QUALITY OF FINANCIAL STATEMENTS, INFORMATION ASYMMETRY
PERCEIVED RISK, AND ACCESS TO FINANCE: A STUDY OF SMALL AND
MEDIUM ENTERPRISES IN KAMPALA DISTRICT

BY

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JUNE, 2013
DECLARATION

I, Nanyondo Mary declare that this dissertation is my own original work, and has never been presented to any university or institution for the award of any academic qualification. I hereby declare that this dissertation is a result of my own findings and where it is indebted to the work of others, due acknowledgement has been made.

Signature……………………………… Date………………………………

NANYONDO MARY

2009/HD10/17298U
APPROVAL

This is to certify that this dissertation has been submitted for examination with our approval as university supervisors.

Signature: ----------------- Date: -----------------

Dr. Kamukama Nixon
Supervisor

Signature: ----------------- Date: -----------------

Dr. Nkundabanyanga Stephen
Supervisor
DEDICATION

This piece of work is dedicated to my beloved daughter Blessed Priscillah Enyang, My brothers Robert, Tony and Ronald, My sisters Monica, Cathy, and Julian especially Mr. Timothy Byaruhanga Ssekandi for all the encouragement in tough times may God bless you.
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My sincere and heartfelt thanks go to my supervisors Dr. Nixon Kamukama and Dr. Stephen Nkundabanyanga.

I am also grateful to the management and staff of registered SMEs in Kampala for availing me with the data, I know without them this dissertation would have been a nightmare.
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<td>Small and Medium Enterprises</td>
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<td>BOU</td>
<td>Bank of Uganda</td>
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<td>IFRS</td>
<td>International Accounting Standards</td>
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<td>AFDB</td>
<td>African development bank</td>
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<td>EAC</td>
<td>East African Community</td>
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ABSTRACT

The aim of the study was to examine the relationship between quality of financial statements, information asymmetry, perceived risk and access to finance. Specifically, the objectives of the study were; to establish the relationship between quality of financial statements and access to finance; to establish the relationship between information asymmetry and access to finance; to establish the relationship between perceived risk and access to finance and to establish the relationship between quality financial statements, information asymmetry, perceived risk and access to finance by SMEs in Kampala.

The researcher adopted a blend of cross-sectional and descriptive research design and a simple random sampling. A questionnaire survey of 85 out of the 132 SMEs registered and operating in Kampala that addressed the relationship between quality of financial statements, information asymmetry, perceived risk and access to finance was used. Validity and reliability test was carried out. The response rate was 64.4% which was considered high.

The results indicate a positive significant relationship between quality of financial statements and access to finance, a significant negative relationship between perceived risk and access to finance. The effect of quality of financial statements, information asymmetry and perceived risk on access to finance was examined by use of Ordinarily Least Squares (OLS) regression model. Overall, the model explains 21.4% of the variance in access to finance. The model indicates that quality of financial statements and perceived risk are significant predictors of whether the SMEs will access finance.

The study recommends that SMEs’ should continuously improve on the quality of financial statements bearing the characteristics of; transparency, compliance and completeness and lower the level of uncertainty, bias, and estimation of risk to ease access to finance.