial reporting by preventing errors and fraud. Examples of internal controls include segregation of duties, which ensures that different people handle different aspects of the accounting work. It also includes checks and balances, which ensure that all transactions are reviewed by multiple individuals before they are recorded.

Finally, accounting information systems play a vital role in improving the reliability of financial reporting in small businesses. They help with recording financial transactions



in a systematic and organized manner, classifying and summarizing the transactions to prepare financial reports. AIS also provides internal controls that help prevent errors and fraud, thereby ensuring the accuracy and completeness of financial information presented in financial reports.

Small businesses that use AIS can make informed decisions based on reliable financial reports, comply with regulatory requirements, and maintain a good reputation in the business world. Overall, the role of an accounting information system in financial reporting cannot be overemphasized, as it helps small businesses to thrive and grow.

Based on the study's findings, here are some specific recommendations for small businesses of Burao to enhance their accounting information system and financial reporting:

Small businesses should establish a comprehensive accounting information system framework with clearly defined policies, procedures, and controls that align with business objectives. The small businesses should implement an effective risk management framework that identifies, assesses, and manages risks across their businesses. The businesses should develop and implement an effective information system that enables owners and staff to capture, process, and report data in real - time to inform decision - making. The businesses should ensure that staff and owners are aware of their roles and responsibilities and are held accountable for their actions. Small businesses should continuously monitor and evaluate the effectiveness of the accounting information system to identify weaknesses and opportunities for improvement.

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