

# Determinants of Accounting Practice in Micro and Small Enterprises: Evidence from Ethiopia

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## ABSTRACT

This study assesses the factors determining accounting recordkeeping practices among micro and small enterprises in Ethiopia's South Western Wollo region. It has been noted that, despite the enormous importance of accounting recordkeeping, the practice is still inadequate in micro and small businesses. This study used cross-sectional primary data collected from 343 micro and small enterprises. An ordered logistic regression analysis method was employed to analyze the explanatory variable's effect (education level, number of employees, frequency of transactions, size of the firm, and age of the firm) on micro and small enterprises' accounting practice. The study results show that the education level, the number of employees, the frequency of transactions, and the firm's size have a statistically significant and positive effect on the accounting practice of micro and small enterprises. On the other hand, the firm's age is found to have no statistically significant effect on micro and small enterprises' accounting practice. This study helps micro and small enterprises by showing the significant factors that affect their accounting practice and working towards better reporting and decision-making habits.

## ABSTRAK

Penelitian ini mengkaji faktor-faktor yang menentukan praktik pencatatan akuntansi di antara usaha mikro dan kecil di wilayah South Western Wollo Ethiopia. Meskipun pencatatan akuntansi sangat penting, praktiknya masih kurang memadai di bisnis mikro dan kecil. Penelitian ini menggunakan data primer cross-sectional yang dikumpulkan dari 343 usaha mikro dan kecil. Metode analisis regresi logistik terurut digunakan untuk menganalisis pengaruh variabel penjelas (tingkat pendidikan, jumlah karyawan, frekuensi transaksi, ukuran perusahaan, dan usia perusahaan) terhadap praktik akuntansi usaha mikro dan kecil. Hasil penelitian menunjukkan bahwa tingkat pendidikan, jumlah karyawan, frekuensi transaksi, dan ukuran perusahaan berpengaruh signifikan dan positif secara statistik terhadap praktik akuntansi pada usaha mikro dan kecil. Di sisi lain, umur perusahaan ditemukan tidak berpengaruh signifikan secara statistik terhadap praktik akuntansi usaha mikro dan kecil. Studi ini membantu usaha mikro dan kecil dengan menunjukkan faktor-faktor signifikan yang mempengaruhi praktik akuntansi mereka dan bekerja sama menuju kebiasaan pelaporan dan pengambilan keputusan yang lebih baik.

## 1. INTRODUCTION

Micro and small enterprises are regarded as significant elements and engines to economic growth and stability in many countries. Micro and small enterprises are significant economic development drivers, especially in developing economies (Obi, 2015). Micro and small enterprises are the means to transform from an agricultural economy to industrialization. However, micro and small enterprises' industrialization should link agricultural production and value-adding

manufacturing activities (Sharma & Neog, 2017). Micro and small enterprises constitute a significant proportion of business firms all over the world. They play a significant role in the economy, such as creating employment opportunities, producing goods and providing services, improving the standard of living, and largely contributing to many countries' gross domestic products (GDPs) (OECD, 2000; Puspaningrum, 2020)

Small businesses help reduce poverty by creating jobs for the country's growing labor force

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and stimulating economic development in rural and urban areas. Besides, they serve as valuable partners to large enterprises as suppliers of inputs, as customers to distribute their products and providers of support services. A lively MSE sector is an indication of a thriving and growing economy. Despite policies that aim to provide an enabling environment for MSME development, the sector still faces various constraints that prevent it from realizing its full growth and potential (Senate of the Philippines, 2012).

The Ethiopian government is currently implementing the second Growth and Transformation Plan (2008 - 2012 E. C) to become one of the middle-income countries by 2025. In line with this long-term vision, the government formulates and implements different strategies to promote micro and small enterprises' development. Nevertheless, the enterprise's promotion to a larger business is overlooked. Instead, the government is focused on establishing new enterprises (Amare & Raghurama, 2017). The micro and small business sector in the South Western Wollo area is dominated by the merchandising business type followed by the service type of business. The sector's growth is hindered by many internal and external factors such as poor infrastructure, lack of business management skills, and logistics problems, which causes the entrepreneurs to go bankrupt or migrate to nearby cities.

However, many new and existing micro and small enterprises fail to win competitions due to many internal and external factors, such as financial problems, lack of business knowledge, infrastructural and location problems, high cost of financing, and inappropriate pricing. Due to this reason, numerous micro and small enterprises are forced to go out of business. One way or another, many of these problems faced by micro and small enterprises are associated with accounting practices, and they can be minimized by keeping proper accounting records (Sallem et al., 2017). Proper recording of business activities and transactions can help them in the decision-making processes for micro and small business owners (Mary-Jo, 2016). Good accounting practice is manifested by activities such as keeping an accurate and consistent record of revenues, expenditure, purchases, receipts, payroll, tax, invoices, changes in assets, and consistent application of accounting methods and internal control procedures (Pavtar, 2017).

Keeping proper accounting records will have many advantages for every organization, whether small or big, as financial information allows

entrepreneurs to make informed business decisions (Needles et al., 2014). It provides information for managers that can be used in the day to day operations of the business. Also, accounting information is provided to other internal and external stakeholders interested in assessing its economic performance and condition (Warren et al., 2017). It will help to make informed decisions, manage and control business activities, enables to stay organized and be systematic in its relation with customers and suppliers, help to know the operational performance, financial position, tax returns, and other information about the business and making plans and forecasts based on this information. Besides, preparing accounting reports can help get access to a bank loan and other credits and make better investment decisions. Proper recordkeeping can improve the effectiveness and efficiency of micro and small enterprises. This means that micro and small enterprises with proper recordkeeping practices are likely to have improved operating performances (Osim et al., 2017). Musah (2017) states that firms that keep proper accounting records can make better decisions and make business adjustments accurately. Also, accounting information can help them to have reduced operating costs and improved efficiency and productivity. Despite the enormous importance of accounting recordkeeping, unfortunately, the practice is still inadequate in the micro and small enterprises sector (Maseko & Manyani, 2011).

It has been ascertained that most small-scale enterprises fail to keep proper books of account and fail to observe necessary accounting procedures to control their resources. As a result, they cannot reveal the exact financial position and operational performances of their businesses. The main reasons for poor accounting recordkeeping include smallness of the business, expensiveness of hiring qualified accountants, the lack of basic accounting knowledge, and lack of awareness about the benefits of accounting information (Kahsay & Zeleke, 2019; Kipsang & Mwangi, 2017; Mersha & Ayenew, 2017). The financial statements, such as the profit and loss accounts, the balance sheet, and the cash flow statement of small-scale enterprises, cannot easily be prepared. Under such circumstances, annual profits or losses cannot easily be determined (Osim et al., 2011).

It is essential to state that the absence of proper records impairs the growth of the small-scale enterprise. As stated by the World Bank in 2016, it reduces their chances of obtaining credit facilities from financial institutions and other fund lenders.

Similarly, Edris & Fredu (2016) indicated that poor financial records significantly affect access to finance. Creditors use financial reports and records of their clients as sources of information to evaluate borrowers' payment capacity and creditworthiness. Besides, this financial information can be used to make investment or divestment decisions. Accounting practice in micro and small Ethiopia enterprises is minimal (Mehari & Shaik, 2017; Kahsay & Zeleke, 2019). So studying the factors that determine accounting practices is vital.

Most prior studies conducted in Ethiopia on accounting practice mainly focus only on investigating the absence or presence of accounting recordkeeping and the types of reports prepared in micro and small enterprises. Few studies tried to include the factors that affect accounting practice. These studies measure accounting practice by using a binary outcome consisting of only absence and presence. This study used a scale of four points to measure the different degrees of accounting recordkeeping practice, which allows us to see the absence, presence, and degree of implementation of accounting. Besides, this study included a new variable named frequency of transaction overlooked by prior studies.

## **2. THEORETICAL FRAMEWORK AND HYPOTHESES**

The literature on the determinants of accounting practices is minimal. Most studies conducted on the accounting practice of Micro and small enterprises in Ethiopia mainly focused on their accounting practice condition. A little is investigated about why they fail to practice accounting. The following section provides the empirical findings of prior researches and hypotheses on the effect of determinant variables on accounting practice.

### **Relationship between Firm's Age and Accounting Practice**

The firm's age is the number of years for which micro and small enterprises stay in their current business operations. The firm's age is an essential factor for the sustainability of the company. The longer the company's age, the more resources it has and the better prepared it is to carry out various beneficial business practices for the company, including accounting practice.

A study by Karadag (2017) on small and medium enterprises in Turkey found that the company's age has a significant influence on their accounting practice. Another study by Kahsay and Zeleke (2019) concluded that the firm's age

significantly affects accounting recordkeeping of micro and small enterprises in Debre Birhan City, Ethiopia. Looking into the above findings, researchers formulated the following hypothesis.

H<sub>1</sub>: Firms' age has a statistically significant effect on micro and small enterprises' accounting practice.

### **Relationship between Education Level and Accounting Practice**

Education level is the academic background and status of the manager in the firm. Owners and managers of micro and small businesses need the right education and training to compete in business (Gunasekaran et al., 2000; Karadag, 2017). A better education provides more knowledge to company owners and managers regarding various business practices useful for corporate performance.

Kipsang and Mwangi (2017) showed that education level significantly affects small and micro enterprises' accounting practices in Kenya. A study by Osim (2020) and Kahsay and Zeleke (2019) also concluded that education level significantly affects accounting practices of micro and small enterprises. Looking into the above findings, the researchers formulated the following hypothesis.

H<sub>2</sub>: Education level has a statistically significant effect on micro and small enterprises' accounting practice.

### **Relationship between the number of Employees and Accounting Practice**

The availability of adequate human resources makes it more possible for companies to implement various practical businesses that provide added value to the company (Rauch et al., 2005; Utomo & Yulia 2018). When the number is relatively small, the company tends to optimize its employees for production and marketing activities. However, when the number of employees increases, it becomes possible for micro and small firms to provide well-trained accounting specialists (Wu & Boateng, 2010).

Mehari and Shaik (2017) noted that most small and medium enterprises did not produce organized accounting reports. Lack of human resources accounts for 31.25% of the reasons behind the failure of their accounting practice. Pavtar (2017) showed that their shortage of trained workforce challenges SMEs' accounting practice. The use of accounting recordkeeping differs between SMEs having different employee numbers (Kipsang & Mwangi, 2017). Looking into the above findings, researchers formulated the following hypothesis.

H<sub>3</sub>: The number of employees has a statistically significant effect on micro and small enterprises' accounting practice.

**Relationship between Frequency of Transactions and Accounting Practice**

The frequency of transactions is the average number of transactions that occur in the firm per day. It seems that firms with frequent transactions will have a higher tendency to practice accounting (Maseko & Manyani, 2011). This is because firms with many transactions have a higher magnitude of profit and have higher credit transactions. So it is expected that they tend to have a record of their sales and purchase transactions. Looking into the above findings, researchers formulated the following hypothesis.

H<sub>4</sub>: Frequency of Transactions has a statistically significant effect on micro and small enterprises' accounting practice.

**Relationship between Firm's Size and Accounting Practice**

Its net assets increases measure the firm size. The firm size can reflect the firm's sustainability and its resources to support its operations and strategy. The size can also reflect the complexity of the company. The more resources available and the more complex the company's activities, the more likely it is to require formal accounting practices.

Padachi (2012) proved that the assets' size increases the likelihood of keeping formal accounting records. Ahmad and Zabri (2015) and Wu & Boateng (2010) also indicated that its size measured by its total capital has a significant effect on accounting practice. Looking into the above findings, researchers formulated the following hypothesis.

H<sub>5</sub>: Firm Size has a statistically significant effect on micro and small enterprises' accounting practice.

**3. RESEARCH METHOD**

This study employed an explanatory research design to determine the cause-effect relationship between the dependent variables and the dependent variable [see Figure 1].

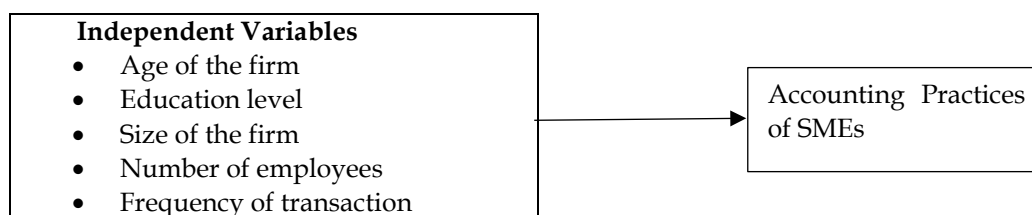


Figure 1. Conceptual framework

**Description of Variables**

Accounting practice is the dependent variable of this study. It is measured by a Likert scale of 1 to 4, while 1 indicates the absence of any accounting practice, 2 indicates the presence of accounting recordkeeping using the traditional single entry system, 3 indicates the presence of double-entry accounting and preparation of reports without formal financial statements, and 4 indicates the presence of proper accounting record keeping and preparation of formal financial statements. According to the International Accounting Standard Board, firms to be considered as an accounting practicing firm should at least prepare an income statement and balance sheet (Aboagye-Otchere & Agbeibor, 2012)

Age of the Firm is the number of years for which micro and small enterprises stayed in business. Some empirical evidence indicates that over time firms pass through different business cycles, and

they have the tendency to engage in structured accounting practice (bookkeeping) and improve the existing practices. The firm's young age is one factor for incomplete (or no) accounting practice in SMEs (Kahsay & Zeleke, 2019).

The size of the firm is measured using its total assets. Small businesses seek accounting services to grow in size and extend their markets (Marriot et al., 2008). However, most micro and small enterprises face difficulty maintaining accounting records because of their inadequate capital to pay for professional accountants (Jennings & Beaver, 1997). A study by Azudin and Mansor (2018) indicated that a firm's size has positive and statistically significant relationships with the use of particular accounting practice. In this study, the firm's total asset is used to measure the firm's size.

Education Level is the academic background and status of the manager in the firm. The

application or the use of manual or computerized accounting practice increases with education level because it gives the knowhow about different accounting rules, standards and procedures, and their business applications (Amaoko, 2013). A study by Deakins et al. (2001) indicated that small business owner-managers' financial skills and knowledge on how financial information can be used in the decision-making process is vital. This variable is measured by ranking it into a scale of five levels: 1= uneducated, 2 = completed grade 8, 3 = grade 9 to 12, 4 = TVET or diploma and 5 = degree and above.

Frequency of transaction is the average number of transactions that occurs in the firm per day. Micro and small enterprises that make a higher number of daily transactions will tend to practice accounting. This is because firms with many transactions will face difficulties in calculating costs, sales, and profits in a simple and traditional way. So it is expected that they tend to have a record of their sales and purchase transactions.

Number of Employees means the total number of permanent employees currently working in the firm. Employing financially qualified staff has paramount importance to bring competence in the accounting of small firms. Small firms get difficult to hire competent personnel due to their inability to offer attractive salaries and benefits (Jennings & Beaver, 1997). External accountants play an important role in small business accounting. They serve as financial advisors, consultants, legal advisors, and accountants (Greenwood et al., 2002). However, a substantial proportion of small firms use

external accountants to a minor degree (Gooderham et al., 2004). Hiring competent and financially literate employees is crucial. The number of employees permanently working in micro and small business firms can affect their accounting practice.

**Source of Data, Sampling Technique, and Analysis Methods**

The study's total population is 2,429 micro and small enterprises found in Borena and Legambo districts of South Western Wollo, Ethiopia. A sample size of 343 micro and small enterprises was determined using a formula developed by Yemane (1967). The researchers selected the respondents by using a stratified random sampling technique. Five (5) strata were formed using the type of business activity in which micro and small enterprises are engaged, namely service, merchandising, manufacturing, urban agriculture, and construction business. The total sample size is divided among each stratum proportionately. Primary data was collected using a close and open-ended questionnaire distributed to owners and managers of micro and small enterprises. The collected data was analyzed using an ordered logistic regression analysis model conducted on IBM SPSS Statistics 20 software.

**4. DATA ANALYSIS AND DISCUSSION**  
**Descriptive Statistics Analysis**

Table 1 presents the number of observations included in the sample, the mean values for the study variables, the deviations from the mean, minimum and maximum values in the observation.

Table 1. Descriptive Statistics

| Variable | Obs | Mean    | Std. Dev. | Min | Max |
|----------|-----|---------|-----------|-----|-----|
| ACP      | 343 | 2.6472  | 0.4785    | 1   | 4   |
| Age      | 343 | 8.2041  | 3.7165    | 1   | 27  |
| Educ     | 343 | 3.5977  | 1.0848    | 2   | 5   |
| Emp      | 343 | 6.5976  | 1.2478    | 2   | 17  |
| Ftrxn    | 343 | 14.1049 | 5.4020    | 7   | 30  |
| LnSize   | 343 | 5.1158  | 0.3002    | 5   | 22  |

Source: Author calculation using SPSS software

As presented in Table 1, the total number of micro and small enterprises included in the sample is 343. The mean value for accounting practice is 2.6472 with a standard deviation of 0.4785, which falls between level 2 and three in the accounting practice measurement scale used. This implies that, on average, micro and small enterprises in the study area record their transactions with a double-entry accounting system. The firm's age's mean value is 8.2

years, and the minimum and maximum are 1 and 27, respectively. Education level has a mean value of 3.5977, which indicates that the average academic status of managers of micro and small enterprises is between grades 9-12. The number of employees averages 6.5976, and the minimum and maximum values for this variable are 2 and 17, respectively. The average number of transactions per day is 14.10496, and its minimum and the maximum value is 7 and 30,

respectively. The mean value of firm size measured by the natural logarithm of total assets is 5.115802. Its minimum value is 5, and the maximum value is 22.

Table 2. Measurement of the Dependent Variable (Accounting Practice).

|         |   |
|---------|---|
| Level 1 | No accounting practice                                    |
| Level 2 | Record transactions with a single entry                   |
| Level 3 | Record transactions with double entry and prepare reports |
| Level 4 | Prepare formal financial statements.                      |

**Diagnostic Tests of the Dataset**

1. Ordinal Dependent Variable

To use the ordered logistic regression model, the response variables should be measured in ordinal terms. The dependent variable of this study (Accounting practice) is ranked into four ordinal levels.

2. Tests of Model Fitness

The model fitness test is used to estimate how well the

regression model fits with the dataset. As shown in Table 3, the p-value (Sig.) is less than 0.05. We can say the model gives a better description of the data and a better prediction of the outcome. The Chi-Square result shows a significant improvement in the fit of the final model than the intercept only. The "Goodness-of-fit test can further evidence the appropriateness of the model for the data set.

Table 3. Model Fitting Information.

| Model          | -2 Log Likelihood | Chi-Square | df | Sig.  |
|----------------|-------------------|------------|----|-------|
| Intercept Only | 703.644           |            |    |       |
| Final          | 228.326           | 475.318    | 5  | 0.000 |

Source: SPSS analysis output

As per Table 4, the p-value is not significant because its value is greater than 0.05. There is no reason to reject the null hypothesis. So we have to accept that the model is a good fit for the dataset

under analysis. Table 5 shows that the R-Square of the model is 0.821, which means about 82.1% of the variation in accounting practice is explained by the model.

Table 4. Goodness-of-Fit Test.

|          | Chi-Square | df  | Sig.  |
|----------|------------|-----|-------|
| Pearson  | 715.087    | 256 | .300  |
| Deviance | 144.899    | 256 | 1.000 |

Source: SPSS analysis output

Table 5. Pseudo R-Square test.

|               |       |
|---------------|-------|
| Cox and Snell | 0.750 |
| Nagelkerke    | 0.821 |
| McFadden      | 0.567 |

Source: SPSS analysis output

3. The Assumption of Proportional Odds

The assumption of proportional odds assumes that the estimated slope between each pair of outcomes across two response levels is the same for each term

included in the model. The test for the assumption of proportional odds is referred to as the test of parallel lines. The result of the test of parallel lines applied to the dataset is shown in Table 6 below.

Table 6. Test of Parallel Lines

| Model           | -2 Log Likelihood | Chi-Square | df | Sig.  |
|-----------------|-------------------|------------|----|-------|
| Null Hypothesis | 69.136            |            |    |       |
| General         | 57.321            | 35.369     | 9  | 0.224 |

Source: SPSS analysis output

The null hypothesis states that the location parameters (slope coefficients) are the same across response categories. The result of the test of parallel lines shown in Table 6 indicates that the p-value (sig.) is not significant (it is greater than 0.05), which enables us to accept the null hypothesis, i.e., the slope coefficients are the same across different response categories.

4. Test for Autocorrelation

The autocorrelation test is used to check if there is a correlation between the study's successive values. The Durbin Watson test is a common test to check the existence of serial correlation problems. Table 7 shows that the dataset has a relatively normal autocorrelation status acceptable to make the regression analysis.

Table 7. The Durbin Watson Test

| Model Summary |                    |
|---------------|--------------------|
| Model         | Durbin-Watson      |
| 1             | 2.231 <sup>a</sup> |

Predictors: (Constant), Frequency of Transactions, Education Level, Firm Size, Number of Employees, Firm Age. Dependent Variable: Accounting Practice.

5. Test for multicollinearity

Multicollinearity problem exists when two or more dependent variables in a model are highly linearly related to each other. We can detect this problem using the variance inflation factor (VIF) test.

According to Table 8, all the values of the VIF test for the explanatory variables are in a range of 1 – 10. This indicates that there is no symptom of multicollinearity problem in the dataset.

Table 8. VIF Test for Multicollinearity.

| Coefficients |                           | Collinearity Statistics |       |
|--------------|---------------------------|-------------------------|-------|
| Model        |                           | Tolerance               | VIF   |
| 1            | Firm Age                  | 0.626                   | 1.377 |
|              | Firm Size                 | 0.255                   | 3.923 |
|              | Education Level           | 0.981                   | 1.020 |
|              | Number of Employees       | 0.123                   | 2.105 |
|              | Frequency of Transactions | 0.087                   | 2.529 |

Note: Dependent Variable: Accounting Practice.

**Regression Estimates and Discussion.**

Since the nature of this study's dependent variable (accounting practice) is ordinal, we use the ordered

logistic regression model to estimate its statistical relationship with the explanatory variables. The output of

Table 9. Ordered Logistic Regression Output.

| Parameter Estimates |           | Estimate | Std. Error | Wald   | df | Sig.  | 95% Confidence Interval |             |
|---------------------|-----------|----------|------------|--------|----|-------|-------------------------|-------------|
|                     |           |          |            |        |    |       | Lower Bound             | Upper Bound |
| Threshold           | [ACP = 1] | 28.274   | 3.858      | 53.714 | 1  | 0.000 | 20.713                  | 35.835      |
|                     | [ACP = 2] | 33.694   | 4.035      | 69.738 | 1  | 0.000 | 25.786                  | 41.602      |
|                     | [ACP = 3] | 36.789   | 4.165      | 78.016 | 1  | 0.000 | 28.625                  | 44.952      |
| Location            | Age       | 0.130    | 0.115      | 1.268  | 1  | 0.260 | -0.096                  | 0.355       |
|                     | Educ      | 1.196    | 0.354      | 11.410 | 1  | 0.001 | 0.502                   | 1.890       |
|                     | Emp       | 0.442    | 0.216      | 4.169  | 1  | 0.041 | 0.018                   | 0.866       |
|                     | Ftrxn     | 0.195    | 0.088      | 4.929  | 1  | 0.026 | 0.023                   | .367        |
|                     | LnSize    | 3.802    | 0.844      | 20.266 | 1  | 0.000 | 2.147                   | 5.457       |
|                     |           |          |            |        |    |       |                         |             |

Source: Computed with SPSS 20 Software

### Age and Accounting Practice

As indicated in Table 9, the significance value of the explanatory variable "Age" is 0.26, which is higher than 0.05, so we cannot reject the null hypothesis. So we can conclude that firms' age has no statistically significant effect on Micro and small enterprises' accounting practices.

This result agrees with the result of Padachi (2012), which concluded that the firm's age has no significant effect on small and medium enterprises' accounting systems. On the other hand, the result is against the findings of (Kahsay, & Zeleke, 2019), which concludes that the firm's age significantly affects accounting practice. New entrants to micro and small businesses in any business activity should consider the design and implementation of a sound accounting system as early as possible. As their age has no significance in determining their accounting activity, they have to start taking a proper record of their transactions and draw trends from the beginning.

### Education Level and Accounting Practice

As per Table 9, the significance value of education is 0.001, which is less than 0.05, with a positive coefficient. This enables us to reject the null hypothesis and accept the alternative hypothesis, i.e., education level has a statistically significant positive effect on micro and small enterprises' accounting practice. The regression coefficient of this variable is 1.196, which can be interpreted as, given that all the other predictor variable in the model constant, for a one-level increase in the educational status, there is a predicted increase of 1.196 in the ordered log odds of having a higher degree of accounting practice. As the manager's education level increases, business owners, managers, and employees become financially literate. This helps them to increase their

ability to prepare, read, understand, and use accounting information for their business decisions.

This outcome conforms with the findings of Amaoko (2013) and Kipsang and Mwangi (2017). They concluded that the application or the use of manual or computerized accounting practice increases with education level. The result of a study by Padachi (2012) shows that Education level has no significant effect on accounting systems of small and medium enterprises and another study by Wijewardana (2018) showing that education level (financial accounting skill) have no significant effect on the accounting system of small and medium enterprises.

### Number of Employees and Accounting Practice

The sig. value of the number of employees is 0.041, which is lower than 0.05. This can enable us to reject the null hypothesis and accept the alternative one, i.e., the number of employees has a statistically significant positive effect on micro and small enterprises' accounting practices. Looking at the regression coefficient of this variable, we can say that, holding all the other predictor variables in the model constant, for a one-unit change in the number of employees of the Micro and small enterprises, the ordered log odds of being in a higher degree of accounting practice is expected to increase by 0.442.

This result contradicts the conclusion of Padachi (2012), which stated that the number of employees has no statistically significant effect on SMEs' accounting practice. An increase in the number of employees gives the necessary human resource required to carry out accountancy tasks. Hiring more employees enables them to record all the necessary transactions and implement a strong internal control system.



### **Frequency of Transactions and Accounting Practice**

Referring to Table 9, the significance value of the frequency of transactions (0.026) is lower than 0.05. So we can reject the null hypothesis and instead accept the alternative hypothesis, i.e., the frequency of transactions has a statistically significant positive effect on micro and small enterprises' accounting practices. We can conclude that the average number of daily transactions in the company significantly affects the accounting practice of micro and small enterprises. Looking into this variable's coefficient, keeping the other predictor variables constant, it is predicted that if the frequency of transactions increases by one unit, the log odds of being at a higher degree of accounting practice will increase by 0.195. As the number of transactions increases, it becomes difficult to determine accounting figures like income, cost, receivables, payables, and inventory amounts with simple paper and pencil work (Maseko & Manyani, 2011). So the use of a formal accounting system becomes mandatory to capture all relevant business activities and determine the performance of micro and small enterprises.

### **Firm Size (LnSize) and Accounting Practice**

The natural logarithm of total assets measures the size of the firm. As indicated in Table 9, the significance value of the firm's size (.000) is lower than 0.05. So we accept the alternative hypothesis, i.e., a firm's size has a statistically significant positive effect on accounting practices of Micro and small enterprises. This variable's positive regression coefficient tells us that, keeping the other explanatory variables constant, for every one-unit increase in the value of firm size, there is a predicted increase of 3.802 in log odds of being higher of the accounting practice of micro and small enterprises.

This finding agrees with Padachi (2012), finding that the size of the company measured by its capital has a significant effect on accounting practice. Micro and small enterprises having a higher level of assets tend to have the ability to pay for accounting services. Besides, as the level of assets increases, the possibility of misuse also increases, which requires the implementation of a sound accounting and auditing system.

## **5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS**

Based on the findings of the study, the researchers have made these conclusions. Firm's Age is found to have no significant effect on micro and small enterprises' accounting practices. Education level has a statistically significant positive effect on the

accounting practice of micro and small enterprises. Holding the other variables in the model constant, we can say that if the company manager is in a higher level of education, there will be a higher degree of accounting practice in small and medium enterprises. Besides, the number of employees, frequency of transactions, and firm size is found to have a statistically significant positive effect on micro and small enterprises' accounting practices.

There are a few limitations of this study. It used only five variables, and there might be other variables that will affect accounting practice. Accounting recordkeeping is still not sufficient in medium enterprises in Ethiopia too. However, they are not included in this study. Besides, micro and small enterprises included in this study are from two districts. Other districts in the study area are excluded because of a lack of sufficient data.

There are some implications of the findings. Making informed decisions is critical for the development of micro and small enterprises. Unfortunately, prior studies indicated that the use of proper accounting information for business decisions is still inadequate. This study pointed out the major factors that affect the accounting practice of micro and small enterprises. So owners, managers and employees of micro and small enterprises need to focus on these factors to improve their accounting practice. While setting reporting and decision making policies, firms need to see the major factors that hinder their accounting reporting. This research provides them with the major factors that need immediate attention to improve accounting practice in micro and small enterprises.

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