Quality of financial statements, information asymmetry, perceived risk and access to finance by Ugandan SMEs

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Abstract.

Purpose- The objective of this paper is to investigate the relationship between quality of financial statements, information asymmetry, perceive risk and access to finance by Ugandan small and medium-sized enterprises (SMEs).

Design/ methodology/approach - This study is cross-sectional and correlational. Using Ordinary Least Squares (OLS) multiple regression we determine the magnitude/strength of the relationship between the dependent and independent variables. Data is obtained from a questionnaire survey on a sample of 75 SMEs registered and operating in Kampala, Uganda.

Findings- The results indicate that there is a significant positive relationship between quality of financial statements and access to finance and a significant negative relationship between information asymmetry and access to finance. However, perceived risk is not significantly associated with access to finance. The interaction between quality of financial statements and perceived risk is negative meaning that high quality financial statements coupled with high perceived risk will result in low access to finance.

Originality/value- The study provides evidence of the perceived effect of quality of financial statements, information asymmetry and perceived risk on access to finance by Ugandan SMEs where such evidence does not currently exist. Our results are especially significant because they show probably for the first time that it is not enough to have high quality financial statements when other factors that could explain perceived risk undermine are not taken care of in the explanation of access to credit.

Implications- The study recommends that SMEs' owner/managers should be trained on the importance of quality of financial statements to improve their access to finance.

Type of paper: Research paper.

Key words: Quality of financial statements, information asymmetry, perceived risk, access to finance, SMEs, Uganda.

Introduction

This paper reports the results of the relationship between quality of financial statements, information asymmetry, perceived risk and access to finance by SMEs' in Uganda. The financing of small-medium enterprises (SMEs) in Uganda has been a subject of great interest to policy-makers and researchers in that the small-medium enterprises are seen as primary vehicles with a contribution of approximately 90% of the private sector. SMEs contribute approximately 75% of Uganda's Gross Domestic product (GDP) and employ more than 2.5 million people. The employment growth is estimated at 25% per annum and therefore the SMEs are a prime source of new jobs (UIA Report 2012). But the potential of SMEs can be jeopardized if access to finance by them (SMEs) is not forthcoming. A recent study conducted by the African Development Bank on East Africa's banking sector community (ADBEAC, 2012) revealed that Uganda's SMEs exposure to finance is only 42% compared to an average of 50% SMEs lending rate on the African continent. This coupled with the Bank of Uganda (2012) finding that lending to SMEs has declined from UGSh406 billion in 2010 to UGSh319 billion in 2011seems to suggest that the problem of access to finance by Ugandan SMEs is worsening.

Despite efforts to increase SMEs access to finance such as the reduction of the Central Bank rates from 28.5% in 2011 to 12.5% in 2012 (BOU Report, 2012), the worsening situation regarding SMEs' access to finance in Uganda suggests that initiatives taken by the government to enhance access to finance by SMEs are not having the desired effect. Moreover, literature is replete with why SMEs access rates to finance are low. These studies suggest that stringent requirements such high minimum balances (Graham, 2002), collateral requirements for loans and insufficient financial disclosure (Okurut, Schoombee, Berg, 2000), entrepreneurial managerial skills and a poor credit history (Kikonyogo, 2000; Mugume, 2001; 2002; Nuwagaba, 2011) and, costly bureaucratic processes, poor access roads, limited market and location (Demirguc-Kunt, 2008) are some of the factors why most SMEs cannot access finance. Nott (2003) also advances a number of challenges of access to finance by SMEs. These are: the incomplete range of financial products and services, regulatory rigidities or gaps in the legal framework, inadequate information on the banks and the small-medium enterprises, elements of infancy, insufficient collateral and returns to counteract the risk exposures.

The multiplicity of factors responsible for suboptimal access to finance identified in literature indicates that the search for efficient predictors of access to finance by SMEs is still incipient. Moreover, although empirical studies have been carried out to explain the limited access to finance using different predictor variables, the influence of quality of financial statements and information asymmetry on access to finance has not been unduly ignored. We therefore argue that the limited access to finance by SMEs' could be attributed to quality of financial statements, information asymmetry and perceived risk. We advance this argument based on the following. First, information asymmetry occurs when all relevant information is not known to all parties in an undertaking resulting into adverse selection and moral hazard therefore making it difficult for banks (for instance) to extend finance to the small-medium enterprises (Mugume, 2004; Sufi, 2006; Nott, 2003; Griffins, 2002). It is argued by Opondo (2010) that information quality is palpably assumed for banks are to make informed decisions to extend finance. According to (Nott, 2003: Alexandar and Nobes, 2007), access to finance is impeded by the perceived level of information asymmetry between banks and the SMEs. The East African Community (EAC) Banks Report (2012) suggests that SMEs have a difficulty in accessing finance due to managerial incompetence in deciding what information and degree of disclosure. This increases information asymmetry between the SMEs and the bank hence it becomes difficult on the part of the bank to estimate the degree of risk associated with the SME and thus be bank hesitate to extend finance. Collins Barrow (2003) also asserts that lenders wish to screen bad borrowers from good ones but in reality insufficient disclosure prevent them from getting the relevant information, thus making it difficult to extend finance. Second, according to studies conducted by McKenzie and Baker (2011), Olawale (2010) and Epstein (2007) quality financial statements should serve as an anchor between the bank and SMEs to predict the level of perceived risk. This means that fair presentation of financial statements reflects transparency in the financial position; cash flows and revenue projections of the SMEs to enhance lending parties make informed decisions to extend finance.

Therefore, the overall objective of this paper is to report the results of the relationship between quality of financial statements, information asymmetry, perceived risk and access to finance by SMEs in Uganda. We believe this paper provides a better trajectory for understanding variances in SMEs' access to credit by considering information asymmetry, quality of financial statements and perceived risk as efficient predictors. In the end, the paper provides more insights into the quality of financial statements that is predicted to reduce the behavioural aspect of viewing SMEs as highly risky borrowers. The objective of this study, therefore, is to determine the role played by the quality of financial statements, information asymmetry and perceived risk in SMEs' access to finance.

The main contribution of the paper is that unlike previous studies that have examined the association between disclosure quality and access to finance (Levitt, 1998; Miller, 2000), information asymmetry and access to finance (Griffins, 2002) and perceived risk and access to finance (Meyer, 2002) based on secondary data, our study is based on primary data of the perception of SMEs owners and managers. Since psychology literature indicates there is a close link between perception and action (e.g. Brewer et al., 2007), the findings of an investigation of the relationship between perceived quality of information, information asymmetry and perceived risk and access to finance have important policy implications. For example, if no relation is found, this may imply that SMEs owners/managers are ignorant of how the quality of their financial statements, perceived risk and information asymmetry affect their chances of accessing finance. In terms of policy implication this may mean that in order to improve SMEs access to finance, the SMEs owner/managers will need some training. On the other hand, if a relationship is found, questions will need to be asked why SMEs owner/managers are not doing something about the quality of financial information to improve their chances of accessing finance.

Ensuing is literature review and hypotheses development. Next is research methodology section which is followed by results and discussion. Finally we provide summary and concluding remarks.

Literature review and hypotheses development

Access to finance

Claessens (2006) defines credit accessibility as the availability of a supply of reasonable quality financial services at reasonable costs. However, Akudugu, Egyir and Mensah-Bonsu (2009) define access to credit as a situation in which an individual has the right, makes an attempt to possess and makes decisions regarding the use of funds in the short term and to repay with interest at a time schedule that is convenient to both the borrower and lender. According to Akudugu et al (2009) a person lacks access to credit if such a person makes efforts to acquire it and fails. We therefore operationally define access to finance as the flexibility and the ease with which SMEs get money from Banks in terms of frequency of loan acquisition.

Quality of financial statements and access to finance

Schoombee et al. (2004) suggest that before financial institutions extend credit to borrowers, they need to assure themselves of the viability of the loan applicant and thus they need to see audited financial information presented in form of statement of comprehensive income and financial position. Alexander et al. (2003) reaffirms that banks use the value and liquidity of the collateral and financial performance for at least two financial years posted by the entrepreneur as a key criterion for granting finance. If financial statements do not comply with standards, and fail to exhibit transparency, then the level of perceived risk will be high and thus access to finance will be impeded (Tweed, 2010). Indeed Tweedie (2010) asserted that for SMEs to access finance from banks, quality of financial statements is paramount. Levitt (1998, p. 82) also states that, 'The truth is, quality financial statements lowers the cost of finance'. Quality financial statements mitigate the level of information asymmetry which reduces perceived risk. Lumbert, Leuz and Varrenchia (2006) argue that quality of reported financial information is influenced not simply by the quality of accounting standards, but also by other enterprise factors that affect the demand for and the supply of financial information. The salient institutional factors are: the nature of managerial competence, the legal system, and the existence and enforcement of laws governing disclosure standards. Literature above suggests a relationship between quality of financial statements and access to finance and hence the following hypothesis will be stated.

H_1 *Quality of financial statements has a significant positive association with access to finance*

Information Asymmetry and access to finance

Information quality is positively related to finance access. According to Griffins (2002), inadequate information and low information quality inhibit SMEs from using bank finance. Also Cavusgil et al. (2008) argued that SMEs that disclose information of higher quality rely more heavily on liabilities, which is consistent with having greater access to external finance. Substantial reduction in the cost of external finance can be realized if SMEs disclose adequate information that relates to the operating activities; collateral and all other details that the banks require to know before extending finance, as this will reduce information asymmetry and perceived risk. Lower cost of borrowing means that the SMEs are better able to afford to borrow because they are better able to afford the repayments. Opondo (2012) also asserts that SMEs face higher cost of debt because they are considered to be more risky since bank managers base their lending decisions on the quality of information that is disclosed.

Quality financial information is also important because it mitigates information asymmetry between the management of the enterprise and the banks, its reduction has desirable effects on the cost of finance (Leuz and Varrechia, 2000; Bushee and Leuz, 2005). Information asymmetry occurs when one group of participants has better or timelier information than other groups. One way to reduce the information asymmetry is by one party signaling to the other party. Signalling is an action taken by the more informed that provides credible information to the less informed. Typically, the source of the information asymmetry is the superior knowledge that managers have about the enterprise's prospects, while the banks comprise of the uninformed group which impairs extension of finance (Leuz, 2005). According to Opondo (2012), SMEs are so volatile when it comes to default rate and this is attributed to the high levels of information asymmetry which hinders the bank to accurately calculate the risk exposure and therefore hesitate to extend finance. When banks are not able to access the information needed to measure the level of perceived risk due to information asymmetry, access to finance is hampered (Barth et al., 2005). According to Ball (2006), quality financial statements should serve as an anchor to influence access to finance. This is based on the premise that once financial statements reduce the level of information asymmetry this enables the bank to estimate the perceived risk and extend finance to SMEs. Given the foregoing discourse, the following hypothesis will be stated.

H_2 *Information asymmetry has a significant negative association with perceive risk and access to finance*

Perceived risk theory embraces a behavioral intuitive aspect which appeals and plays a role in facilitating the bank's decision to either extend finance or not (Ho and Victor, 2000). The banks have subjective impressions to benchmark lending of finance to SMEs. For example, this may include: age, location, type of industry, managerial competence, quality of financial information and information asymmetry. Meyer (2002) argued that perceived risk is predicted to be very high for enterprises with low quality financial statements and high level of information asymmetry and very low for enterprises that maintain proper up to date financial statements and provide qualitative and quantitative financial information that is required by the bank so as to make informed decisions to extend finance. Reduced information asymmetry has desirable effects on the cost of finance (Florini, 2002). This benefit motivates SMEs around the world to strive for high quality accounting information.

H_3 *Perceived risk has a significant negative association with access to finance*

The discussion above of the relationship between quality of financial information (disclosure), information asymmetry, perceived risk and access to finance is summarized in Figure 1.

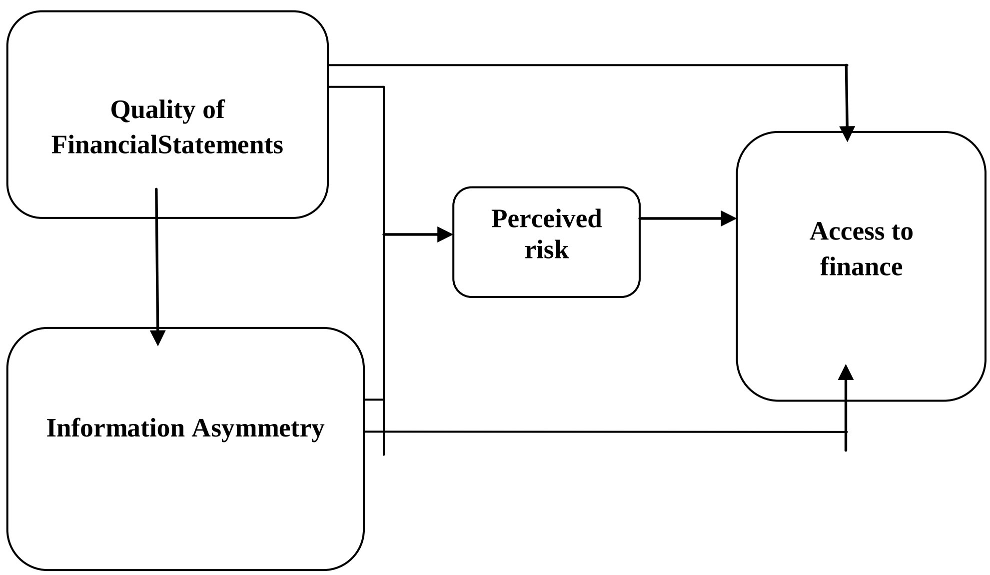

Figure 1:

The relationship between quality of financial statements, information asymmetry, perceived risk and access to finance

Figure 1 illustrates that quality of financial information facilitates access to finance. The figure also suggests that lower information asymmetry which is brought about by quality of financial statements facilitates access to finance. The figure similarly indicates that quality of financial statements facilitates access to finance by reducing perceived risk. Finally, the figure also shows that information asymmetry and perceived risk interact to enhance access to finance and also quality of financial statements and perceived risk interact to cause access to finance. As a result of the interacting relationships the following hypotheses were also tested.

H_4 *The interaction between quality of financial statements and perceived risk has a significant negative association with access to finance*

H_5 *The interaction between information asymmetry and perceived risk has a significant positive association with access to finance*

Control variables

Bartov et al. (2000) suggest that failure to control for confounding variables could lead to falsely rejecting the study when in fact it should be accepted. This study draws from prior studies and control for company size and industry as they are likely to be important factors informing differences in disclosure quality among SMEs which in turn influence access to finance. For example, company size has consistently been found to be associated with the extent of disclosure (e.g., Haniffa and Cooke, 2002; Mangena and Tauringana, 2007). Previous studies have also documented that industry (e.g., Wallace et al., 1994; Barako et al., 2006) has significant influences in this respect. Consequently, we control for company size and industry as they may influence access to finance.

Research methodology

Population and sample

The 205 SMEs registered in Kampala District of Uganda were identified as the population for the study. These were identified from the USSIA Report (2012) and the UMA Report (2012). Random sampling was used to identify a sample of 132 out of the 205 SMEs which was considered appropriate in line with Sekeran (2004) table. A questionnaire (see appendix) which consists of two sections was used to collect the data. The respondents were requested to indicate the extent of their agreement with a series of questions on a five-point Likert scale (Raaijmakers et al., 2009). The instrument was pre-tested through a pilot study in order to identify any possible errors to ensure its validity and reliability. Responses were received from 75 SMEs making a 56.8% response rate.

Model

The following multiple regression equation was estimated to determine the relationship between the dependent and independent variables:

$$ATFI = \beta_0 + \beta_1 QF + \beta_2 INAS + \beta_3 PRK + \beta_4 SIZE + \beta_5 INDS + \varepsilon_j$$

Variables as defined in Table 1

Measurement of variables

Table 1: Definition of variables included in the regression model			
Variable(s)		***Measurement***	***Definition***
ATFI	Access to finance	Mean rank on the of the ten items of information on a 5-point Likert scale by the respondents	The flexibility and the ease with which SMEs get money from Banks in terms of frequency of loan acquisition (Claessens, 2006; Akudugu, Egyir & Mensah-Bonsu 2009)
QF	Quality of financial statements	Mean rank on the of the ten items of information on a 5-point Likert scale twenty one items of information by the respondents	The extent to which accounts/financial statements prepared are perceived as relevant, reliable, understandable, accurate and comparable (Nkundabanyanga et al. 2013)
INAS	Information asymmetry	Mean rank on the of the ten items of information on a 5-point Likert scale seventeen items of information by the respondents	when all relevant information is not known to all parties in an undertaking resulting into adverse selection and moral hazard (Mugume, 2004; Sufi, 2006; Nott, 2003; Griffins, 2002)
PRK	Perceived risk	Mean rank on the of the ten items of information on a 5-point Likert scale ten items of information by the respondents	The behavioral aspects of viewing SMEs as highly risky borrowers (McKenzie & Baker, 2011; Olawale, 2010; Epstein 2007)
SIZE	Company size	Size is a dichotomous variable : 1 if it is a medium sized enterprise; otherwise 0	
INDS	Industry	Industry a dichotomous variable: 1 if it is a manufacturing	

		enterprise; otherwise 0	
ε_j	Error Term		

4.0 Results and discussion

Descriptive statistics

The descriptive statistics of the dependent and independent variables are in Table 2. The statistics indicate that the mean rating of the statements put to the respondents meant to measure whether the SMEs regularly accessed finance is 2.212 out of a maximum of 5. This suggests that on average the SMEs do not regularly access finance. The minimum score of 1 and a maximum of 3 out of a possible 5 also confirm that access to finance by SMEs is low. Among the independent variable, the results indicate that the mean score for the quality of financial statements is below average of 2.5 at 2.4745. This figure is close to the median of 2.4905 suggesting that more 50% of the respondents believe that the quality of financial statements is low. When it comes to information asymmetry the average is 3.38 whilst the minimum if 2 and the maximum is 5. This is slightly higher than the average of 2.5 which suggest that the SMEs believe that there is information asymmetry between the SMEs and the banks. In terms of the perceived risk, the mean and median are 2.6982 and 2.7273 respectively.

The control variables that were collected from the questionnaire relate to the size and industry as discussed before. In terms of size, the SMEs were divided into ‘small’ and ‘medium’. A ‘small’ SME was defined as that with a turnover of up to UGX50 and ‘medium’ if it had a turnover of above UGX 50M. According to this classification, 28 or (37.33%) qualified as ‘medium’ SMEs and the rest, 47 or 62.67 fall under the ‘small’ SME category. In terms of the industry the results suggest that52 (or 69.33%) of the SMEs are manufacturing enterprises and the rest, 23(or 30.67%) are service enterprises.

Table 2: Descriptive statistics (N=75)

Variables	*Mean*	*Stddev*	*Median*	*25%*	*75%*	*Min*	*Max*	*Skewness*	*Kurtosis*
Access to finance	2.212	.21931	2.2000	2.1000	2.3000	1.60	3.00	.672	2.711
Quality of financial statements	2.4745	.46553	2.4905	2.2524	2.8524	1.0	4.00	-.791	.702
Information asymmetry	3.3800	.72236	3.2857	2.9357	3.9143	2.00	5.00	-.096	-.100
Perceived risk	2.6982	.54712	2.7273	2.3636	3.0000	1.36	4.09	.206	.353
Size	.44	.500	.00	.00	1.00	0	1	.247	-1.993
Industry	.28	.452	.00	.00	1.00	0	1	1.000	-1.028

Correlation analysis

The correlations between the dependent and independent variables are in table 3. The results indicate that there is a significant negative relationship between quality of financial statements and access to finance (r=.-315, p<.01). This is, however, contrary to the predicted relationship of a positive relationship. The only other significant relationship is that between access to finance and company size with a correlation co-efficient .506, p<.01 meaning that larger SMEs are more likely to access finance than smaller firms. Among the independent variables only information asymmetry and quality of financial statements are highly correlated at -.636. Field (2005) suggests that multicollinearity becomes a problem only when the correlation coefficient exceeds 0.80. The results in table 3 show that none of the correlations between dependent and independent variables exceeds this threshold value.

Table 3 *Correlation results*

Variable		1.	2.	3.	4	5.	6.
1.	Access to finance	1.000					
2.	Quality of financial statements	-.315**	1.000				
3.	Information asymmetry	-.024	-.636**	1.000			
4.	Perceived risk	.202	-.107	-.033	1.000		
5.	Size	.506**	.012	.052	-.056	1.000	

6.	Industry	-.198	.066	-.025	-.081	.045	1.000

**. Correlation is significant at the 1% level or better;

Multiple regression results

The results of the multiple regression analysis of the relationship between quality of financial statements, information asymmetry, and perceived risk and access to finance are presented in table 4.The results show that the overall explanatory power of the model is 63.7% and that there are significant relationships between four of the main variables (which include interactive variables) and access to finance. The finding that quality of financial statements has a significant positive association with access to finance confirms our H_1. This result is consistent with previous studies using secondary data which found a significant positive relationship between financial information quality and access to finance. For example, Schoombee et al. (2004) found that before banks extend credit to borrowers, they need to assure themselves of the viability of the loan applicant and thus they need adequate and proven financial statements. This is also consistent with Tweedie (2010) who suggested that for SMEs to access finance from banks, quality of financial statements is paramount. The results are also consistent with Levitt (1998) who suggested that quality financial statements increase access to finance.Additionally, Lumbert, Leuz and Varrenchia (2006) and Ball (2006) found that the quality of reported quality of financial information is related to access to finance.

The finding of a negative association between information asymmetry and access to finance also confirms the belief that when information asymmetry is high, access to finance is low. Thus, our hypothesis H_2 is also confirmed. The result is also consistent with previous studies such as Griffins (2002) and Mugume(2007) who found out that banks are hesitant to extent finance to SMEs because of information asymmetry.The results in table 4 also show that the co-efficient of perceived risk is negative suggesting that there is a negative relationship between perceived risk and access to finance.

Table 4: *Multiple regression results*

Number of obs = 75; F =19.519; Prob> 0.000; R^2 = 0.671; Adj R^2 .637; MSE =.13221; Durbin Watson = 1.897

Source	SS	df	MS

Model	2.388	7		.341	
Residual	1.17167	.017			
Total	3.559	74			
Variables		Coef	Std err	t-value	sig
Constant		2.512	.490	5.125	.000
Quality of financial statements		.321	.075	4.271	.000
Information asymmetry		-.441	.078	-5.660	.000
Perceived risk		-.032	.166	-.193	.848
Quality of financial statements* perceived risk		-.136	.026	-5.306	.000
Information asymmetry* perceived risk		.167	.027	6.211	.000
Turn over		.165	.034	4.865	.000
Industry		-.087	.034	-2.525	.014

However, the relationship is not significant and therefore we are unable to confirm our H_3. The result is inconsistent with studies conducted by (Leuz and Varrecchia, 2000; Barth et al., 2005) which revealed that perceived risk lowers access to finance. This is also inconsistent with Ho and Victor (2000) who argued that perceived risk theory embraces a behavioral intuitive aspect which appeals and plays a role in facilitating the bank's decision to either extend finance or not.

In terms of our interactive variables, table 4 shows that the interaction between quality of financial statements and perceived risk is negative with a t-value of -5.306 which is significant at 1% level. This result means that we are able to confirm our H_4 of a significant negative relationship. This result is interesting because it shows that high quality financial statements coupled with high perceived risk will result in low access to finance. Table 4 also shows that the interaction between information asymmetry and perceived risk has a positive and significant association with access to finance as predicted by our hypothesis which means that we are able to confirm out H_5.

The results of the control variables also indicate that both company size and industry are associated with access to finance. Specifically, the results of a positive and significant relationship between company size and access to finance suggest that 'medium' sized companies have greater access to finance than ‘small’ companies. This may be due to the fact that ‘medium’ companies produce better quality financial statements which lower the information asymmetry and hence greater access to finance. The negative relationship between industry and access to finance means that companies belonging to the ‘service’ sector are less likely to access finance compared to ‘manufacturing’ companies. A possible explanation for this variation may be due to the security that manufacturing companies can offer to the banks in terms of tangible assets compared to service firms.

Summary and Conclusion

The purpose of this study was to investigate the relationship between quality of financial statements, information asymmetry, perceived risk and access to finance. It was argued that the perceived relationship was important since psychological literature suggests that individuals are likely to act or behave according to their perception. As a result if SMEs owner/managers perceive that quality of financial statements, information asymmetry and perceived risk are likely to affect their chances of accessing finance, they will take steps to improve the situation. Information for the study was collected through a questionnaire survey of randomly selected 132 SMEs of which 75 respondent. The results suggest that quality of financial statements, information asymmetry, the interaction between quality of financial statements and perceived risk, and information asymmetry and perceived risk are significantly associated with access to finance.

Despite these findings, the following limitations should be taken into account. First, we only managed to explain 63.7% of the variation in the variation in access to finance which means that there are other factors that can explain variations in access to finance. Future research should be directed to finding other factors that determine access to finance by SMEs. Second, the sample was composed of registered SMEs that operate in Kampala which means that unregistered and SMEs operating in other regions of Uganda were not investigated. The findings cannot therefore be generalized across the entire country. Studies in future can extend to other parts of the country.

Despite these limitations the study makes important contribution in two principal ways. First, the study is the first to undertake a study of the perceived relationship between quality of financial statements, information asymmetry, perceived risk, information asymmetry and access to finance. Although the findings confirmed the relationship between quality of financial statements, information asymmetry and access to finance, the relationship between perceived risk and access to finance was not confirmed. This suggest that more research is needed to find out why this is the case despite the wide acceptance based on secondary data there is a relationship between risk and access to finance. Second, the study also makes an important contribution in the sense that the results suggesting that there is no significant relationship between perceived risk and access to finance suggest that SMEs owner/managers may need training in order to be aware that perceived risk may reduce their chances of accessing bank finance. However, since this is the first study to undertake this survey, more research is needed in order to validate our study.

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Appendix

Questionnaire

Section A: General information

1. Name of the enterprise………………………………………….
2. What industry does your company belong to: □ manufacturing □ service (please tick).
3. What is the approximate annual turnover of the business in Uganda Shillings?
   □UGX ≤20M□ UGX 20 ≥ 30M□ UGX 30≥ 40 □ UGX40≥50 □UGX>50M

Section B: State your opinion on the following statements by ticking the most appropriate response as follows:

1. Strongly disagree 2.Disagree 3.Not sure 4. Strongly agree 5.Agree

		Strongly disag	**Disagree**	**Not sure**	**Strongly agree**	**Agree**
	Quality of financial statements					
1	In this enterprise all financial information is recorded immediately					
2	In this enterprise accountants are guided by the requirements of International Financial Reporting Standards for SMEs					
3	In this enterprise frequent audit is done					
4	In this enterprise accountants are consulted before any financing decision is made					
5	In this enterprise management is very open to employees					

6	In this enterprise management is honest with finances					
7	In this enterprise management is guided by the overall enterprise objectives					
8	In this enterprise management offers adequate accountability					
9	Accountants in this enterprise are independent in the professional practice					
10	Sound and accurate disclosure is done this enterprise					
11	In this enterprise the accounting procedures are adopted in preparation of financial statements					
12	In this enterprise international standards are adopted					
13	In this enterprise national standards are taken in to consideration while preparing financial statements					
14	The enterprise follows the regulatory framework					
15	Tax procedures are followed in presentation of financial statements.					
16	In this enterprise accounting concepts are adhered to in preparation of financial statements					
17	In this enterprise a formal precision is used for consistency					
18	In this enterprise accounting information is presented in one currency for purposes of accuracy					
19	In this enterprise financial information is detailed					
20	In this enterprise financial statements are signed by one authorized person					
21	Financial statements are reported in one currency					
	Information Asymmetry					
1	The enterprise receives adequate information on bank loan portfolios (R)					
2	The enterprise is in touch with banks for information on availability of loans(R)					
3	The bank informs the enterprise about changes interest rates					
4	The banks avail loan servicing information on time to the enterprise(R)					
5	The bank has a good working relationship with the enterprise					
6	The enterprise avails all details about collateral to the bank on time(R)					
7	The bank informs the enterprise about the nature of industry it					

	funds(R)					
8	The enterprise provides accurate financial information to the bank(R)					
9	The enterprise ensures consistency in financial statements(R)					
10	In this enterprise financial information is unbiased(R)					
11	Accounts ensure that financial information is clear and concise(R)					
12	Accountants purpose that financial information is relevant as per the bank requirements(R)					
13	The enterprise avails financial information to the bank on time(R)					
14	The enterprise has missed investment opportunities due to banks insufficient information(R)					
15	The enterprise is very much aware of the requirements of the bank(R)					
16	There is no information gap that exists between the bank and the enterprise(R)					
17	The bank regularly visits the enterprise to audit the assets(R)					
	Perceived Risk					
1	The enterprise has fear that the cash flows may not occur as predicted					
2	The enterprise has fear that the bank may change the credit terms on short notice and it affects loan servicing.					
3	The enterprise is not certain about the economic environment of the country					
4	The enterprise is not sure about the market trends therefore servicing finance may be a problem					
5	The enterprise has insufficient collateral which it fears it may be claimed by the bank in case of failure to pay					
6	The enterprise is not sure about the bank's intentions in availing finance					
7	The enterprise has a fear of exposure to external parties like banks					
8	The enterprise prefers using equity to debt					
9	The enterprise is not about the terms of commercial credit					

	provide by the bank					
10	The expectation of investment expenditures are not certain					
	Access to finance					
	Frequency of acquisition					
1	The enterprise can get any loan amount because the information gap with the bank is kept at minimum					
2	The enterprise does not have to go through un necessary bureaucracy to acquire a loan because the banks have reliable information					
3	The enterprise has been accessing finance from one bank because of a sound relationship built					
4	The enterprise keeps on switching from one bank to the other due to problems of loan servicing					
5	The enterprise is not able to access finance as many time despite the improvement in financial statements					
6	The enterprise can access finance with or without properly presented financial statements					
7	The enterprise is frequently monitored by the bank for payments despite the presentation of the statement of financial position and Comprehensive income					
8	The enterprise has not received any finance from the bank through formal procedures despite the availability of concise financial statements					
9	The enterprise acquires finance without necessarily presenting financial statements					
10	The enterprise bribes the bank to get a loan despite the well stated financial statements					