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Supervisor: Mr. G. Muponda
Dedication

I dedicate this work to the memory of my late mother, Rose Derera Moyo. She died during the commencement of this degree program and wanted to see me finish it. It is through her love, wisdom, strong Christian faith and support that gave me the strength to carry on even after her death.

To my father, Samuel Weston Moyo, I am thankful to him for his prayers that have made me accomplish my dream, as well as kept the family united. His prayerfulness and high moral integrity is testimony to the success of the family all round.
Declaration

Student Declaration – I, Namatai Moyo do hereby declare that this dissertation is the result of my own investigation and research except to the extent indicated in the Acknowledgements, References and by comments included in the body of the report and that it has not been submitted in part or in full for any other degree to any other University.

Signature..........................................    Date: 31 July 2012

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Supervisor Declaration – I, Mr. G. Muponda, confirm that the work reported in this dissertation was carried by the candidate under my supervision as University Supervisor. This dissertation has been submitted for review with my approval as University Supervisor.

Signature..........................................    Date: 31 July 2012

Name: Mr. G. Muponda

Graduate School of Management

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Finally, I would like to thank the University of Zimbabwe, Graduate School of Management and Scientific Institute for Research and Development (SIRDC) especially Ms. Gladys G. Mudyahoto for making it possible for me to undertake this noteworthy MBA program which has greatly increased my knowledge and understanding on the subject matter.
Executive Summary

This study evaluated the use of accounting practices and then assessed their impact on business performance of retail SMEs within the Harare Metropolitan Province. There is little or non-application of accounting practices which therefore contributes to non-growth of these SMEs into large companies. The objectives of the study were to assess the extent to which proper accounting practices are being used by SMEs within the retail sector of Harare metropolitan province in Zimbabwe, to evaluate the impact of inadequate or improper use of accounting practices on business performance and to suggest ways in which small businesses can adapt or use accounting practices.

The study adopted the triangulation research method where three data collection methods were used so as to increase reliability and validity of findings by obviating weaknesses of a single approach and thus balancing it with strengths of the other. These data collection methods included the survey method (whereby a questionnaire was designed and piloted), in-depth interviews and focus groups, where carried out using a purposively selected sample of owner-managers.

The findings from this study show that SMEs keep some books of accounts and not all of the required books because lack of accounting expertise within their businesses. They are unable to hire or train their staff in the lacking skills because of lack of finance. A lot of the SMEs do not have filing systems which can be used in the assessment of business’ present and future performance.

The study concluded that lack of proper accounting practices by SMEs in Zimbabwe is hindering the performance of their businesses’, thus, the lack of business expansions and continuity in many SMEs. Owner-managers running the business lack the accounting expertise and management skills. They also take the use of accounting practices for granted or as a burden.

The study recommends there is a need for SME owner-managers to seek training in both management and financial skills so as to use accounting practices efficiently and effectively. Government of Zimbabwe should provide free trainings for all owner-managers on management and entrepreneurial skills so as to improve use of accounting practices.
# Table of Contents

Dedications ................................................................................................................................. i
Declarations ................................................................................................................................. ii
Acknowledgements ...................................................................................................................... iii
Executive Summary ....................................................................................................................... iv
Table of Contents ........................................................................................................................ v
List of Figures ............................................................................................................................... vii
List of Tables ............................................................................................................................... ix
Abbreviations .............................................................................................................................. x

## Chapter 1

1.0 Introduction ............................................................................................................................... 1

1.1 Background to the Study .......................................................................................................... 2

1.2 The Zimbabwean Experience ................................................................................................. 3

1.3 Macro-environment Analysis ............................................................................................... 6

1.4 Problem Statement ................................................................................................................. 8

1.5 Research Objectives .............................................................................................................. 8

1.6 Research Questions ................................................................................................................. 8

1.7 Research Proposition ............................................................................................................ 9

1.8 Research Justification ............................................................................................................ 9

1.9 Scope of Research ................................................................................................................. 9

1.10 Chapter Conclusion ............................................................................................................. 10

## Chapter 2 Literature Review

2.0 Introduction ............................................................................................................................... 11

2.1 Definition of SMEs ................................................................................................................. 11

2.2 Entrepreneurship ................................................................................................................... 12

2.3 Accounting Practices’ Background and Importance ............................................................. 14

2.4 Uses of Accounting and Financial Information .................................................................... 16

2.5 Financial Record Keeping and its Usefulness ....................................................................... 19

2.6 Accounting Practices in SMEs ............................................................................................ 21

2.7 Impact of Accounting Practices on SMEs’ Business Performance .................................... 25

2.8 Accounting Bases and their Linkage to Business Performance ......................................... 31

2.9 Tax Accounting in SMEs ...................................................................................................... 33

2.10 International Financial Reporting Standard (IFRS) for SMEs ............................................ 34
## List of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Map of Zimbabwe</td>
<td>43</td>
</tr>
<tr>
<td>3.2</td>
<td>Map of Harare with Geographical Boundary</td>
<td>44</td>
</tr>
<tr>
<td>4.1</td>
<td>Responses on the age of Respondents</td>
<td>49</td>
</tr>
<tr>
<td>4.2</td>
<td>Responses on the Gender of the Respondents</td>
<td>50</td>
</tr>
<tr>
<td>4.3</td>
<td>Responses on the Status of the Respondents</td>
<td>52</td>
</tr>
<tr>
<td>4.4</td>
<td>Level of Education</td>
<td>53</td>
</tr>
<tr>
<td>4.5</td>
<td>Religious Background of the Respondents</td>
<td>54</td>
</tr>
<tr>
<td>4.6</td>
<td>Years that the Respondents have being working in the SME</td>
<td>55</td>
</tr>
<tr>
<td>4.7</td>
<td>Previously Employed Respondents</td>
<td>56</td>
</tr>
<tr>
<td>4.8</td>
<td>Source of Business Start-up Capital</td>
<td>58</td>
</tr>
<tr>
<td>4.9</td>
<td>Further Training after Business Start-up Capital</td>
<td>61</td>
</tr>
<tr>
<td>4.10</td>
<td>Type of Business</td>
<td>63</td>
</tr>
<tr>
<td>4.11</td>
<td>Method of Operation</td>
<td>64</td>
</tr>
<tr>
<td>4.12</td>
<td>Receipting of Sales</td>
<td>66</td>
</tr>
<tr>
<td>4.13</td>
<td>Use of Cash Tills in SMEs</td>
<td>67</td>
</tr>
<tr>
<td>4.14</td>
<td>Bank Account for the SME</td>
<td>70</td>
</tr>
<tr>
<td>4.15</td>
<td>Respondents Reasons of Having No Bank Account</td>
<td>71</td>
</tr>
<tr>
<td>4.16</td>
<td>Special Book for Daily Sales and Purchases</td>
<td>72</td>
</tr>
<tr>
<td>4.17</td>
<td>Maintenance of Accounting Records</td>
<td>73</td>
</tr>
<tr>
<td>4.18</td>
<td>Accounting Package used by the Respondents</td>
<td>74</td>
</tr>
<tr>
<td>4.19</td>
<td>Salaries Record Keeping</td>
<td>77</td>
</tr>
<tr>
<td>4.20</td>
<td>Filing Systems in SMEs</td>
<td>78</td>
</tr>
<tr>
<td>4.21</td>
<td>Accounting Bases</td>
<td>82</td>
</tr>
<tr>
<td>4.22</td>
<td>Preparation Frequency of Financial Statements</td>
<td>86</td>
</tr>
<tr>
<td>4.23</td>
<td>Yearly Audit</td>
<td>88</td>
</tr>
<tr>
<td>4.24</td>
<td>Person Responsible for Bookkeeping</td>
<td>89</td>
</tr>
<tr>
<td>4.25</td>
<td>Board of Finance</td>
<td>90</td>
</tr>
<tr>
<td>4.26</td>
<td>Meeting to Discuss Financial Statements</td>
<td>91</td>
</tr>
<tr>
<td>4.27</td>
<td>Meetings Frequency</td>
<td>92</td>
</tr>
<tr>
<td>4.28</td>
<td>Meetings Impact</td>
<td>93</td>
</tr>
<tr>
<td>4.29</td>
<td>Years of SME Operation</td>
<td>94</td>
</tr>
<tr>
<td>4.30</td>
<td>Profits in SMEs</td>
<td>95</td>
</tr>
</tbody>
</table>
Figure 4.31: Financial Support or Assistance from Bank or Institution 96
Figure 4.32: Type of Assistance Received 97
### List of Tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 2.1: Cause of Business Failure</td>
<td>28</td>
</tr>
<tr>
<td>Table 4.1: Age of Respondents</td>
<td>49</td>
</tr>
<tr>
<td>Table 4.2: Responses on the Gender of Respondents</td>
<td>50</td>
</tr>
<tr>
<td>Table 4.3: Responses on the Status of the Respondents</td>
<td>51</td>
</tr>
<tr>
<td>Table 4.4: Level of Education</td>
<td>52</td>
</tr>
<tr>
<td>Table 4.5: Religious Background of Respondents</td>
<td>54</td>
</tr>
<tr>
<td>Table 4.6: Previous work Position</td>
<td>57</td>
</tr>
<tr>
<td>Table 4.7: Motivation of Starting an SME</td>
<td>59</td>
</tr>
<tr>
<td>Table 4.8: Name of Training Attended</td>
<td>61</td>
</tr>
<tr>
<td>Table 4.9: Type of Business</td>
<td>62</td>
</tr>
<tr>
<td>Table 4.10: Method of Operation</td>
<td>64</td>
</tr>
<tr>
<td>Table 4.11: Receipting of Sales</td>
<td>66</td>
</tr>
<tr>
<td>Table 4.12: Information obtained from Cash Till</td>
<td>68</td>
</tr>
<tr>
<td>Table 4.13: Use of Information from the Cash Till</td>
<td>69</td>
</tr>
<tr>
<td>Table 4.14: Set of Books kept by SMEs</td>
<td>75</td>
</tr>
<tr>
<td>Table 4.15: Monthly Expenses Paid by SMEs</td>
<td>79</td>
</tr>
<tr>
<td>Table 4.16: Regulatory Compliance by SME</td>
<td>80</td>
</tr>
<tr>
<td>Table 4.17: Reasons for Non-compliance with Regulatory Requirements</td>
<td>81</td>
</tr>
<tr>
<td>Table 4.18: Financial Statements Preparation</td>
<td>83</td>
</tr>
<tr>
<td>Table 4.19: Use of Financial Statements</td>
<td>85</td>
</tr>
<tr>
<td>Table 4.20: To whom, are the Financial Statement Presented to</td>
<td>87</td>
</tr>
<tr>
<td>Table 4.21: Factors that Inhibit the Use of Accounting Systems in SMEs</td>
<td>98</td>
</tr>
</tbody>
</table>
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASB</td>
<td>Accounting Standards Board</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>ESAP</td>
<td>Economic Structural Adjustment Programme</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
</tr>
<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Practices</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GPA</td>
<td>Global Political Agreement</td>
</tr>
<tr>
<td>ICT</td>
<td>Information Communication Technology</td>
</tr>
<tr>
<td>IFAC</td>
<td>International Federation of Accountants</td>
</tr>
<tr>
<td>MAS</td>
<td>Management Accounting Systems</td>
</tr>
<tr>
<td>MEPIP</td>
<td>Ministry of Economic Planning and Investment Promotion</td>
</tr>
<tr>
<td>MTP</td>
<td>Medium Term Plan</td>
</tr>
<tr>
<td>PAAB</td>
<td>Public Accountant and Auditors Board</td>
</tr>
<tr>
<td>PAYE</td>
<td>Pay As You Earn</td>
</tr>
<tr>
<td>RBZ</td>
<td>Reserve Bank of Zimbabwe</td>
</tr>
<tr>
<td>SAS</td>
<td>Statistical Analysis System</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for the Social Sciences</td>
</tr>
<tr>
<td>Stata.</td>
<td>Stata. Statistical software</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>ZAPB</td>
<td>Zimbabwe Accounting Practices Board</td>
</tr>
<tr>
<td>ZWD</td>
<td>Zimbabwe Dollar</td>
</tr>
</tbody>
</table>
Chapter 1

1.0 Introduction

A policy document for the support of small, micro and medium enterprises (SMMEs) was approved by the cabinet of Zimbabwe in July 2002. This was possible through the support of the Ministry of Industry and International Trade in collaboration with the Ministry of Youth Development, Gender and Employment Creation, who were involved in its establishment. (SMME policy: 2002)

The SMEs and Cooperatives sector is considered to be a major player in the Zimbabwean economy contributing an estimated 60% of GDP and 50% to total employment. During the last ten years of economic downturn in the country, many large corporations ceased or downsized their operations. This then resulted in the increased informalisation of the economy, (Ministry of Economic Planning and Investment Promotion [MEPIP], 2011). One of the MTP’s (Medium term plan) policy targets under SMEs and cooperatives sector is to improve book-keeping and recording systems to enable SMEs to grow into formal companies. The focus of the study is the evaluation of the use of accounting practices and the assessment of their impact on business performance of SMEs in the retail sector.

In 2008, an estimated 10 000 SMEs were in Zimbabwe controlling 65% of the total corporate purchasing power (Zindiye, 2008). According to Fatoki and Matarirano (2010) small firms are now recognised worldwide to be a key source of dynamism, innovation and flexibility. Scholars worldwide are in agreement that SMEs play an important role in the economies of most countries, not only because of their sheer numbers but also the variety of their activities. The ability of job creation is clearly a major attraction for governments in the short term. SMEs therefore can be viewed as a source of constant renewal in commerce and industry and as well as a spring of dynamism and competition.

Zimbabwe should respond to improvements in accounting practices of SMEs so that they can perform better and therefore grow into large corporations. This will result in the following economic objectives realisation: economic growth and development,
favourable balance of trade and payment and employment, and social objectives (poverty alleviation and improving standards of living), [Schlogl (2004:46) cited in Zindiye (2008)]. In agreement, Chirisa (2010:50) explains how informal businesses play a significant role in the construction and urbanisation of peri-urban settlements. Reuvid and Millar (2003) clearly note that, SMEs can either follow a sole proprietorship/trader business structure, a partnership with unlimited liability business structure or a private limited liability company business structure.

1.1 Background to the Study
Storey (1994:60) notes that labour market economists examine new firm formation as a decision exercised by the individual in the context of labour market. In making that decision the individual is influenced by a variety of factors, such as work experience, motivation, personality, family environment, societal ‘norms’, status, etc. These influences have been the prime focus of explanations for entrepreneurship provided by economists. Therefore, in other words, as stated by Dignard and Havet (1995:44), entrepreneurship relates to confidence, achievement motivation, goal-setting, risk-taking, communication, creativity and innovation, opportunity identification, use of feedback, negotiation skills, etc.

According to Carter and Jones-Evans (2000:136) there is no general agreement of what is and what is not entrepreneurship. More precisely, research has become more aware of the problem of defining entrepreneurship and now pays more attention to problems of definition and the need to examine entrepreneurship at different points of dynamic process of business creation and expansion. An entrepreneur can, therefore, be defined as a risk taker who identifies market opportunities and invests his or her capital to produce goods and services in order to satisfy the demand, (Jewell, 1997). Fisher, Fisher and Wang (2008) argue that entrepreneurs do not just create companies for the sake of building a business but create companies to solve crucial problems for individuals or other businesses.

The Financial Accounting Standards Board (FASB), (cited in Byrd and Meggison, 2009:364) notes that, “Accounting is a tool and, like most tools, cannot be much direct help to those who are unable or unwilling to use it or who misuse it”. Accounting systems
can be defined as processes and procedures by which an organisation’s financial and non-financial information is collected, processed, stored and reported.

Internationally, Tanwongsval and Pinvanichkul (2008) examined that, owners or managers of Thai SMEs never overlooked the process in obtaining data and preparing financial reports. On the other hand, they realised that financial information is so important to them in order to utilize it in financial management, decision making and operation. Watkins (2010) notes that, Accounting Standards Board (ASB) proposed a major overhaul of the way medium sized companies compile their accounts in a bid to bring British business in line with global standards. Using United States of America (USA) SMEs, Byrd et al. (2009) clearly state the need for small business owners to know more about financial planning and control if they want to continuously earn a profit as well as stay in business.

In the European Union, 27 million enterprises were in the non-financial business economy in 2005 and of these 99.8% were SMEs and the majority of which were micro-enterprises. In some key industries they contribute for more than 70% of all jobs. A study was carried by EC (European Commission) to identify good practices in accounting for small enterprises and to focus high-level political attention on key issues, agreed with experts of national administration and in consultation with business organisations.

The research was done in the following member countries: Austria, Belgium, Denmark, Germany, Italy, Poland, Greece, Estonia, France, Norway, The Netherlands, Lithuania, The Czech Republic, Romania, Portugal, Spain, Sweden, Slovakia, Slovenia and The United Kingdom. It was concluded that the accounting systems in place for the latter mentioned member states varied a lot. Views on how to improve the accounting systems so that they can provide the owners/ managers of the small enterprises with appropriate financial information were also unveiled, (The European Commission (EC), Nov 2008).

1.2 The Zimbabwean Experience.
Ngwenya and Ndlovu (2003) outline that; Economic Structural Adjustment Programme (ESAP) gave rise to a new socio-economic system where market forces play an increasingly dominant role in the country. It then ushered in an era that witnessed the birth of numerous small enterprises designed to complement incomes and create employment for the many retrenched people as well as school leavers that could not be
absorbed in a formal sector. The government, since independence in 1980, tacitly encouraged the informalisation of the economy ostensibly in its initial policy of ‘liberalisation’ in response to the erstwhile structural re-adjustment programme that it later abandoned, (Chirisa, 2009). Hungwe (n.d.: 150) in his paper outlines the reason for the latter as been well known: African countries share the common feature of existing in the post-colonial era and many are still battling the problems of reversing colonial policies and practices. Meanwhile, in order to survive, these countries must compete with the industrialised countries, in the so-called free trade system.

Yet the country underwent economic stagnation and decline lasting more than a decade (1997-2008). Poverty increased as rural areas suffered in terms of the main activity-farming-due to the harsh environment posed by the controversial fast-track land resettlement programme by the government as well as the harsh climatic episodes in the same period (frequent droughts, unprecedented cyclonic and flooding conditions). These made rural areas difficult places for those who might have wished to stay there. Urban centres became more attractive for many. In this vein, a new demand for employment and livelihood activities, as well as housing in the urban centres emerged (Chirisa, 2011).

Tibaijuka (2005) further notes that, many analysts point to the failure of ESAP in the early 1990s as a major negative economic turning point. The austerity measures imposed by the ESAP led to; inter alia, the massive retrenchment of skilled and unskilled labour and of the civil service, the closure of many manufacturing industries, general price increases, and the deterioration of social services. Zimbabwe suffers from high unemployment with an official estimate of approximately 80% of the economically active population unemployed (Fatoki and Matarirano, 2010; Central Statistics Office of Zimbabwe, 2009).

The advent of the economic reform programme in 1991 has seen a significant change in Zimbabwe government’s attitude towards the SME sector. SMEs have therefore developed from the late 1990s to current, at the same time contributing significantly to job creation as well as economic growth (Zindiye, 2008). In a 1991 survey in Zimbabwe, United States Agency for International Development (USAID) identified 845 000 microenterprises employing 1, 6 million people out of a total population of 10, 8 million. It is clear that the informal sector makes a substantial contribution to growth and
development, with the bottom range of estimates at 20% of GDP and growth exceeding that of the formal sector (Buss and Snow, 2001).

Rakodi (1995) interestingly highlights that, other SMEs (besides sculptors) a higher percentage were males, this could have been influenced by the earlier Economic Structural Adjustment Program in the early 90’s whereby there were more males who were economically active during the era. However, Mandaza and Chirisa (2011) builds on Rakodi’s work in their study as they state that owing to massive retrenchments during this period, most of the retrenched workers started their self businesses and possibly this could explain why there were generally more males engaged in the SME sector at Newlands Shopping Centre than females.

One of the recommendations to the Government of Zimbabwe in a study done by Tibaijuka (2005) was the urgent need for the Government of Zimbabwe to facilitate humanitarian operations within a pro-poor, gender-sensitive policy framework with the pursuit of small scale income-generating activities in a regulated and enabling environment. This was after the Operation Restore Order, which was a nationwide campaign, destroying what the Government termed illegal vending sites, structures, other informal business premises (this included informal vending and manufacturing operations) and homes on 19 May 2005.

The recent Mid-Term Fiscal Policy review (2011) concurs with the intention to substitute a penalty “not exceeding 10% of the taxpayer’s taxable income for failure to maintain proper books and accounts for all transactions with effect from 1 January 2012. As a recommendation Ngwenya et al. (Apr 2003) outlined the need for government to play a facilitatory role by providing well spelt out user-friendly operational guidelines that will foster transparency and accountability in the SME sector.

SMEs are further encouraged to have accounting practices after the recent adoption of the IFRS (International Financial Reporting Standards) for SMEs by the ZAPB (Zimbabwe Accounting Practices Board) and PAAB (Public Accountant and Auditors Board) in January 2011, (IFRS, 2011). Accounting practices are there to ensure accountability, facilitate decision making generally and permit the evaluation of completed projects. The Ministry of SMEs identified inadequate management and entrepreneurial skills as one of
the problems of the SME sector. The Monetary Policy Review Statement (2006) concurs that, weak business structures and insufficient management resources; finance, human resources and technology are some of the common challenges faced by SMEs. The majority of prior research on SMEs databases in Zimbabwe has looked at factors affecting SMEs’ performance, and the performance of micro-finance institutions. Accounting practices have just been highlighted as a factor that affects SME performance. This study will therefore assess accounting practices and their impact on business performance for SMEs in the retail sector of Harare metropolitan province and make recommendations on possible ways of improvements.

1.3 Macro-environment Analysis
Harare is the capital city of Zimbabwe. From its name which when translated in English means, ‘a place where no one sleeps’, this is the city with a greater percentage of the informal economy, since this is the centralised hub of business. According to Jewell (1997:31) a situational analysis will analyse the current situation before deciding on a course of action to achieve objectives. The Political-legal, Economic, Socio-cultural and Technological analysis which in short is also known as PEST analysis, is the name given to an analysis of the external environment.

PEST itself refers to the political-legal, economic, sociocultural and technological environment. A PEST analysis of the province was done by the researcher, concerned with identifying and evaluating the political, economic, social and technological factors that likely impacted on the SMEs during the research study. Johnson and Scholes (2002) define macro-environment analysis as consisting of broad environmental factors that impact to a greater or lesser extent on almost all organisations.

1.3.1 Political-legal Environment
The birth of the Global Political Agreement (GPA) in 2009 contributed to the already prominent issue of the then indigenisation and economic empowerment program. This is now currently falling under the SMEs and cooperatives ministry. With one voice, all three main parties are in support of pro-poor viable projects that empower SMEs. The recent MTP reiterates the latter, with policy targets having been laid down for SMEs. Included in the policy target is the need to have an SME Act to be in place by end of 2011. Thus the political environment for the SMEs sector is quite favourable.
1.3.2 Economic Environment
Prior to 2009, the economic downturn in the country actually gave rise to this informal economy. Three and four million Zimbabweans earned their living through informal sector employment, supporting another five million people, while the formal sector employed just one million, three hundred thousand people (Tibaijuka, 2005). Real wages fell as prices escalated due to hyper-inflation and the formal sector employment collapsed. As price controls imposed by the government wiped most basic goods off the shelves of retailer businesses, which then failed to restock, SMEs would then import and sell these commodities. The introduction of the use of multi-currencies in February 2009 stabilised prices as well as real wages. Government has been providing financing and micro-finance credit to women and youth engaging in viable projects, making it more favourable for the SMEs’ operations.

1.3.3 Socio-cultural Environment
As opposed to the previous major challenges that were upon the Zimbabwean population in 2008 which included acute shortages of goods and services, poor harvests and the deteriorating delivery of public services such as water, electricity, sanitation and health imposed phenomenal hardships. After the dollarisation of the economy in 2009, improvements to some public services have seen an increase in the size of the country’s population; included are facilities that will reduce maternal mortality rate and infant mortality rate. A growing population is beneficial to SMEs in increasing the size of potential market and in increasing the available supply of labour.

1.3.4 Technological Environment
The introduction of accessible Information communication technology (ICT) products and services to the wider population at affordable prices has made a lot of the population in Zimbabwe ICT literate. Internationally SMEs are advised to seek technology in keeping its accounting systems, as this will save on time as well as help in accuracy of financial records. Stanbic and Kingdom banks have introduced e-banking which will also enable easier and faster bank transactions. This will therefore help SMEs in Zimbabwe to conduct faster and easier business transactions.

The study has therefore evaluated the impact of accounting practices on business performance in SMEs, since performance is crucial for any enterprise be it profit or non-
profit. The financial performance indicators measured the financial soundness of an SME in terms of profitability, long-term-sustainability and viability. Administration performance relates to institutional, ownership and power sharing arrangements that will have a bearing on the internal policies of the organisation. These are significant when the organisation is not under performing, financially.

1.4 Problem Statement
As stated in the MTP, one of the policy targets is to improve book-keeping and recording systems to enable SMEs to grow into large companies. From this policy target one would conclude that there is little or non-application of accounting practices which therefore contributes to non-growth of these SMEs into large companies.

The need for this research was to evaluate the use of accounting practices and their impact on business performance of SMEs within the retail sector in Harare’s metropolitan province of Zimbabwe. This will therefore, encourage a culture of having accounting practices in not only retail sector SMEs but all SME sectors since they contribute largely to the country’s economy. The country’s unemployment rate still needs to be reduced and growth of SMEs will result in increase of employment opportunities.

1.5 Research Objectives
The objectives of this research were as follows:-

1.1.1 To assess the extent to which proper accounting practices are being used by SMEs within the retail sector of Harare metropolitan province in Zimbabwe.
1.1.2 To evaluate the impact of inadequate or improper use of accounting practices on business performance.
1.1.3 To suggest ways in which small businesses can adapt or use accounting practices.

1.6 Research Questions
The study aimed to answer the following key research questions:

1.1.1 Do SMEs keep proper accounting records?
1.1.2 To what extent do SMEs use these accounting practices?
1.1.3 What are the implications of not using proper accounting practices on business performance?
1.1.4 What factors inhibit the use of accounting systems in SMEs?
1.7 Research Proposition
The proposition behind this study was that lack of proper accounting practices by SMEs in Zimbabwe was hindering the performance of their businesses.

1.8 Research Justification
SMEs are important in that they contribute significantly to economic growth through employment creation (McMahon, 2005). This will lead to more people having disposable income which results in the demand for goods and services. The Zimbabwean economy is currently stabilised after its dollarization in 2009, where according to the RBZ (Jan. 2011), it is estimated to have grown by 8.1% in 2010 buoyed by improvements in all sectors of the economy. Significant growth was recorded in mining (47%) and agriculture (34%). The unemployment rate still remains high since foreign direct investment (FDI) is still low. To address this problem, more attention should be paid to the promotion of SMEs in Zimbabwe since they contribute remarkably to economic growth in the country.

It is therefore imperative that an assessment of current accounting practices within SMEs and their impact on business performance be established. The establishment of their impact will result in strategic recommendations being adopted to encourage growth and therefore decrease the rate of failure of SMEs in Zimbabwe which is necessary to increase levels of employment and economic growth in the country. There is also a big problem of SMEs and researchers trying to look at specific accounting techniques and not ways of improving the accounting practices for SMEs, so that they are appropriate. The study will therefore seek to provide recommendations on how SMEs can improve their accounting practices, after assessment of the current accounting practices.

1.9 Scope of Research
The study was only confined to SMEs with employees less than ten within the retail sector in the Harare Metropolitan province, since Harare is the hub of business for Zimbabwe and it is also the capital city. The sample of 150 firms was taken from the Central Business District of Harare due to time and financial constraints and it was assumed in this study that the sample was representative of the population of 12 000 businesses. This study will not attempt to add accounting regulation in Zimbabwean SMEs. The study will assess accounting practices and their impact on business
performance of SMEs within the retail sector in Zimbabwe. The research did not therefore look at all the SME business sectors.

1.10 Chapter Conclusion
This chapter introduced the research study and gave the background to the research study. A macro-environment analysis was done using PEST analysis so as to identify and evaluate the political, economic, social and technological factors that likely impacted on the SMEs during the research study. A problem statement was highlighted and from it research objectives and research questions were established. The research proposition was also stated and justified by highlighting the scope of research.

Chapter two reviews the literature relevant to accounting practices and SME. It also looks at how SME utilises financial information for corporate management. Chapter three focuses on the research framework design, population, sampling techniques and procedures, data collection, presentation and analysis and research limitations. Chapter four presents the findings of the research and a discussion of the findings and will also try to draw relationships or departures with previous research done elsewhere. Chapter five presents the research conclusions based on the discussions in chapter four. From the conclusions, recommendations will be made and areas that might need further investigation conclude the chapter.
Chapter 2
Literature Review

2.0 Introduction
This chapter contains a review of the literature on accounting practices in general and how accounting information can be used to enhance business performance. It will further review literature on accounting practices of small firms using present evidence of previous studies.

Conceptual Framework

2.1 Definition of SMEs
According to Storey (1994) there is no single, uniformly acceptable, definition of a small firm. This is because a ‘small’ firm in, say, the petrochemical industry is likely to have much higher levels of capitalisation, sales and possibly employment, than a ‘small’ firm in the car repair trades. Definitions of SMEs were aimed at highlighting the similarities and differences of definitions over borders. Most of the differences that exist in these definitions are due to difference in the economic systems of countries and some of the variables used in the description of SMEs worldwide. There are also similarities in the definitions of SMEs which is mainly due to the importance of the SME sector worldwide.

2.1.1 International Definitions
According to the European Commission (2008: 7) Small and Medium-sized enterprises are those micro, small and medium firms with fewer than 250 employees, with an annual turnover of less than €50 million, and independent of larger enterprises. Mpofu, Milne and Watkins-Mathys (2008) defined SMEs in South Africa as small, medium and micro enterprises with an upper limit of 250 employees. Zindiye (2008: 71) is in agreement that SMEs are formal enterprises which have a cut-off range of 0-250 employees. In developing countries, small firms employ between 5-9 employees whilst medium firms employ between 20-90 employees (Quartey, 2001:5). The United States of America Small Business Administration (2004) defines an SME as an entity that is independently owned and operated, and is not dominant in its field of operation.
The value of the European Commission definition is that it uses only one criterion which is employment, but can be subdivided into three categories. The three categories include micro, small and medium-sized enterprises. Researchers are, therefore, encouraged to use their own definitions of small enterprises which are appropriate to their particular ‘target’ group (Storey, 1994:16).

2.1.2 Zimbabwean Definitions
The SMME policy (2002: 6) defines enterprises that are not formalised through a legal structure such as registration in terms of the Companies Act or a Partnership Agreement, as micro-enterprises. Mugwara (2000) defines small and micro-enterprises as business owned by individual entrepreneur who employs one person to twenty people as the business grows. In terms of workforce, small enterprises may employ as many as ten employees or working family members (Hussain 2000:2). Hussain (2000) and SMME policy (2002:6) definitions will be adopted as the basis of this research since the targeted organisations can well be described as micro-enterprises, as they are not registered and employ at most ten employees including the owner.

2.2 Entrepreneurship
The informal sector exists by and large because of the failure of government economic development policies. Unstable banks, large state-owned enterprises, too much regulation, corruption, and state-controlled agriculture make it difficult for small businesses to develop (Buss and Snow, 2001:302).

Micro and small enterprises are more likely to dominate the ‘informal’ sector. Such enterprises are not registered under the Companies Act or the Co-operative Companies Act and are not assessed for taxation by the central government. This is particularly true for micro-enterprises employing less than four workers in both rural and urban areas (Kapoor, Mugwara and Chidavaenzi, 1997).

The informal micro-enterprise sector revolves around secondary activities such as food processing, cosmetics, building, footwear and garments, and tertiary activities such as transport and mechanics repair, retail, food preparation and distribution (Hussain, 2000:2). The challenge being faced by most of the developing countries is the high rate of unemployment, closure of the big companies which results in job losses and decreased
standards of living. The answer to all the challenges is the pursuit of entrepreneurship. Entrepreneurship is one of the most important drivers of local economic development (Zindiye, 2008). In other words entrepreneurship has formed the informal micro-enterprise sector or the small business that this study targeted.

The pursuit of entrepreneurship in Zimbabwe was a response to high unemployment and most of these individuals where therefore looking for a way to earn a standard living and in such a scenario the owner-manager will not be really concerned with proper accounting systems so as to further measure the business’ performance. Fisher et al. (2008) would tend to differ by explaining a true entrepreneur as someone not solely motivated by money and power, but by the desire to make a difference. Reuvid et al. (2003) also looked at reasons that drove people into entrepreneurism and came up with three main reasons that motivate younger and older entrepreneurs. These include; redundancy, the urge to make money and freedom to be one’s own boss.

Storey (1994:60) notes that labour market economists examine new firm formation as a decision exercised by the individual in the context of the labour market. In making that decision the individual is influenced by a variety of factors, such as work experience, motivation, personality, family environment, societal ‘norms’, status, etc. These influences have been the prime focus of explanations for entrepreneurship provided by economists. Therefore, in other words, as stated by Dignard and Havet (1995:44), entrepreneurship relates to confidence, achievement motivation, goal-setting, risk-taking, communication, creativity and innovation, opportunity identification, use of feedback, negotiation skills, etc.

According to Carter and Jones-Evans (2000:136) there is no general agreement of what is and what is not entrepreneurship. More precisely, research has become more aware of the problem of defining entrepreneurship and now pays more attention to problems of definition and the need to examine entrepreneurship at different points of dynamic process of business creation and expansion. The study looked at how entrepreneurship surfaced including its main activities in Zimbabwe and the main reasons that drove individuals into entrepreneurship so as to determine if the two have any bearing on the use of accounting systems by SMEs in Zimbabwe. From the literature reviewed to this point, it seems to
conclude that the motivation behind an owner-manager’s business start-up will influence the use of accounting practices within the enterprise.

2.3 Accounting Practices’ Background and Importance

Many studies show that accounting practices have been around for decades and the main reason for their existence was the need to make management decisions for an organisation as well as to measure its performance. According to Zaid, Omar and Abdullah (2003) individual Muslims generally, and entrepreneurs specifically, were concerned with the development and implementation of accounting books, systems and recording procedures. This need was inspired by the need to comply with the requirements of Shariah Isami’ah (30 Aiah [verses] of the 18 Surah [chapters] of the Quoran). Furthermore, they state that, the need to keep records of financial and other business transactions is an ancient one.

Accounting systems were structured to reflect the type of projects undertaken by the Islamic state in compliance with its religious obligations. These projects included industrial, agricultural, financial, housing and service projects. The accounting systems comprised a set of books and recording procedures. Some of these procedures were of a general nature and applied to all accounting systems while others were prescribed specifically for a particular accounting system (Zaid et al., 2003:1).

Furthermore, the authors stated that the objective of accounting systems was to ensure accountability, facilitate decision making generally, and permit the evaluation of completed projects (Zaid et al., 2003:1). From the latter this would imply that to some extent accounting systems’ use has an impact on business performance. The European Commission (2008), interestingly, in its research paper clearly state that, not all of these practices will assist all business for example firms that operate on a simpler business model may find only some of them useful.

Accounting systems comprised a set of books and recording procedures (Zaid et al., 2003). Jewell (1997:21) suggests that, an accounting system involves the collection, recording, presentation and analysis of financial data. Carter (1981) also looked at accounting as a discipline concerned with the recording, analysing and forecasting of income and wealth of business and other entities. Generally it records in monetary terms the flow of economic values between or within economic entities. Frankis (1995)
emphasises the importance of accounting systems by stating that, it becomes the central core of the business, the ‘thermometer’ by which the health of the business is assessed.

The introduction of principles of accounts in the Zimbabwean secondary schools’ curriculum in also shows the importance of accounting systems in bringing about accountability and transparency from a tender age. Byrd et al. (2009) also claim that, accounting is quite important in achieving success in any business, especially a small one. The accounting records must accurately reflect the changes occurring in your firm’s assets, liabilities, income, expenses and equity.

Many business owners do not realise their business is in trouble until it is too late. While proper accounting is a useful system for making sound economic decisions and a key to small business success, the misuse, untimely, poor record keeping, and inaccuracy of accounting information also causes SMEs to inaccurately assess their financial situation, and make poor financial decisions (Tanwongsval et al., 2008).

Cooley and Edwards (1983) also looked at accounting systems as providing a source of information to owners and managers of SMEs operating in any industry for use in the measurement of financial performance. The importance of financial performance measurement to any business entity, big or small, cannot be over-emphasised. In any sense, profit can analogously be viewed as the life-blood of a business and hence the accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement. Reported profits reflect changes in wealth of owners and this can explain why major economic decisions in business are centred on financial performance as measured by profitability.

Business decisions need to be supported by good quality financial information which needs to be relevant, user-friendly and available in a timely manner. Where appropriate, accounting should be an active steering tool to run and manage the business instead of representing another administrative burden that the small enterprise has to comply with. It is therefore of paramount importance that the accounting systems of small enterprises should fulfil such functions as providing essential financial information for their owners and managers in order for them to be able to manage their business in a competitive
environment and to make informed decisions to prevent business failure and to expand the business (The European Commission, 2008).

Chapman, Cooper and Miller (2009:19) argued that accounting practices change when a particular group or institution is able to successfully enrol other actors in their proposals by incorporating and translating the interests of others into solutions proposed.

2.4 Uses of Accounting and Financial Information
Many studies suggested that large and small firms differ in terms of strategies they pursue. That is while large firms’ model assume that firms’ objective is to maximise the wealth of shareholders. SMEs often place a value of autonomy, survival, stability or financial growth (Scase and Goffee, 1980).

As mentioned earlier in this chapter enterprises are differentiated by size, sector and innovations of their owners. Padachi (2011:2) further suggests that there cannot be a ‘one size fits all’ approach to the provision of services and policy formulation. The cash flow problems of many small businesses are magnified by poor financial management. Although it is recognised that management techniques which are relevant for large firms may not be appropriate for the small ones, yet some basic record-keeping and financial awareness are essential for survival.

The need to ensure that accounting information is presented accurately and consistently will make the application of the true and fair view principle very important. This is very important as it also affects business performance. If accounting information is accurate it will provide details of ways of strategising so as to improve business performance or maintain the same strategies in the case that the business is performing well. The International Financial Reporting Standards (IFRS) requires that the organisation’s accounts should show a true and fair view of the organisation (CIMA, 2006:316). The double-entry bookkeeping system is a much better control of the transactions being recorded properly. According to Truman et al. (2006), double-entry accounting automatically includes an internal cross-checking process to minimize the risk of errors remaining undetected.
McMahon (2005:3) describes the role of financial information in the Austrian model by stating that decision makers do need financial information to help them determine if their capacity to generate future profit or take a particular action has been impaired. There is no assumption that financial information has any other role. It is assumed that future oriented information will be used in evaluating the means by which desired ends can be achieved (although such use is not precluded). Austrian economics offers no opportunity to prescribe a use for information in the decision making process.

Generally, the principal role of financial reporting is essentially retrospective and confirmatory. In other words, financial information is useful mainly in evaluating the success of past decisions and in determining the present position (McMahon, 2005). Various legislative and professional requirements have made an audit necessary for certain classes of business. Ricci (2011:79) illustrates the need of accountability as a contribution to external accounting by stating that, accountability is to what degree a company is able to allow third parties to evaluate actions taken. That inevitably pushes company managers to their closet counterparts to take full responsibility for their business.

In support, The European Commission (2008) highlights that, external accounting can also be called financial accounting and is concerned with preparation of financial statements for decision makers such as owners, suppliers, banks, governments and its agencies, customers and other stakeholders outside the enterprise. Byrd et al. (2009) further on states that an auditor reviews the financial records with the intent of verifying, analysing, informing and discovering opportunities for improvement.

Karunananda et al. (2011) argue that, cost accounting or management accounting concepts and techniques are neutral instruments. It can either be used wisely (by eliciting primary symptoms of poor management) or stupidly by managers of the firms. Furthermore, the same rules and procedures established for external reporting (financial accounting) are likely to be applied to internal reporting (management accounting) even some rules, referred to theory, are inappropriate for management accounting.

The reason that most companies adopt the identical practices for both reporting systems is that firms prefer their internal profit to be reported consistently with external financial accounting requirements in order that they will be comparable with outsiders’ assessments.
of overall company performance. Companies would like to be ensured that internal accounting systems do not have any conflicts with external financial accounting requirements (Drury and Tales, 1995).

The key issues in internal reporting are addressed in monthly and annual reports. However, the inadequately related budgeting and reporting system indicated that many companies failed to use accounting information systematically for clearly defined and useful purposes. For performance measurement and evaluation, most companies based the measurement on different functions and product groups, to a lesser extent on client groups and sales regions (Haldma and Laats, 2002).

Islam and Hu (2012) suggest that from review of management accounting research using contingency theory, the usage of contingency theory is summarised. Contingency theory has been applied in management accounting research in order to address three types of questions. These include the fit between organisational control and structure; the impact of such fits on performance; and investigation of multiple contingencies and their impact on organisational design.

Direct benefits of financial reporting to financial management of a business tend to be less tangible and more difficult to identify and measure than necessary out-of-pocket expenditures on financial reporting. Some benefits of more extensive financial reporting are likely to become most evident when a business experiences financial stress, such as growth leads to cash-flow difficulties, making cash-flow forecasting and statements particularly helpful (McMahon, 2005).

In my own conclusion it is therefore imperative that accounting information is presented in a coherent useful manner. Characteristics of good accounting information would therefore be briefly named and explained below.

*Relevance*- the accounting information provided should be useful to decision makers.

*Credibility*- the accounting information must be accurate (free from error) and verifiable by independent outside sources such as auditors.

*Neutrality*- the accounting information should be free from bias and prepared as objectively as possible.
Coherence- the accounting information should be presented in a manner that makes it easy to follow and understand.

Timeliness- the accounting information should be presented before any key decisions have been made.

Comparability- the accounting information should be consistently presented in the same format in order to allow for comparisons between different reporting periods and have the general overview delivered.

2.5 Financial record keeping and its usefulness

My definition of financial record keeping is having separate distinctive books which simply records all transactions made by the organisation or enterprise. These include the sales day book, purchases day book, cash receipt book, cheque payments, petty cash book, general journal, nominal ledger, debtor’s ledger and creditor’s ledger, asset register and a payroll system. It improves the accuracy and reliability of the accounting transactions, which further provide the input of the financial statements for small enterprises.

Garbutt (1981) in support states that all the latter mentioned books are utilized for bookkeeping. Financial records, for example the sales day book (sales journal), purchases day book (purchases journal), cash receipt book, cheque payments book, petty cash book, general journal, nominal ledger, debtors’ ledger and creditors’ ledger must be kept and maintained in a sound accounting system (McMahon, 2005).

Corman and Lussier (1996:9) also looked at record keeping as extremely important and that they should be adequate and complete. Furthermore they state that, record keeping requires maintaining detailed information about purchases, sales, orders, expenses and cash balance from a double-entry bookkeeping system. This information can and should be used for future planning. The firm’s future stability will always be dependent upon adequate records about the past. From the author’s experiences, most small businesses keep inadequate records.

Most of the SMEs have a tendency to record their sales, purchases, orders, debtors in one book and this mainly forms the single entry bookkeeping system. No set of books are record by small businesses because it is seen as a necessary evil by SME owner-managers. The advancement of technology has seen an increase in the usage and the availability of
spreadsheet packages as well as custom accounting packages. It is therefore surprising to note that so many small firms appear to keep inadequate financial information on which to run their businesses. Research suggests that the more successful firms are those which keep and use financial data to make key business decisions (Storey, 1994:311).

According to Tanwongsval et al. (2008:59), shortcomings in the accuracy and reliability of financial statements might be the cause of difficulties to succeed and to raise funds or borrow money during the later stages for SMEs. In the worst case, SMEs might be faced with failure and perhaps bankruptcy in the end. However, according to Maseko et al. (2011) not all SMEs may need to keep and maintain all the financial records but an entity has to decide this on the basis of its needs. When the entity makes the judgement of what financial records to maintain, it also needs to take into account whether some financial records are compulsory to be kept by the regulatory authorities like the Zimbabwe Revenue Authority (ZIMRA).

The funding for many small firms by banks is limited and banks usually charge significant premium on debt interest. Interest levied on loans for small firms is often high, simply because of the perception that they are more likely to fail and therefore more risky. The other reason for limited bank loans to small firms is that administrative costs of maintaining smaller loans are relatively higher than for bigger loans. Small firms also lack detailed information required by banks to acquire a loan (Matarirano, 2007).

According to Karunananda et al. (2011) overall findings in their study suggests that Sri-Lankan SMEs whom were complying with financial practices were performing well than SMEs, whom were not complying with financial practices. In the context of SMEs, accounting information is important as it can help firms’ manage their short-term problems in critical areas like costing, expenditure and cash flow by providing information to support monitoring and control.

An investigative study of record keeping for performance measurement amongst SMEs in Zimbabwe by Maseko et al. (2011) showed that, 78% of the SMEs calculated profits of the enterprise but only 28% used the profits for financial reporting purposes.
Storey (1994:218) notes that in businesses, with less than ten employees, formal monitoring of profits takes place in only one-third of the businesses. Findings from his study highlights that those firms which professed to be performing at least satisfactorily were firms which maintained the best records (those most likely to know their profitability and to engage in regular budgeting). The second finding was that the single-proprietor business was the least likely to hold information on paper or in the computer; those businesses which had more than one proprietor were more likely to keep better records.

In agreement Padachi (2011) in his study outlines that minimum records are kept just to comply with the external financial reporting requirements of the firm and no attempt is made to use key financial indicators as a measure of performance. However, he further argues that, tasks having a direct impact on cash flow are done more often and in particular the chasing of debts.

2.6 Accounting practices in SMEs

Accounting practices internationally are all the same. It is general knowledge that SMEs worldwide do not use these practices since they see them as unnecessary bureaucracy. Due to non-usage of accounting practices by Zimbabwean SMEs, Baker Tilly International (2011:2) advices them that, the checks and balances should remain in place, so that growing businesses establish good management practices as they become economically significant.

Many other researchers have noted that management and administration policies are not in place and therefore they also hinder access to funding from banks since this is a prerequisite. Lack of funding will definitely have an impact on the use of accounting systems as well as business performance since required accounting skills knowledge cannot be acquired from the market due to lack of attractive remuneration.

In most jurisdictions, the law requires all or many of the registered SMEs to prepare financial statements and, often, to have them audited. Normally, the financial statements are filed with the government, posted on a website or are made available on request (The European Commission, 2008). Page (1984) founded that an external auditor required by SMEs usually provides or prepares the statutory accounts and provides management advice.
Reuvid et al. (2003) note that bookkeeping is one of the fundamentals vital pre-requisite for the continued entrepreneur’s existence but, as every successful businessperson knows, it is ignored at the business’s peril. The first steps to double entry bookkeeping include the single entry method of bookkeeping for example the sales ledger and purchases ledger as well as the bank reconciliation. From the latter this will imply that some SMEs that use accounting practices will tend to use the single entry method of bookkeeping rather than the double entry bookkeeping.

Taylor (2003) identifies the pros and cons of double entry and states that the single entry method of bookkeeping will be incomplete and have shortcomings if the business grows. Although it may be more than is needed by many small businesses, it can reduce the risk of, and help detect, any errors and even fraud. Stone (2001) recommends the use of a full double entry book-keeping system as it aids in the preparation of financial statements. He furthermore notes that the system entails more work since entries are more and cross-referencing is needed.

Truman and Lloyd (2006) propose the use of a computer program so as to minimize the drudgery when preparing accounting records. Taylor (2003) commends the significant improvement in bookkeeping software available for small to medium-sized business. With bookkeeping you have to be 100% accurate.

Zhou (2010) proposes the use of accounting software by owner-managers in SMEs to improve accounting practices but laments that developers of accounting software are yet to produce the medium-sized software for SMEs. The use of a standardised chart of accounts may facilitate the collecting of accounting information but it can also be an inflexible system if it does not take into account different needs of users. This will minimise the use of all the set of books which many small business owner-managers dread.

The use of computers is now so widespread that there are very few people who are not affected by their use. It is commonplace that computer capacity is increasing, but also the costs of computers are falling dramatically (Garbutt, 1981:0125). The use of an accounting package saves hours of time compared to handling the books manually and is
far more efficient than using Microsoft Excel. Accounting software reduces and eliminates redundant data entry.

Tanwongsval et al. (2008) note that SMEs in Thailand, however, were often overwhelmed with accounting and financial management challenges. Poor record keeping, inefficient use of accounting information to support their financial decision-making and the low quality of their financial data are part of the main problems in financial management concerns of SMEs in Thailand. Ricci (2011) also analysed that, the subject of financial reporting in relation to Italian family businesses, particularly the small ones, has not yet received the attention it deserves.

Profit cannot be left to chance in small firms. Yet all too frequently it is, because small business owners tend to know little about financial planning and control. Even when efforts are made to plan for profit, they are often inadequate, for owners tend to assume that history will repeat itself and past profits will be repeated in the future. Instead, small business managers must learn to identify and prepare for all income and costs, if they are to make a profit (Byrd et al., 2009). Ghobakhloo, Sabouri, Hong and Zulkifli (2011:57) suggests that financial resources are one of the most considerable critical resources which are known as the key SMEs performance requirements and subsequently critical success factors based on resource-based theory.

In Malaysia SMEs are normally set up and managed by individuals who may not have the skill to manage effectively the whole business. The owners may have specific skills such as in production, marketing or product development but lack other important competencies, which are critical for the success of their ventures; such deficiencies create opportunities from external service providers to close the gap (Devi and Samujh, 2010:7).

The International Federation of Accountants (IFAC) (2010:12) further cite that, the range and quality of accounting advice available has been as a result of growing demand deriving from the information needs of owner-managers of SMEs, in order to fulfil their regulatory obligations and day-to-day and strategic challenges. As a result Small accounting practices also operate as small businesses, confronted with decisions such as management knowledge, human resource, budgets, cash, client and so on in the process of providing professional services to their clients who are generally SMEs (Nandan, 2010).
McMahon (2005) in his study tries to explain some of the reasons for limited financial reporting in SMEs. One of the reasons is that owner-managers are rational economic decision-makers but believe, often wrongly, that the costs of being better informed on the financial consequences of their decisions outweigh the benefits. The costs would include those involved with preparation of standard financial reports (inclusive of set-up costs for a bookkeeping or accounting systems), as well as those associated with education or training in their use.

Lalin and Sabir (2010) conclude that regulations are the main drivers why SMEs prepare financial statements. Stone (2001:27) reiterates that, financial accounts have evolved over time to meet the current needs of businesses as well as complex statutory provisions that have been imposed by legislation. An early study of uses of financial statements in SMEs Bohman et al. (1984) revealed that owners, managers, tax authorities and lenders are the main users.

Small business owners fail to monitor all aspects of their businesses. They often consider financial statements “as a necessary evil and think everything is fine as long as sales are increasing and there is money in the bank”. They do not realise what they do in their day-to-day business activities is reflected in the financial statements. They tend to pay little attention to the financial information accountants give them (Byrd et al., 2009).

The low intake of accounting as one of the key contingent factors in an SME adopting new accounting procedures may be related to the background and attitude of the owner-manager. They may be well versed with the product or service that their businesses deal with. However, they may not be trained or be proficient in business management skills, especially at the early stage of the business life cycle (Padachi, 2011).

Nandan (2010) analysed that, only a very small percentage of SMEs in Australia may actually be successful and the vast majority struggle for similar continuity in the long run. There are numerous reasons for SMEs failure to grow and maintain long-term continuity, an important one being that many owner-managers ‘have little or no conception of workings, or problems encountered in managing a SME’. It is because of not using accounting practices that many of these Australian SMEs seem to fail to grow and maintain long-term continuity.
2.7 Impact of accounting practices on SMEs’ business performance

A study by Karunananda and Jayamaha (2011) on financial practices and performance of SMEs in Sri-Lanka cited the need for developing countries to accelerate the growth of SMEs in order to gain sustainable development. However, poor record keeping, inefficient use of accounting information to support their financial decision-making and low quality and reliability of financial data are part of the main problems in financial management concerns of SMEs. Padachi (2011) notes that, while performance levels of small businesses have traditionally been attributed to general managerial factors, such as manufacturing, marketing and operations, but accounting practices may have a strong impact on small business survival and growth.

In Zimbabwe the Ministry of Science Technology and Development highlighted an important point that the other major challenge that local SMEs were facing was due to lack of a proper business model to adopt. The Director of Program and Project Development went on to explain that, in the contemporary Zimbabwean context, businesses do not progress in traceable stages, for example infancy stage to maturity stage, “they just move from level zero to level ten overnight (probably as a result of corruption)”. It is therefore a challenge for local SMEs to learn from the current business practices as there is lack of a model to follow (Mandaza et al., 2011).

Starting and operating a small business includes a possibility of success as well as failure, because of their small size. A simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Lack of planning, improper financing and poor management have been posted as the main causes of failure of many small enterprises (Mwobobia, 2012:3). McMahon (2005) in a study discovered considerable evidence available that as a group, owner-managers of SMEs make considerably less use of standard financial reports, whether historical or future-oriented in the financial management of their businesses than would be proposed or predicted by neoclassical microeconomics or modern finance theory.

The study of Chapman (1997) and Holmes and Nicholls (1998), suggests that the sophistication of accounting systems is correlated with business size, business age, level of uncertainty and industry grouping. As there is no effective capital market for SMEs, banks are the general source of finance for SMEs. The implication of this can be that
SMEs will be encouraged to monitor their cash position closely in order to maintain good relationship with banks as their lenders. Though, currently in Zimbabwe this is not the case.

Lack of proper accounting records contributes to the primary challenge facing SMEs which is access to debt. According to Matarirano (2007) though several studies highlighted access to debt as the primary challenge facing small firms, some studies found that many small firms diversify away from bank financing even if banks are willing to lend more. The reason is that when a bank makes a loan to a firm, it gains access to the internal records and will be able to influence the activities of the firm. Therefore, for firms to avoid this, they diversify away from the use of bank loans.

Padachi (2011) suggest that the main factors that contribute to success or failure of small business are categorised as internal and external factors. The internal factors include managerial skills, workforce, accounting systems and financial management practices. The accounting department is generally viewed as a service unit to support the firm’s operations by providing information on costs and performance indicators.

Many small businesses are characterised by informality and poor information systems. Specifically, small businesses are characterised by poor control systems. During the start-up period informality dominates in many aspects of the new business. The lack of information results in poor decision-making, (Carter et al., 2000: 298). McMahon (2005) highlights the need for financial information as it is useful mainly in evaluating the success of past decisions and in determining present position. The more sophisticated financial reporting system is necessarily prepared to ensure that an SME’s economic system is necessarily prepared to ensure that an SME’s economic resources are used effectively and efficiently. Therefore, there is a particular need in growing SMEs for the skills of financial analysis which will allow financial statements to be read and understood.

In this regard SME owner or managers are crucial players as searcher and assimilator of information and what extent use of information sources is influenced by the education of the SME owner or manager (Lybaert, 1998). From the latter this will imply that the education of the SME owner or manager has a bearing factor on usage of accounting
practices in SMEs. Tanwongsval et al. (2008) and Ismail and King (2007) conclude that the managerial style that most enterprises emphasise is owner’s decisions. If their owners or managers lack one or more of technical, managerial and financial skills, the possibility of failure is higher.

In Zimbabwe, a study done by Maseko and Manyani (2011) states that, the majority of SMEs do not keep complete accounting records because of lack of accounting knowledge and as a result there is inefficient use of accounting information in financial performance measurement. According to Kapoor et al. (1997:17) lack of management skills and business know-how is a major constraint impeding the progress of the SME. Several studies in Zimbabwe suggest that entrepreneurs in the SME sector attach low priority to training and are often unwilling to participate in programs which require them to finance even a small proportion of their total training costs.

While these entrepreneurs are extremely vocal about the lack of credit facilities and the high cost of capital, they are less aware of the importance of acquiring the skills necessary to run a business. Areas of weakness identified include financial management, operations management, cost accounting, marketing and general business management (Kapoor et al., 1997). Most SMEs internationally now opt to outsourcing of lacking skills within the enterprise. A high need for proper accounting systems has seen small firms use professional accounting firms for the preparation of annual reports and other accounting needs (Bohman and Boter, 1984).

Devi and Samujah (2008: 6) argue that professional accountants need to be aware of the differing approaches that consultants use in dealing with client needs and the difficulties they may have in articulating their needs. As a consultant, the accountant will need to move from providing perspective solutions to providing non-directives advice. Small Medium Practices (SMPs) may need to alter and adapt the services they offer as the SMEs develop. Marriot and Marriot (2000) furthermore argue that the professional accountants should develop their services to also include graphic presentations and comments and interpretation of the amounts in the financial statements. However the high cost of hiring professional accountants leaves SMEs owner-managers with no option but to relegate accounting information management (Dorasamy, 2009).
Watson (2003:1) suggests that, small and medium enterprise failure might be reduced if business owners accessed appropriate advice. Many countries have established various small business agencies to assist SMEs. Implicit in this initiative is the premise that SME owners who access the services provided by these and other providers (for example Accountants, bankers and lawyers) will be more successful than those ‘who go it alone’. There is a major factor related to small firm survival and this is attention given to financial matters.

Storey (1994:78) in his study suggests the fundamental characteristic, other than size per se, which distinguishes small firms from large, is their higher probability of ceasing to trade. According to Corman et al. (1996) American businesses seem to fail for the same reasons year after year; the seven most common factors are listed in the Table 2.1 with poor financial practices second in rank.

<table>
<thead>
<tr>
<th>Percent of business Failures</th>
<th>Cause of Failures</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.9</td>
<td>Neglect</td>
</tr>
<tr>
<td>4.6</td>
<td>Disaster</td>
</tr>
<tr>
<td>2.2</td>
<td>Fraud</td>
</tr>
<tr>
<td>63.5</td>
<td>Economic Factors</td>
</tr>
<tr>
<td>1.0</td>
<td>Lack of experience</td>
</tr>
<tr>
<td>24.1</td>
<td>Poor financial practices</td>
</tr>
<tr>
<td>1.0</td>
<td>Lack of Strategy</td>
</tr>
</tbody>
</table>

Source: Corman et al. 1996:11

According to Karunananda et al. (2011) overall findings in their study suggests that Sri-Lankan SMEs whom were complying with financial practices were performing well than the SMEs, whom were not complying with financial practices. In the context of SMEs, accounting information is important as it can help firms’ manage their short-term problems in critical areas like costing, expenditure and cash flow by providing information to support monitoring and control.
Holmes and Nicholls (1989) summarise that management accounting information is associated with success and failure in SMEs depending upon how they are produced and utilised in their companies. The financial management of small enterprise conducted by Deakins et al. (cited in Tanwongsval et al. 2008:61) emphasised the common belief that better financial information means better control and higher chance of success. They raised the argument related to this matter whether good record keeping, the type of records and management’s understanding of the information in them can be correlated with business success on one hand or resistance to failure on the other. Findings from the study showed a significant positive correlation between the latter mentioned.

Adoption of one theoretical paradigm for understanding and explaining financial reporting in small and medium-sized enterprises (SMEs) is recommended by McMahon (2005). He further states that it is provided by neoclassical microeconomics which is reflected in modern finance theory, and which represents mainstream thought on financial management of businesses. According to this paradigm, historical and future-oriented financial reports, and analysis and interpretation of such reports, have considerable usefulness.

There have been a number of studies conducted in other counties investigating the types of financial reports produced by SMEs, the frequency of their preparation, and their perceived usefulness for management purposes. Comprehensive reviews and findings of comparable research conducted internationally up to the early 1990s are provided by McMahon and Davies (1991 and 1994) cited in McMahon (1995). The broad concern is the extent to which, if at all, improved financial practices appear to pay-off in terms of enhanced business performance in the SMEs investigated. Findings for the growing SMEs suggest that there are no substantial associations between undertaking more comprehensive financial reporting and use of financial ratio analysis on the one hand and achieved rates of growth and financial performance on the other.

Accounting may be the key to small business success. The accounting problems are categorised into recordkeeping, use of accounting information, cash control and cost control. An analysis of Small Business Institute cases in the United States, which were grouped into 17 problem areas, suggested that accounting was the most frequent problem,
and the number one in this category was recordkeeping (Padachi, 2011). It is therefore a good accounting practice for an SME to have proper record keeping.

According to McMahon et al. (1991 and 1994) cited in McMahon (1995) comprehensive historical financial reporting is more likely to be undertaken by SMEs which (inter alia) are larger in size. The studies also suggest financial ratio analysis based on historical financial statements is more likely to be undertaken by SMEs which (inter alia) are larger in size and undertake more comprehensive financial reporting.

In a current study, McMahon (2005:5) argues that even if the portrayal of an SME’s financial position and performance in its financial statements has integrity, there is the further issue of whether its owner-managers are sufficiently skilled to be able to meaningfully interpret the information presented. The lack of association between financial ratio use and either survival or profitability in SMEs may indicate that the level of sophistication in use of ratios has not reached a high enough level to make a discernible difference between those who use them and those who do not.

Padachi (2011) in his study explains the number of reasons that highlights the different approach to financial management practices of small firms. They can be driven by the personal motivation of the owner-manager business life cycle model and resource poverty. While a dynamic view of the financial management process reveal that change may be brought about as a consequence of experiential learning of the owner-managers.

Karunananda et al. (2011) in their study conclude that there is an impact of financial practices upon business performance amongst Small and Medium scale Enterprises (SMEs) in Sri Lanka after all correlation coefficients showed significant positive correlations. These coefficients included financial systems, financial audits, financial practices, future-oriented financial practices and analysing of financial statements. All SMEs that had appropriate coefficients were performing well than those that did not have appropriate coefficients.

In conclusion the importance of the accounting function in SMEs cannot be overemphasised. You as an entrepreneur must be able to understand and use the accounting information to know if your business is making a profit, compare your firm’s
current performance with past performance, project future performance, compare your firm’s results with the results of other firms in your industry and make informed decisions about what future actions your firm should take. The primary purpose of the accounting function is its use as a management tool that enables you to understand your company’s performance and to serve as an aid in decision making (Corman et al., 1996:309).

2.8 Accounting bases and their linkage to business performance
Tanwongsval et al. (2008) in their study discovered that SMEs ranked ‘assessing profitability’ second on the continuum of reasons for preparing financial statements well after ‘sole purpose of tax preparation’ which was ranked first. Cooley and Edwards (1983) report that, some SMEs considered maximisation of net income (profit) to be the most important objective. Page (1984) also argues that some owners in SMEs focus on profitability and the measures of net profit and net current assets when they are evaluating their firms.

2.8.1 Accounting bases
2.8.1.1 Cash basis accounting
Cash basis means that cost or income is accounted for it. This means that an entity recognises a transaction only when cash is received or paid. The cash book or the receipts and payment accounts is the main book in this system. In modern businesses, especially in retail shops, a point-of-sale or sale or cash register machine is used. The European Commission (2008) in its accounting systems report noted that in cases when an entity is a micro or even a very small entity, it might be more appropriate to use cash basis accounting.

In agreement, Walhlstedt (1996) believes that conventional accounting reports play a significant role in SMEs but argues that the reports must be adjusted in order for them to be understood, proposing the use of the cash basis rather than the accrual basis. In a study by Maseko et al. (2011) 72% of the Zimbabwean SMEs had adopted the cash basis accounting as to 28% percent whom had adopted the accrual basis accounting.

Explaining limited financial reporting in SMEs McMahon (2005) suggests that self-employment, very small enterprises, home-based concerns and life style ventures, especially where they are not growing and are fully self-financed, are examples of
businesses in which direct observation and only rudimentary cash-based reporting might be perfectly adequate for financial control purposes. This might imply that cash basis is recommended for owner-managers whom do not have the required accounting skills to implement proper accounting practices.

A lot of SMEs are more comfortable in using the cash basis accounting because it can be manipulated for tax purposes. The problem with the use cash basis accounting is that, when measuring the business’ performance it does not capture all the business’ growth in terms of account receivables (monies owing to the business). It simply does not measure the true revenue of business and earnings power of the business. If a business’ accounting base is adjusted from cash basis to accrual basis the business will see itself realising more revenue than before. The accounting bases method of cash basis is an accounting practice has an impact business performance as it will mislead the owner-manager into wrong business strategies.

2.8.1.2 Accrual basis accounting
The accrual basis accounting method provides a more accurate and complete picture of the enterprise’s financial position, performance and changes on its financial position than cash basis accounting. Droms (2003:48) clarifies that, the accrual concept states that the revenue earned does not necessarily correspond to the receipt of cash. Therefore, income and expenses should be included in the income statement of the period in which they are earned or incurred, not paid or received. Applying the matching principle is of great importance because revenues are matched with expenses to provide a truthful view of the enterprise’s financial performance.

Profit under this type of accounting is the difference between realised (‘realised’ in the sense that invoices have been issued) and associated costs, measured either by historic costs or by current costs. This involves accruing any receipts which have been earned in the financial year and accruing any payments which relate to purchases made in the financial year. The corollary of this is that any receipts received or payment made in the current financial year will not affect the current year’s profit (Maseko et al., 2011).

An entity may make a choice between the two bases if cash or accruals or apply both depending on the nature of its business transactions. However, in some jurisdictions,
entities may be required to adopt one prescribed basis. For example, in Zimbabwe, Section 14 of the Value Added Tax (VAT) act (Chapter 23:12) requires that all registered operators account for both cash and credit supplies (sales and purchases) using the accruals (invoice) basis of accounting. The cash (payment) basis is only available to registered operators who apply to Zimbabwe revenue authority (ZIMRA) for exemption from using accruals (invoice) basis.

My own conclusion would be that the accrual basis accounting can only be followed if the SME has proper accounting practices being implemented by a person with the necessary accounting skills. It also shows the true revenue of the business and also the earnings power of the business which will also strengthen the SME in terms of planning and performance strategies.

2.9 Tax accounting in SMEs

Under cash accounting, income tax is paid on revenues only when cash is received, or input costs are claimed only when cash is paid out. Cash accounting systems targeted at SMEs to compute taxable income based on entries of revenues actually received and costs actually incurred. Cash basis can significantly reduce compliance costs depending on the additional supporting documentation that SMEs as taxpayers are required to keep and maintain other simplification measures may include simplified book-keeping requirements (McMahon, 2005).

The government of Zimbabwe values contributions made by SMEs in terms of GDP, employment, PAYE, VAT and import duties. In Zimbabwe, the tax authority, ZIMRA, introduced a presumptive tax system which covers all SMEs and informal traders not registered for tax. The Zimbabwe Value Added Tax (VAT) systems require businesses to keep and maintain proper books of accounts including the filing of tax invoices. Most SMEs qualify, to compulsorily register for VAT under Section 23 of the VAT act, (Chapter23:12). However, the number of SMEs operating in the economy cannot be verified but it is estimated that 90% of all registered tax payers in Zimbabwe are SMEs (Ngorima, 2009).

Thus this implies that the government of Zimbabwe knows the importance of record keeping and tries to make sure that all SMEs somehow have the necessary records needed
to draw up financial statements so that they will be able to grow, and eventually improve in terms of their business performance. It also shows that the government has seen that non usage of accounting practices in SMEs has caused a downfall in many of them.

Matarirano (2007) states that, small manufacturing firms located at growth point areas are taxed at 10% for the first five years. Manufacturing firms that export 50% or more of its outputs are taxed at 20%. Therefore the after-tax cost of debt for the firms paying 30%, 20% and 10% will be different; with the firm paying 30% having a lowest after-tax cost of debt and the one paying 10% tax rate having a highest after-tax cost of debt making the ones paying the higher tax rate to enjoy more debt advantages. This will therefore result in those SMEs with the lowest after-tax cost of debt enjoying debt advantages. They will also be able to also take the advantage and thus improve on business performance by increasing stock which will result in more revenue.

Entrepreneurs still feel that the tax return form is too long and cumbersome for the average SME, leading to high fees paid to consultants to handle tax returns. They complain about the high level of corruption among tax development officials (Kapoor et al., 1997).

2.10 International Financial Reporting Standard (IFRS) for SMEs.

According to the IFRS (2010) the Zimbabwe Accounting Practices Board (ZAPB), which is the national standards setting body and the Public Accountants and Auditors Board, and the regulatory board for the accounting profession in Zimbabwe, has formally adopted the IFRS for SMEs as the second accounting reporting framework for use in the country, by eligible entities with effect from 1 January 2011. The new IFRS for SMEs is expected to improve the information content and format of financial statements presented by SMEs. The ZAPB still has overlooked the basics of whether or not SMEs are conducting proper record keeping. As defined and further explained earlier in this chapter for credible and reliable financial statements detailed record keeping has to be available. These financial statements will also then help in the future planning of the business as well as business performance.

On 9 July 2009, the ISAB published an International Financial Reporting Standard (IFRS) designed international financial reporting requirements developed specifically for SMEs.
SMEs are estimated to represent more than 95 per cent of all entities, according to the IFRS foundation (2010). Since the early 1970s, IFRS have been designed to meet the needs of entities whose securities trade in public capital markets. This has affected the scope of issues covered in IFRS, the amount of implementation guidance and volume of disclosures (Institute of Chartered Accounting of Zimbabwe (ICAZ, 2010). SMEs generally have fewer resources, limited access to capital markets, less business complexity and fewer external users of its financial statements compared to larger listed entities.

Users of financial statements of SMEs will be more interested in current liquidity and short-term cash flows than long-term forecasts of cashflows and earnings (Sian and Roberts, 2006; Reuvid et al., 2003). Jewell (1997:356) further explains the need for projected cash-flow statements is to direct attention to cash flow, on which a business’s survival depends. The complexities posed by full IFRSs in financial reporting by SMEs led to countries like the United Kingdom to develop a standard of its own that was used by SMEs in financial reporting; the Financial Reporting Standard for Smaller Entities (FRSSE), with the extant local accounting standards applicable to all non-listed entities. Kenya, by contrast, is a country that adopted IFRSs in full and these have been applicable to all listed and non-listed entities since 1999 (Sian et al., 2006).

The introduction of an IFRS specifically for SMEs was necessitated by many challenges faced by these entities in adopting full IFRSs in financial reporting, the main of which was the excessive disclosure requirements, based on a cost-benefit analysis for SMEs (Nazri, 2010). Many SMEs complained that full IFRSs impose a burden on them a burden that has been growing as IFRSs have become more detailed and more countries have begun to use them (IFRS foundation, 2010). Concerns have been raised about the burden to financial statement preparers and the relevancy of the resulting into, to lenders, vendors, credit rating agencies, family investors, development agencies and others who use SME financial statements (ICAZ, 2010).

A fundamental change in the way companies, and SMEs in particular, report financial information to their lenders and insurers is also critical to minimise credit risk and business failure (ICAEW, 2008). For small businesses, the cost of complying with IFRSs could be greater than the benefit received. A full set of accounts that comply with IFRSs are less relevant for the small business user who is most likely to be the owner-manager.
(Stern and Barbour, 2005) cited in (Maseko et al., 2011). In agreement McMahon (2005) suggests that it is realistic to anticipate that the financial reporting practices found in SMEs may not accord with mandated, recommended or preferred practices in some or all of a number of specific respects.

The introduction of an IFRS for SMEs in July 2009 by the IASB was a welcome development in many countries especially in developing countries (Juping, 2010; Nazri, 2010) but its impact on improving financial reporting by SMEs is yet to be verified. The South Africa Institute of Chartered Accountants (SAICA, 2002:4) cited in Maseko et al. (2011), acknowledged that it is neither reasonable nor practicable to require small entities to comply with reporting standards that are based on general purpose international reporting standards. In response to this expert call, the South African Department of Trade and Industry had to address the issue of differential reporting by SMEs through corporate law reforms which commenced in 2004 (Stanibank, 2008). The researcher can therefore conclude that the introduction of the IFRS will not improve or speed up record keeping in SMEs.

Chimanikire (2011) in his study advocates for change in the law to permit the smooth adoption of the new standard. Maseko et al. (2011) believe that the new standard came to address only financial reporting issues in SMEs but record keeping practices will remain a challenge. Poor record keeping practices will hamper performance measurement and the subsequent reporting which the new standard seeks to improve. Record keeping practices will eventually increase the chance of some SMEs adopting the IFRS for SMEs at some future point.

**2.11 Major factors that inhibit the use of accounting systems in SMEs.**

Many African economies are characterised by the prevalence of a large number of informal micro-enterprises which utilise lower levels of investment and skills, and handle relatively simple products. (Hussain, 2000:2). Kapoor et al. (1997) outline the principal constraints to the development of the small scale sector, as cited by various studies; these include access and cost of finance; limited markets; lack of management and entrepreneurial skills; lack of access to infrastructure; inappropriate technology; and a hostile regulatory environment.
Although the Zimbabwean government and other supporting institutions are fully committed towards the growth of the SME sector, this sector is still experiencing some difficulties. The notable major challenges which hamper the growth of the SME sector in Zimbabwe are limited access to markets and finance, limited managerial skills (marketing, human resource, financial management and general management skills) and foreign currency shortages (Zindiye, 2008: 86).

**Legal and regulatory impediments**

According to Kapoor *et al.* (1997) government’s labour market policies, were policies whereby minimum wages were often set way beyond those that could be justified by labour productivity. The high levels of local unemployment were as a result of government’s highly interventionist approach to the hiring and firing of labour. While the real value of the minimum wage has been eroded in recent years, this nonetheless often exceeds the paying capacity of small entrepreneurs resulting in many SMEs preferring to remain one-man operations or relying upon family labour. One man will only have a specific skill and will not be able to do all the other management skills (Kapoor *et al.*, 1997). Therefore there is no segregation of duties, segregation of duties is an important internal control tool needed in an accounting system.

The process of registering a business and gathering the necessary licences can be a major deterrent for the small scale sector and is an important reason why informal units are often reluctant to becoming legal. In Thailand SMEs’ needs for financial disclosures are not significant especially to those whose form of legal registration is sole proprietorships. The Thai regulation and law, sole proprietorships are not obliged to file audited financial information or reports. This has reduced the amount of financial statement management for SMEs. Partnerships are subjected to less extensive audited accounts and reports. (Tanwongsval *et al.*, 2008: 61).

**Financial constraints**

The two principal constraints affecting the SMEs in Zimbabwe are lack of access to finance and the high cost of finance. Most financial institutions are extremely reluctant to provide medium-to-long term loans to SMEs and the short-term loans provided generally mature long before the project begins to generate a stable cash-flow (Kapoor *et al.*, 1997). The challenges of lack of required funds will restrict SMEs in the use of accounting
systems since they will not be able to purchase tailor made appropriate accounting package that suits with the needs of the SME.

Financial constraints will inhibit SMEs in the use of accounting systems because they are unable to pay the required remuneration for the professional skills needed into the implementation of proper accounting systems. The SME will remain a single-proprietor business and according to Storey (1994:218) a single-proprietor business was the least likely to keep records. Insufficient capital is termed as poor financial practices by (Corman et al., 1996).

Carter et al. (2000:297) state that, most small businesses are owner-managed. The owner-manager is required to manage all functions of the business, including operations, finance, staff and marketing. However, the narrow expertise of the owner-manager and lack of management skills mean that the small business is deficient in a number of these functional areas. Most of the small businesses do not have the resources to hire outside managers to then strengthen functional areas of the business.

Padachi (2011) further explains that small firms may face serious problems due to the operating conditions and specific characteristics. The ‘resource poverty’ that small firms may face creates a situation where the owner manager has many functional responsibilities and financial management may just be one of the responsibilities. Thus management time, in the small firm may be a scarce resource and thus have a high opportunity cost. Given these constraints, small firms scarcely have time and resources to provide formal training in financial management skills.

However, Abor and Quartey (2010:225) argue that providers of finance, whether formal or informal, are unlikely to commit funds to a business which they view as not being on a sound footing, irrespective of the exact nature of the unsoundness. Lack of funds may be the immediate reason for a business failing to start or to progress, even when the more fundamental reason lies elsewhere.
Management and entrepreneurial skills

Maseko et al. (2011) in their study discovered that the majority of SMEs (60%) attributed challenges they faced in keeping proper accounting records to lack of accounting knowledge.

Problems exist because managers cannot specialise in any one area but rather must function with broad-based knowledge. Expert knowledge in a specific functional area does not guarantee management ability. Often management ability is a skill gained separately from functional knowledge. The best salesperson may have little interest in, or ability to, manage an organisation that requires knowledge in all aspects of the business operation inclusive of financial management (Corman and Lussier, 1996). It should be clear that every firm needs an accountant or accounting advice in order to set up books and maintain records that produce the statements needed in order to run the company.

Since the independence of Zimbabwe, donors and Non-Governmental Organisations (NGOs) have provided support to the small scale sector mainly through technical assistance. A number of these organisations were providing non-financial support programmes to the SMEs. The programs are in the form of training, technical assistance and extension support to enhance business management and entrepreneurial skills of SMEs including business linkage facilitation (Kapoor et al., 1997).

While traditional types of training programs, such as seminars in ‘how to start and succeed in business’ still have a role to play, analysis of SMEs in developing countries suggests that a powerful learning mechanism for emerging enterprises is learning by working on-the-job, often by using local and retired business experts (Kapoor et al., 1997). Even though trainings for managerial skills improvement are offered as highlighted earlier, many of the SME owners will not attend the trainings because the cost will be unaffordable to them.

According to Abor and Quartey (2010:224) most entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency. The lack of support services or their relatively higher unit cost can hamper SMEs efforts to improve their management, because consulting firms are often not equipped with appropriate cost-effective management solutions for SMEs.
The major reason would be what Corman et al. (1996:8) call handicaps faced by small business. These include the inability to hire qualified employees due to lack of funds. Carter et al. (2000:297) furthermore highlights that small firms have difficulty in attracting good staff. For many potential employees, a small business will not offer the scope for training and development. Due to lack of resources and low levels of profitability, small businesses often pay lower salaries than competing larger businesses.

**Formal registration**

In their study Mandaza and Chirisa (2011:11) established that there was generally a slow response in registering with formal institutions amongst the SME operators, particularly those who were not using internet marketing. Perhaps this explains why there are only a few registered SMEs in the data base of the Ministry of Small to Medium Enterprises. Therefore they are not restricted by the Companies Act which requires the maintenance of proper book of accounts.

In addition to Mandaza et al. (2011:11), Storey (1994:8) also notes that, many small firms deliberately do not register with the state authorities. Therefore many of the small firms will tend to hide behind this and not follow proper business practices which also will inhibit accounting systems in SMEs.

**2.12 Conclusion**

This chapter reviewed literature on the general accounting practices and how the business can use it as well as accounting practices on small businesses. The development of the literature was done by taking into cognisance the problem statement and objectives of the study. Areas which deemed relevant were the researcher’s definition of SMEs, the surfacing of entrepreneurship in Zimbabwe and how the motivation behind starting an entrepreneurship affects the use of accounting practices in SMEs, financial record keeping and its usefulness, literature on impact of these accounting practices on business performance. The next chapter outlines the methodology of the study.
Chapter 3
Methodology

3.0 Introduction
This chapter contains a general discussion of the two methodological approaches. It also describes the approach of this study and the methods used to gather and analyse the data.

3.1 Research Approach
There are two approaches namely, positivist and phenomenology (Saunders et al., 1997:9). These approaches are also known as quantitative and qualitative respectively. This study adopted both research approaches, so that the researcher would have an adequate test to the research topic.

Positivist Approach
The key characteristic of the positivist research approach is that deals with facts. It seeks to understand the world through pure scientific research (Beaver, 1999). The positivist philosophy has an advantage in that it places the emphasis on numerical analyses and objectivity, reliability and replication of findings. This is done through the formulation and testing of a hypothesis. It however has a shortcoming in that it may not always suit social science, and the validity of findings is reduced since social phenomena cannot be reliably measured.

Phenomenology Approach
The above approach is generally defined as research that utilizes open-ended interviewing to explore and understand the attitudes, opinions, feelings, and behavior of individuals or a group of individuals (Glatthorn and Joyner, 2005). On the phenomenological philosophy side, its advantage is that social settings are more subjective than the positivist approach, but objectivity is impossible. However, its shortcomings are that the findings are not statistically projectable to the subject under study (Saunders et al., 1997: 14).
3.2 Research Method

According to Glatthorn and Joyner (2005:44), research methods are the specific techniques used to collect data with respect to the research problem. There are two approaches of gathering data and these are known as quantitative and qualitative research methods respectively. In this study a method of triangulation was used, which is the combination of two or more data-collection methods and or data sources into one design. This was done to increase reliability and validity of findings by obviating weaknesses of a single approach and thus balancing it with strengths of the other. The following four research methods were used; interviews, surveys, observations and historical research.

Quantitative Approach

Quantitative research methods usually involve large randomised samples, more application of statistical inference, and few applications of cases demonstrating findings. Kumar (1996:81) describes the characteristics of quantitative research as “if information is gathered using predominantly quantitative variables, and if the analysis is geared to ascertain the magnitude of the variation”. The objective of quantitative research is to determine the relationship between one thing (an independent variable) and another (a dependent or outcome variable) in a given situation such as population surveys.

Quantitative research designs are either descriptive or experimental. A descriptive study establishes associations between variables. Descriptive research comprises of surveys and observation. The main strength of this approach is that it has specific or precise data (Burns, 1997:23), with reliability being high and validity being low. Due to the use of large samples the sample size is approximately equal to the population. The key limitation of quantitative approach is that results provide less detail on human behaviour, attitudes and motivation. Accordingly, many researchers are concerned that the quantitative approach denigrates human individuality and ability to think (Burns, 1997:95).

Qualitative Approach

The above approach is generally defined as research that utilises open-ended interviewing to explore and understand the attitudes, opinions, feelings and behaviour of individuals or group of individuals (Wagenaar and Babbie, 1983:43). A variety of methods for conducting the qualitative research approach are participant observation, action research, and interviewing, story-telling and narrative analysis. With qualitative methods sample
sizes are usually small and thus approximately equal to the setting. Here the validity is high and the reliability is low. The data collected is subjective, though it helps bring about new theories. Unlike quantitative research, the findings are not statistically projectable to the subject under study (Saunders et al., 1997:14).

3.3 Research Design
3.3.1 Study Population
Wegner (1993) defines a population as a collection of all possible observations or elements of the random variable understudy. Population is all items in the field of inquiry, also called a “universe”. The purpose of any research is to define the characteristics of a population. The population is divided into categories namely the target population and the accessible population. The target population is that from which the research finding were to be generalised (Fraenkel and Wallen, 1996:54).

The study used the register of small firms kept at the Municipality of Harare offices as the sampling frame. The register contained 12 000 businesses, from which the study sample was selected. The study commenced in Harare, Zimbabwe (please see figure 3.1 below for location of Harare).

Figure 3.1: Map of Zimbabwe

Source: http://www.maplandia.com/zimbabwe/#map
The study then demarcated the CBD into zones and selected a particular zone with the areas to the North of the city between Robert Mugabe Road and Josiah Chinamano Avenue. The geographical boundary of my study is shown in the figure below. Within this boundary, 500 small firms were identified using a survey.

Figure 3.2: Map of Harare with Geographical Boundary

Key

★ Represents buildings with retail SMEs interviewed.

Source: http://www.maplandia.com/zimbabwe/#map
3.3.2 Sample
Anderson and Poole (2001) state that sampling is closely linked to external validity or generalisation of the findings in a study, the extent to which what has been found in a particular situation at a particular time applies more generally. McPhail (2001) defines sampling as a process of selecting a portion of the population known as a sample to become the basis of estimating or predicting a fact or outcome regarding the population.

Sample data (statistics) can be obtained relatively easily and if sample is representative of the population a sample survey can give an accurate indication of the population characteristics being studied (parameter). There are two broad groups of sampling methods. These are probability and non-probability sampling. Probability sampling is said to be a method whereby members have a known chance of being selected into sample.

Probability (Random) Sampling
Probability sampling can be in the form of random sampling and stratified sampling. Probability sampling includes all selection methods where the observation to be included in a sample have been selected on a purely random (chance) basis from the population (Wegner, 1993). Below are some of the probability sampling methods that this study adopted. These two sampling methods were chosen so as to give each element of the population an equal chance of being selected.

Simple random sampling- The method ensures that each item in the entire population has an equal chance of being included in the sample (Wegner, 1993). Each element of the sample has an equal chance of being selected. Saunders et al. (1997) says Simple random sampling involves selecting the sample at random from the sampling frame using either random number tables or a computer.

Stratified sampling- Stratified Sampling divides the population into segments or strata. Each stratum has relatively homogenous elements. Either a specific number of elements are selected at random from each stratum that corresponds to the population can be classified into strata that are homogenous in the state being investigated, (Leedy, 1992:37).
Sample Selection
The study used a sample of 150 firms, comprising 30% of the total population. The respondents, to whom communication was conveyed, were the owner-managers of the firms. Retail SMEs within the geographical area mentioned earlier on, in this chapter were further grouped using the stratified technique. The sample was divided into homogeneous sub groups and these are called strata. This was done to the outlets on the basis of the type of business. These included; food outlets, Information Computer Technology (ICT), clothing, hardware and electrical. Sampling units were then selected from each stratum using the simple random sampling technique.

Sampling Methods Merits and Demerits
The simple random sampling method has the advantage of making sure that everyone in the whole group is given an equal chance of being included in the study; statistical tests are mostly designed for this type of sample. Its main disadvantage is that you need to have a complete list of everyone in the group, which is often unavailable. If there is a great variation among the group then, your random selection might give you a sample that inaccurately represents the whole group.

As its main advantage stratified random sampling has a greater chance of having the sample reflecting the underlying distribution of the entire group’s characteristics. The choice of strata depends on what is being measured. In general, you should stratify by characteristics that will influence the findings. The main disadvantage of this method is the same as the simple random sampling method, a complete list of everyone in the whole group before beginning, and this is often unavailable.

This study used the simple random sampling method because of the advantage it has of the equal chance of being selected of each unit or person. Another advantage of a random sampling method is that, the risk of sampling error can be statistically estimated while at the same time be able to have a definite level of confidence, so as to make generalisations from the sample to the population. The disadvantage of the simple random sampling method is that in many cases the complete list of everyone in the group or population will not be available. Even though the complete list will be unavailable, you can still modify this approach and randomly select people or things as they become known to the researcher.
3.3.3 Data Collection Methods
Over and above the surveys (whereby a questionnaire was designed and piloted), in-depth interviews and focus group discussions were carried out using a purposively selected sample of owner-managers. In the focus groups, where participants were interviewed, each group had five male and five female owner-managers. The cost of conducting these focus groups was relatively low and they provided quick results. In depth interviews were done to follow-up on those owner-managers who do not keep financial records.

3.3.4 Data Analysis
Data in this study was analysed using Statistical Package for the Social Sciences (SPSS). SPSS is a window based program that can be used to perform data entry and analysis and to create tables and graphs. SPSS is capable of handling large amounts of data and can perform all of the analysis covered in the text and much more. It is commonly used in the social sciences and in the business world. It was used because most of the data being analysed is of a quantitative manner. It is easy to use by making the calculation and presentation of statistics relatively easy. It is also familiar because of the excel spreadsheet feature. Despite its advantages it also has a disadvantage of not being able to manage data on a continuous usage basis. As compared to Statistical Analysis System (SAS) and Stata statistical package, SPSS is the weakest in the scope of statistical procedures it offers.

3.4 Chapter Conclusion
This chapter discussed in general the two methodological approaches and then further described the approach that this study used to gather and analyse the data. This was done by defining the characteristics of the population and then selecting the sample using a suitable sampling technique. A discussion of the merits and demerits of the quantitative sampling techniques was done and justification of the chosen sampling method was also outlined. The next chapter presents the results of the study, and discusses the research findings.
Chapter 4
Research Findings and Discussions

4.0 Introduction
This chapter gives the results of the data obtained from the owner-managers within the selected retail SMEs. The chapter presents the research findings and discussions by linking them with the literature review outlined in Chapter 2.

4.1 Response Rate
A questionnaire was distributed to the owner-managers of the SMEs. All of the questionnaires were personally administered. A total of 150 questionnaires were distributed to the owner-managers of the participating retail SMEs. The total number of questionnaires returned was 116 giving a response rate of 77%. This according to Saunders et al. (1997) is high enough to instil the validity of the research findings and conclusions.

4.2 Characteristics of the Owner-Manager
Questions under Section A of the questionnaire sought to answer the characteristics of the owner-manager and the following were the responses and findings.
4.2.1 Age of the Respondents

Table 4.1: Age of the Respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-25</td>
<td>13</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>26-30</td>
<td>27</td>
<td>23</td>
<td>23</td>
<td>34</td>
</tr>
<tr>
<td>31-35</td>
<td>18</td>
<td>16</td>
<td>16</td>
<td>50</td>
</tr>
<tr>
<td>36-40</td>
<td>20</td>
<td>17</td>
<td>17</td>
<td>67</td>
</tr>
<tr>
<td>41-45</td>
<td>14</td>
<td>12</td>
<td>12</td>
<td>79</td>
</tr>
<tr>
<td>46-50</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>85</td>
</tr>
<tr>
<td>51-55</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>89</td>
</tr>
<tr>
<td>56-60</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>95</td>
</tr>
<tr>
<td>61-65</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>96</td>
</tr>
<tr>
<td>N/A</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>116</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

The information in table 4.1 above is statistically portrayed in a bar chart in figure 4.1 below.

Figure 4.1: Responses on the age of Respondents

A cumulative of 85% of the respondents is within the age bracket of 20-50 years whilst 11% are above 51 years. Four percent of the respondents did not write their age on the
distributed questionnaire and this is represented on the bar chart by Not Applicable (N/A). None of the respondents are below the age of 20 years. This illustrates that SME owner-managers are generally active between the ages of 20-50. It is in agreement with the findings by Zindiye (2008: 151-152) who maintained that there are two natural age peaks correlated to entrepreneurship, namely the late 20’s and the mid-50s.

4.2.2 Gender of the Respondents

Information on the gender of the respondents is provided in table 4.2 below.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>68</td>
<td>59</td>
<td>59</td>
<td>59</td>
</tr>
<tr>
<td>Female</td>
<td>48</td>
<td>41</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>116</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Information depicted in table 4.2 above is statistically portrayed in a pie chart in figure 4.2 below.

![Figure 4.2: Responses on the Gender of the Respondents](image)

In this study 59% of the respondents were male, while 41% were women. This result indicates that male owners were more involved in SMEs than women. The latter could perhaps be attributed to by the fact that, most of the strata groups within the chosen sample of 150 firms included businesses that has been labelled as male dominated businesses. These include Information and Computer Technology (ICT), hardware,
electrical and part of the food businesses’. Literature reviewed in Chapter 2 is in agreement with the findings in this study.

Rakodi (1995) interestingly highlights that, other SMEs (besides sculptors) a higher percentage were males, this could have been influenced by the earlier ESAP in the early 90’s whereby there were more males who were economically active during the era. Mandaza et al. (2011) builds on Rakodi’s work in their study as they state that owing to massive retrenchments during this period, most of the retrenched workers started their self businesses and possibly this could explain why there were generally more males engaged in the SME sector at Newlands Shopping Centre than females.

4.2.3 Status of the Respondents

Table 4.3 below describes the findings of the study in respect to the status of the respondents.

Table 4.3: Responses on the Status of the Respondents

<table>
<thead>
<tr>
<th>Status</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>68</td>
<td>59</td>
<td>59</td>
<td>59</td>
</tr>
<tr>
<td>Manager</td>
<td>40</td>
<td>35</td>
<td>35</td>
<td>94</td>
</tr>
<tr>
<td>n/a</td>
<td>8</td>
<td>6</td>
<td>6</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>116</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

The information in the table 4.3 above is statistically illustrated in figure 4.3 below.
From the study 59% of the respondents’ results revealed that they were owners of the retail SMEs while 35% and 6% were managers and N/A respectively. This result indicates that a larger percentage of SMEs in the Harare Metropolitan Province are managed by their owners. A study that was conducted by Carter et al. (2000:297) is in agreement with the study findings as they state that, most small businesses are owner-managed. The owner-manager is required to manage all functions of the business, including operations, finance, staff and marketing. However, the narrow expertise of the owner-manager and lack of management skills mean that the small business is deficient in a number of these functional areas.

### 4.2.4 Level of Education

Findings in the table 4.4 below relate to the level of education of the owner-manager.

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>'O' Level</td>
<td>28</td>
<td>24</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>'A' Level</td>
<td>30</td>
<td>26</td>
<td>26</td>
<td>50</td>
</tr>
<tr>
<td>Other</td>
<td>54</td>
<td>47</td>
<td>47</td>
<td>97</td>
</tr>
<tr>
<td>n/a</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>
The information shown in table 4.4 above is statistically portrayed in a bar chart in figure 4.4. This figure reflects the level of education of the respondents.

Figure 4.4: Level of Education

The figure 4.4 above reveals that 24% of the respondents had ‘O’ Level, while 26%, 47% and three percent reported that they had ‘A’ Level, other qualifications (Diplomas, degrees and post graduate degrees), no responses (N/A) respectively. The result indicates that SMEs’ owners and managers in the study are well educated. The education of the owner-manager of an SME has a bearing factor on usage of accounting practices in SMEs. Of the other qualifications respondents, a majority of the respondents had qualifications either than finance and accounting. Yes the owner-managers may be well educated but unfortunately be unable to effectively and efficiently use proper accounting practices.

Lybaert (1998) is in agreement with the above findings as he states that, SME owner or managers are crucial players as searcher and assimilator of information and what extent of information sources is influenced by the education of the SME owner or manager. This study further presented findings depicted later on in the chapter, which clearly outlines whether or not SME owner-managers got further training besides their educational qualifications. This was done to conclude whether the well educated respondents who did
not have finance or accounting background sort a business course so as to supplement or improve on their managerial and financial skills.

4.2.5 Religion
In the table 4.5 below the study presents the findings on the religious background of the respondents.

<table>
<thead>
<tr>
<th>Religion</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Christian</td>
<td>81</td>
<td>70</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Muslim</td>
<td>11</td>
<td>10</td>
<td>10</td>
<td>80</td>
</tr>
<tr>
<td>Islam</td>
<td>7</td>
<td>6.0</td>
<td>6.0</td>
<td>86</td>
</tr>
<tr>
<td>Other</td>
<td>17</td>
<td>14</td>
<td>14</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>116</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The information in table 4.5 is illustrated in a pie chart in figure 4.5 below.

From figure 4.5 the results show that 70%, which represents most of the respondents, were of a Christian background. The remaining respondents’ results comprised of 14%, nine point five percent and six percent representing ‘Other’, Muslim and Islam religion respectively. This study further analysed Muslim questionnaires as a follow up on
research literature by Zaid et al. (2003) who conclude that, individual Muslims generally, and entrepreneurs specifically, were concerned with the development and implementation of accounting books, systems and recording procedures. This need was inspired by the need to comply with the requirements of Shariah Isami’ah (30 Aiah [verses] of the 18 Surah [chapters] of the Quoran).

All the Muslims who answered the questionnaires had proper record keeping, as well as a full usage of accounting practices. These findings reveal why they manage to continue their family business even without getting any support from any institution of bank.

4.2.6 Years that the Respondents have being working in the SME

When the researcher asked the respondents a question concerning the number of years that they have being working in the SME, mixed responses were obtained and this is summarised in the figure 4.6 on the following page.

![Figure 4.6: Years that the Respondents have being working in the SME](image)

Figure 4.6 above reveals that the majority of the SME owner-managers- 35%- worked in the firm for a period below one year. Those that have worked for a period above 10 years were only six percent. 24%, 22%, 10% and three percent of the respondents have been
working in the firm for a period between one to three years, four to six years; seven to 10 years and did not give a response respectively. This shows that most of the SMEs had developed recently, and therefore on-job training for the improvement in managerial skills for SME the owner-manager is very low. It also shows that Zimbabwean SME owner-managers still lag behind in business management and entrepreneurial skills.

Previous studies have alluded to the above results. Kapoor et al. (1997) argue that while traditional types of training programs, such as seminars in ‘how to start and succeed in business’ still have a role to play, analysis of SMEs in developing countries suggests that a powerful learning mechanism for emerging enterprises is learning by working on-the-job, often by using local and retired business experts.

4.2.7 Previously employed

The study investigated whether respondents had being in employment previously. The findings are illustrated in the figure 4.7 below.

![Figure 4.7: Previously Employed Respondents](image)

From the above figure 4.7 the results reveal that 64% of the respondents were employed previously and 36% were not. The findings therefore show that 63% of the SME owner-managers have once before been exposed or have being a part of a business before starting their own businesses. The table 4.6 on the following page further outlines the different working positions for the 64%.
### Table 4.6: Previous work Position

<table>
<thead>
<tr>
<th>Position</th>
<th>Frequency</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Administration</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Information Computer Technology</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Marketing</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Management</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Still working</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Catering</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>N/A</td>
<td>39</td>
<td>34</td>
</tr>
<tr>
<td>Owner</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Unemployed</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>35</td>
<td>29</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

From the table 4.6 above it reveals that from the 64% SME owner-managers who were previously employed, five percent had worked in accounting posts, while another five percent had worked in management positions. One percent of the respondents were still employed at their same workplace which has also made the respondent’s enterprise perform well because of experience in business management.

A majority-34%- of the respondents did not provide any previous work positions. 29%, two percent, four percent, two percent, 10%, six percent and two percent had worked in other work positions, were unemployed, were still the owner of the business, were in the catering business, were in the marketing in profession, were in the ICT profession and were in the administration position respectively. Some of the respondents did not respond to the question which may imply respondents might have worked short-contract jobs.

The findings also reveal lack of accounting or management skills which result in higher chances of SME failure. Tanwongsval *et al.* (2008) and Ismail *et al.* (2007) concluded that the managerial style that most enterprises emphasise is owner’s decisions. If their owners or managers lack one or more of technical, managerial and financial skills, the
possibility of failure is higher. Lack of management skills and business know-how is a major constraint impeding the progress of the SME (Kapoor et al., 1997:17).

4.2.8 Source of Business Start-up Capital
The figure 4.8 below depicts the responses made by SME owner-mangers when asked where their source of funding for starting the business had come from.

Figure 4.8: Source of Business Start-up Capital

Full names of the abbreviations in Figure 4.8 above:
OR- Own Resources
FAM- Family
LN- Loan
BF- By faith
ORF- Own Resources and Family
ORL- Own Resources and Loan

Figure 4.8 reveals that 56% of the owner-managers in SMEs started their small business using own resources. One percent say they started by faith, the other one percent had used own resources and family, and the other one percent had used own resources and loan.
25% of the respondents did not provide any information on how they had started their businesses. 11% started their own business through family assistance. This can be linked to figure 4.7 where results showed that 64% of the respondents were previously employed before starting their small businesses. This is therefore the reason why a greater percentage of them started their small business using own resources. The five percent of the respondents had started their own businesses by acquiring a loan. These findings show that SMEs are not getting full support in terms of loans to start-up their small businesses from local banks and institutions.

Kapoor et al. (1997) add to the study findings by stating that the two principal constraints affecting the SMEs in Zimbabwe are lack of access to finance and the high cost of finance. Most financial institutions are extremely reluctant to provide medium-to-long term loans to SMEs and the short-term loans provided generally mature long before the project begins to generate a stable cash-flow.

4.2.9 Motivation of Starting an SME

Table 4.7 below presents the findings on the motivation of the owner-manager behind starting an SME. These findings are from the owner-managers of the participating retail SMEs.

<table>
<thead>
<tr>
<th>Motivation of Starting an SME</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own boss</td>
<td>7</td>
</tr>
<tr>
<td>Passion and money</td>
<td>1</td>
</tr>
<tr>
<td>Own boss and money</td>
<td>1</td>
</tr>
<tr>
<td>Expansion of business</td>
<td>1</td>
</tr>
<tr>
<td>Loss of citizenship</td>
<td>1</td>
</tr>
<tr>
<td>Innovation</td>
<td>2</td>
</tr>
<tr>
<td>Family</td>
<td>6</td>
</tr>
<tr>
<td>N/A</td>
<td>22</td>
</tr>
<tr>
<td>High demand for ICT</td>
<td>2</td>
</tr>
<tr>
<td>Source of livelihood</td>
<td>10</td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>10</td>
</tr>
<tr>
<td>Passion</td>
<td>6</td>
</tr>
<tr>
<td>Money</td>
<td>31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
When asked the motivation behind starting of their small businesses’ 31% of the respondents said that they were motivated by the need for more money as shown in figure 4.9 above. Seven percent were motivated to start their own business by virtue of being their own boss, whilst six percent said that they were motivated by their passion and another six percent were motivated by their families. 22% of the respondents were in the category of N/A since they did not provide any reasons for motivation of starting their business. Making money alone is not challenging, unlike making money and also a profit. The findings are in agreement with Reuvid et al. (2003) who state that the reasons that drove people into entrepreneurism for both the younger and older entrepreneurs included redundancy, the urge to make money and freedom to be one’s own boss.

One percent acknowledged the need to expand their businesses’. Each of the 10% of the respondents was identified with source of livelihood and entrepreneurship respectively. The findings show that the use of accounting practices in SMEs is not alluded to because the owner-manager will be using all the money that enters the business for the purchases of basic commodities.

The pursuit of entrepreneurship in Zimbabwe was a response to high unemployment and most of these individuals where therefore looking to earn a standard of living and in such a scenario the owner-manager will not be really concerned with proper accounting systems so as to further measure the business’ performance. The challenge being faced by most of the developing countries is the high rate of unemployment, closure of the big companies which results in job losses and decreased standards of living. The answer to all the challenges is the pursuit of entrepreneurship. Entrepreneurship is one of the most important drivers of local economic development (Zindiye, 2008).

4.2.10 Training of SME Owner-mangers after Business Start-up

Findings in the figure 4.9 on the following page, shows how many of the respondents received further training besides their educational qualifications after having started their own business.
A significant 60% of the respondents stated that no further training had being received besides their educational qualifications after having started their businesses. Those who responded yes were only 35% and Five percent did not provide any answers. The table 4.8 is shown below which statistically illustrates the various trainings that they attended.

<table>
<thead>
<tr>
<th>Name of Training</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Trainings</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Empretec Courses</td>
<td>4</td>
<td>19</td>
</tr>
<tr>
<td>N/A</td>
<td>60</td>
<td>79</td>
</tr>
<tr>
<td>Other</td>
<td>21</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

60% of the respondents did not respond to the question, whilst 21% reported that they had being trained in other trainings besides business trainings. Whilst only 19% reported that they had being trained in Empretec courses and business trainings. According to Abor et al. (2010:224) most entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency. The findings also show that Empretec assistance to SMEs’ management and entrepreneurial skills enhancement is only a drop in the ocean.
4.3 Characteristics of the Business or Firm
Questions pertaining to the characteristics of the business or firm were answered below and these questions and answers formed Section B of the questionnaire.

4.3.1 Type of Business
Table 4.9 below provides insight into the specific kind of retail business that the respondents were operating in.

<table>
<thead>
<tr>
<th>Type of Business</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT</td>
<td>22</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Food</td>
<td>19</td>
<td>16</td>
<td>16</td>
<td>35</td>
</tr>
<tr>
<td>Clothing</td>
<td>21</td>
<td>18</td>
<td>18</td>
<td>53</td>
</tr>
<tr>
<td>Hardware</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>61</td>
</tr>
<tr>
<td>Other</td>
<td>31</td>
<td>27</td>
<td>27</td>
<td>88</td>
</tr>
<tr>
<td>N/A</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>90</td>
</tr>
<tr>
<td>Electrical</td>
<td>11</td>
<td>10</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>116</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The information depicted in table 4.9 above is statistically portrayed in bar chart in figure 4.10 on the next page.
All of the 116 respondents were involved in retail. Two percent of the SMEs did not provide any information pertaining to the type of business they were operating in. It was reported that in the ICT sector they were 19% SMEs, while clothing, food, electrical, hardware and ‘Other’ they were 18%, 16%, 10%, eight percent and 27% respectively. From the focus-group discussions that the researcher conducted, findings revealed that the type of business named ‘Other’ included SMEs in either the electrical sector and at the same time selling hair products or the hardware sector and at the same time selling cell phone accessories. Due to the advancement in technology and the wide usage of computers there is a predominance of SMEs in the ICT business.

Hussain (2000:2) notes that the informal micro-enterprise sector revolves around secondary activities such as food processing, cosmetics, building, footwear and garments, and tertiary activities such as transport and mechanics repair, retail, food preparation and distribution.

4.3.2 Method of Business Operation
Information on the how the SMEs were operating is provided in table 4.10 below.
Table 4.10: Method of Operation

<table>
<thead>
<tr>
<th>Method of Operation</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licence from the Municipality of Harare</td>
<td>61</td>
<td>53</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>Registered under Companies Act</td>
<td>39</td>
<td>34</td>
<td>34</td>
<td>87</td>
</tr>
<tr>
<td>Both</td>
<td>13</td>
<td>11</td>
<td>11</td>
<td>98</td>
</tr>
<tr>
<td>N/A</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>116</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The information shown in table 4.10 above is statistically portrayed in a bar chart in figure 4.11 below. The figure depicts the method of operation of SMEs provided by the respondents.

Figure 4.11: Method of Business Operation

A significant 53% of the SME respondents were operating under a licence from the Municipality of Harare. While 34% were registered under Companies Act and 11% were operating under both methods. Two percent of the respondents did not provide any method of operation for their businesses’. These findings revealed that SMEs’ who
operated under both methods were mostly in the food sector. This shows that a lot of SMEs do not want to burden themselves by following proper accounting practices which include formal registering.

Formal registration includes preparations of cash-flow statements as well as the statement of financial position of the business. The findings from focus-group discussions conducted revealed that a lot of the SMEs were not formally registered because of the many requirements that are needed in the process. The participating respondents also revealed that the registering process consumed much of their time. Therefore many of the small firms will tend to hide behind this excuse as a reason for non-compliance with proper business practices which also include use of accounting practices.

In agreement with the above findings, Mandaza et al. (2011:11) established that there was generally a slow response in registering with formal institutions amongst the SME operators, particularly those who were not using internet marketing. Storey (1994:8) further notes that, many small firms deliberately do not register with the state authorities.

4.4 Assessment of Keeping of Proper Accounting Records in SMEs
The above formed questions in Section C. These questions were set out to determine whether SMEs in the retail sector kept proper accounting records. Questions 19 to 27 were developed so as to answer the first objective of this study which is to assess the extent to which accounting practices were being used by SMEs within the retail sector of Harare Metropolitan Province in Zimbabwe.

4.4.1 Receipting of Sales
When asked whether sales were receipted, responses received were summarised in the table 4.11 on the next page.
Table 4.11: Receipting of Sales

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>36</td>
<td>31</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td>No</td>
<td>77</td>
<td>66</td>
<td>66</td>
<td>97</td>
</tr>
<tr>
<td>N/A</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>116</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The above information was statistically illustrated in figure 4.12 below.

According to 66% of the SMEs, they stated that receipting of sales was not done whilst 31% stated that receipting of their sales was being done. As a follow up to the research findings one of the in-depth interview question was a follow-up to why the SMEs were not receipting sales. It was said that, by some of the respondents, there was no need since customers never needed any receipts, whilst others said they recorded the sales in a book. Others generally said it was expensive to purchase receipt books since they were just starting the businesses and they could not afford buying receipt books. Of interest were the owner-managers within the making of garments (clothing sector) who said they did not see the need for a receipt especially.
Storey (1994:218) highlights that the single-proprietor business was the least likely to hold information on paper or in the computer; those businesses which had more than one proprietor were more likely to keep better records. The latter could be an attribute to this study’s findings. Corman et al. (1996:9) argue that record keeping is extremely important and that they should be adequate and complete. Furthermore they state that, record keeping requires maintaining detailed information about purchases, sales, orders, expenses and cash balance from a double-entry bookkeeping system. This information can and should be used for future planning; the firm’s stability will always be dependent upon adequate records about the past.

4.4.2 SMEs with Cash Tills

In the SMEs that receipt their customers, a follow-up on the use of cash tills was done and the information is statistically depicted below in figure 4.13.

![Figure 4.13: Use of Cash Tills in SMES](image)

It was reported that 26% of the SMEs were using cash tills whilst the majority of 70% were not using any cash tills. Four percent of the SMEs had not provided any information to the question asked. This shows again that SMEs do not receipt their sales and yet again
SMEs are not using accounting SMEs available for their business’. Another follow-up question on what information the SMEs got from the cash tills and what they used that information for was asked. Tables 4.12 and 4.13 respectively on below present the responses.

Table 4.12: Information obtained from Cash Till

<table>
<thead>
<tr>
<th>Information</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>For cashbook</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>N/A</td>
<td>84</td>
<td>72</td>
<td>72</td>
<td>74</td>
</tr>
<tr>
<td>Sales</td>
<td>23</td>
<td>20</td>
<td>20</td>
<td>94</td>
</tr>
<tr>
<td>Sales and stock Reconciliations</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>97</td>
</tr>
<tr>
<td>Sales, banking, cashbook and expenses</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>98</td>
</tr>
<tr>
<td>Sales, customers, information on losses and profits</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>99</td>
</tr>
<tr>
<td>Sales, debtors' accounts and payments</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>116</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

From the table 4.12 above the majority of 72% SME owner-managers did not provide answers pertaining to the information obtained from the cash till the remainder of 20%, 3%, 2% and 1% stated that they obtained sales, sales and stock reconciliation, cashbook, debtors, amounts to be banked as well as amounts to be entered into the cashbook respectively. This shows the lack of knowledge by owner-managers on use of basic accounting practices.
### Table 4.13: Use of Information from the Cash Till

<table>
<thead>
<tr>
<th>Use of information</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountancy and Management</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Acquiring stock</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Auditing</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Business profitability, ZIMRA and ZTA</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Cashbook</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Convenience of the customer</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>File</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Know how much has being collected</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>N/A</td>
<td>87</td>
<td>75</td>
<td>75</td>
<td>87</td>
</tr>
<tr>
<td>Orders</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>88</td>
</tr>
<tr>
<td>Planning for monthly purchases</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>89</td>
</tr>
<tr>
<td>Preparation of cashbooks</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>90</td>
</tr>
<tr>
<td>Sales assessments, make sales targets and budgets</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>91</td>
</tr>
<tr>
<td>Stock control</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>98</td>
</tr>
<tr>
<td>ZIMRA</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>99</td>
</tr>
<tr>
<td>ZIMRA and Sales calculation</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

In table 4.13 above the respondents further explained the use of the information obtained from the cash tills. Only four percent stated that they were using it for accountancy and management whilst 75% indicated that they did not know what they should use the cash till information for. This shows that SMEs do not keep and use financial data to make key decisions that is why most of them are faced with closure. Other studies suggest that the more successful firms are those that keep and use financial data to make key business decisions Storey (1994:311).

#### 4.4.3 SMEs and Banking

Figure 4.14 on the following page, show findings of the keeping of funds or money of the SMEs in a business bank account.
From the above figure 4.14 it was said by 51% that, they did not have a bank account for their business whilst 48% alluded to having a bank account for their business. One percent did not answer the question. Reasons to why 51% had no business bank account for their enterprise and 48% had a business bank account for their enterprise, were given in the following answered question presented in figure 4.15 on the following page. This shows that SMEs are not using accounting SMEs since a bank account very vital for the safe keeping of cash as well as for easier recording of transactions.

The figure 4.15 above reveals that 58% did not have any reasons of not having a business bank account. However half of 13% stated that banks required too much paperwork for an account to be opened whilst the other 13% stated that the bank charges were exceptional too high for them therefore it would erode much of their sales if they were to deposit. Six percent of the respondents stated that banks were not safe and four percent alluded to insufficient funds for them to open a bank account. One percent stated that they were in the process of opening one; the other one percent did not have bank accounts for their businesses because of either cultural beliefs or family beliefs.

From the 58% an in-depth question was further asked, so as to find out why SMEs had no business bank accounts. The respondents stated that they felt no need to take money to institutions that further do not support them in terms of financial start-up assistance. As an addition to the findings, Matarirano (2007) explains that several studies highlighted access to debt as the primary challenge facing small firms, some studies found that many firms diversify away from bank financing even if the banks are willing to lend more. The reason is that when a bank makes a loan to a firm, it gains access to the internal records and will be able to influence the activities of the firm. Therefore, for firms to avoid this, they diversify from the use of bank loans.
4.4.4 The keeping of basic a Special Book for Daily Sales and Purchases

SMEs were asked if they keep a record of their daily sales and purchases, the following figure 4.16 statistically illustrates the findings.

**Figure 4.16: Special Book for Daily Sales and Purchases**

Results from the evaluation reveal that 69% of the respondents agreed to having a special book for their daily sales and purchases, 21%, and 10% did not provide any answer to the question and said no respectively. This shows that many SMEs do have a special book where they record their daily sales and purchases. The low intake of accounting as one of the key contingent factors in an SME adopting new accounting procedures may be related to the background and attitude of the owner-manager. They may be well versed with the product or service that their businesses deal with. However, they may not be trained or be proficient in business management skills, especially at the early stage of the business life cycle (Padachi, 2011).

4.4.5 How Accounting Records in SMEs are maintained

Information on how SMEs maintained their accounting records is statistically depicted in the figure 4.17 on the next page.
From the figure 4.17 above 52% showed that many SMEs maintained their accounting records manually as compared to 19% of the SMEs who kept their accounting records computerised. Eight percent of the respondents stated that they kept both their accounting records manual and computerised. 21% of the respondents did not give any information on how their accounting records were maintained. An in-depth interview question was asked to establish the reason of keeping both manual and accounting records. The respondents stated that there was a major need to have them both in case their computers were stolen or anything happened to the computers. These SME owner-managers showed intense knowledge on the importance of their set of books.

As an explanation to why most SME owner-managers are reluctant to keep computerised records McMahon (2005) in his study tries to explain some of the reasons for limited financial reporting in SMEs. One of the reasons is that owner-managers are rational economic decision-makers but believe, often wrongly, that the costs of being better informed on the financial consequences of their decisions outweigh the benefits. The costs would include those involved with preparation of standard financial reports (inclusive of set-up costs for a bookkeeping or accounting systems), as well as those associated with education or training in their use.
The figure 4.18 below further illustrates statistically, information on the accounting packages used by the 19% of the respondents who had their accounting records computerised.

Figure 4.18: Accounting Package used by the Respondents

The illustration above shows that 51% of the respondents had no accounting package in use, whilst 25% did not provide any information on the name of their accounting package. Only two percent of the respondents stated that they use a custom accounting package. One percent was using Regit office, while another was using Microsoft Office Excel spreadsheets (MS Excel), and finally Pascal and retail ware accounting package. Eight percent of the respondents stated that they were using pastel accounting package. This shows that SMEs definitely believe that the costs involved in acquiring and setting up an accounting package is very costly.

Many studies suggested that large and small firms differ in terms of strategies they pursue (Scase and Goffee, 1980). The findings in this study definitely show that large and small firms also differ in terms of accounting systems that they use. Pastel accounting package may be invaluable to an SME with less than 10 employees in terms of statements that they keep.
4.4.6 Set of Books kept by SMEs

The above involved questions that sought to answer the question ‘do SMEs keep all the required set of books that are essential in an accounting system or practice’. The following, table 4.14 statistically depicts the responses obtained from the SME owner-managers.

Table 4.14: Set of Books kept by SMEs

<table>
<thead>
<tr>
<th>Set Books of Books</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplies</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Asset</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Receipt</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>None</td>
<td>24</td>
<td>21</td>
<td>21</td>
<td>26</td>
</tr>
<tr>
<td>All</td>
<td>38</td>
<td>33</td>
<td>33</td>
<td>59</td>
</tr>
<tr>
<td>1, 4 &amp; 5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>60</td>
</tr>
<tr>
<td>1, 2, 3 &amp; 4</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>67</td>
</tr>
<tr>
<td>2 &amp; 3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>68</td>
</tr>
<tr>
<td>2 &amp; 4</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>74</td>
</tr>
<tr>
<td>2, 4 &amp; 5</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>77</td>
</tr>
<tr>
<td>1, 3 &amp; 4</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>78</td>
</tr>
<tr>
<td>N/A</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>84</td>
</tr>
<tr>
<td>1, 2 &amp; 4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>85</td>
</tr>
<tr>
<td>2, 3 &amp; 4</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>92</td>
</tr>
<tr>
<td>3 &amp; 4</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>93</td>
</tr>
<tr>
<td>2, 3, 4 &amp; 5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>94</td>
</tr>
<tr>
<td>1, 2 &amp; 3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>97</td>
</tr>
<tr>
<td>1 &amp; 4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>98</td>
</tr>
<tr>
<td>1, 2, 3 &amp; 5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>99</td>
</tr>
<tr>
<td>4 &amp; 5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Full name of the codes used in Table 4.14 above:

1. Creditors’ book
2. Goods received book
3. Debtors’ book
4. Receipt book
5. Asset register

From the table 4.14 above 33% of the respondents stated that they kept all sets of their books, whilst 21% kept none of the above listed set of books and 46% kept some of the
books of accounts. This emphasises that the use of accounting practices in SMEs is not viewed as important by owner-managers. Padachi (2011:2) argues that there cannot be ‘a one size fits all’ approach to the provision of services and policy formulation but the cash flow problems of many small businesses are magnified by poor financial management. Although it is recognised that management techniques which are relevant for large firms may not be appropriate for the small ones, yet some basic record-keeping and financial awareness are essential for survival.

An in-depth question was asked on why the SMEs did not keep all the books of accounts. In response it was reported that buying the accounting books was not of importance because many of them were not able to record the transactions. They also said it would further confuse them, thus recording of all important business transactions was done in one book. Reuvid et al. (2003) note that bookkeeping is one of the fundamentals vital pre-requisite for the continued entrepreneur’s existence but, as every successful businessperson knows, it is ignored at the business’s peril. The first steps to double entry bookkeeping include the single entry method of bookkeeping for example the sales ledger and purchases ledger as well as the bank reconciliation.

The low intake of accounting as one of the key contingent factors in an SME adopting new accounting procedures may be related to the background and attitude of the owner-manager. They may be well versed with the product or service that their businesses deal with. However, they may not be trained or be proficient in business management skills, especially at the early stage of the business life cycle (Padachi, 2011).

The following figure 4.19 also depicts statistically, information on salaries’ record keeping since a lot of these small businesses are reluctant to record salaries. Some SMEs do not have any salaries especially sole proprietors.
The above responses show that 58% recorded their salaries manually, whilst 22% did not respond to the question. 17% of the respondents said that their salaries were computerised. Three percent it was said that they were recording their salaries on both manual and computer systems. These findings show that SMEs at least keep a record of their salaries which also is of great importance to the survival and day-to-day running of the business.

4.4.7 Filing System in SMEs

The study further asked the respondents if a filing system was in place. Figure 4.20 on the next page statistically illustrates their responses.
From the above illustration figure 4.20, 52% of the respondents stated that they had no filing system in place whilst 45% said they had a filing system in place. From the three percent it was reported that respondents did not answer the question. Again the findings show that SMEs do not keep important information for reference in the either the past or the future, this contributes to poor accounting practices. Tanwongsval et al. (2008) note that SMEs in Thailand were often overwhelmed with accounting and financial management challenges. Poor record keeping, inefficient use of accounting information to support their financial decision-making and the low quality of their financial data are part of the main problems in financial management concerns of SMEs in Thailand.

4.4.8 Expenses paid by SMEs on a Monthly Basis
Table 4.15 on the following page statistically depicts information of the basic monthly expenses that were paid by the SMEs.
Table 4.15: Monthly Expenses Paid by SMEs

<table>
<thead>
<tr>
<th>Monthly Expenses</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Salaries</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>All</td>
<td>81</td>
<td>70</td>
<td>70</td>
<td>75</td>
</tr>
<tr>
<td>Rent and Water bill</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>77</td>
</tr>
<tr>
<td>Rent, water and electricity</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>79</td>
</tr>
<tr>
<td>None</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>82</td>
</tr>
<tr>
<td>2,3 &amp; 4</td>
<td>6</td>
<td>4</td>
<td>4</td>
<td>86</td>
</tr>
<tr>
<td>1 &amp; 4</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>93</td>
</tr>
<tr>
<td>N/A</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>96</td>
</tr>
<tr>
<td>1,2 &amp; 4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>99</td>
</tr>
<tr>
<td>3 &amp; 4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Key to Expense Codes in the above Table 4.15:

1= Rent
2= Water bill
3= Electricity bill
4= Salaries

The above table shows reports that 70% of the SMEs paid all the basic monthly expenses which are inclusive of rent, salaries, electricity, and water bills. 27% of the SMEs paid part of the expenses whilst three percent did not provide any information regarding the above listed expenses. This shows that the owner-managers are at least aware of the basic costs that their businesses’ were supposed to be paying. These costs are used in the calculation of profits, which most of the SMEs do not compute. Byrd et al. (2009) is in agreement as he suggests that small business managers must learn to identify and prepare for all income and costs

4.4.9 Regulatory Compliance of SMEs

Responses to the question on which of the statutory requirements the SMEs’ were complying with are tabulated in table 4.16 on the following page.
Table 4.16: Regulatory Compliance by SMEs

<table>
<thead>
<tr>
<th>Regulatory Compliance</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>23</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Withholding tax</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>21</td>
</tr>
<tr>
<td>NSSA</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>24</td>
</tr>
<tr>
<td>Pension</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>All</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>32</td>
</tr>
<tr>
<td>None</td>
<td>40</td>
<td>35</td>
<td>35</td>
<td>67</td>
</tr>
<tr>
<td>2,3 &amp; 4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>70</td>
</tr>
<tr>
<td>1,2,3 &amp; 4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>73</td>
</tr>
<tr>
<td>1,2 &amp; 4</td>
<td>11</td>
<td>10</td>
<td>10</td>
<td>83</td>
</tr>
<tr>
<td>1 &amp; 2</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>86</td>
</tr>
<tr>
<td>1 &amp; 4</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>89</td>
</tr>
<tr>
<td>N/A</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>90</td>
</tr>
<tr>
<td>2 &amp; 4</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>94</td>
</tr>
<tr>
<td>1,2,4 &amp; 5</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>95</td>
</tr>
<tr>
<td>1 &amp; 5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>96</td>
</tr>
<tr>
<td>1,2,3 &amp; 5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>97</td>
</tr>
<tr>
<td>1,2 &amp; 3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>98</td>
</tr>
<tr>
<td>2 &amp; 3</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>99</td>
</tr>
<tr>
<td>1 &amp; 3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Key to the codes and abbreviations in Table 4.16 above:

VAT= Value Added Tax
NSSA= National Social Security Authority
1=PAYE
2=VAT
3=Withholding tax
4=NSSA
5=Pension

The above table 4.16 shows that -35%- which represents most of the SMEs were not complying with the Zimbabwean regulatory requirements. 20% of the SMEs were in compliance with -Value Added Tax (VAT) -ZIMRA requirements only. SMEs in compliance with PAYE, VAT and NSSA were only 10%. A mere seven percent of the SMEs were said to be in compliance with all the statutory requirements. 27% were complying with various statutory requirements, not all of them. Reasons to why the SMEs
were not complying with the above listed statutory requirements gave rise to a follow-up question and the following table 4.17 on the below illustrates the mixed responses. The study findings are both in agreement and disagreement with a study done by Ngorima (2009) as he explains that, the number of SMEs operating in the economy cannot be verified, however an estimated 90% of all registered tax payers in Zimbabwe are SMEs.

<table>
<thead>
<tr>
<th>Reasons for non-compliance</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do not benefit from it</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Employees on contracts thus no NSSA and Pension</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>N/A</td>
<td>82</td>
<td>71</td>
<td>71</td>
<td>73</td>
</tr>
<tr>
<td>New business thus not enough funding</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>79</td>
</tr>
<tr>
<td>No employees</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>80</td>
</tr>
<tr>
<td>No separate pension scheme</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>81</td>
</tr>
<tr>
<td>Not eligible for VAT and all pension policies were devalued by Old Mutual</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>82</td>
</tr>
<tr>
<td>Pension is still too much</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>83</td>
</tr>
<tr>
<td>Still in the process of complying with all statutory requirements</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>86</td>
</tr>
<tr>
<td>Too small for such</td>
<td>15</td>
<td>13</td>
<td>13</td>
<td>99</td>
</tr>
<tr>
<td>Unaware of their importance</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

The table 4.17 above shows that 71% were unable to give answers to why they were not complying with the different regulatory requirements. 13% of the respondents stated that their businesses’ were still too small for them to comply with all the regulatory requirements. Those that identified no funding as a reason for their non-compliance formed six percent of the total respondents. Of interest, were the one percent responses which alluded to being unaware of the importance of these statutory requirements to their
businesses and the other one percent clearly pointed out that there was no need for compliance since there were no benefits from the system.

The outcome of the findings of this question is in agreement with a study carried out by Kapoor et al. (1997) as they note that many SMEs complained about the high level of corruption among tax development officials. At the same time they felt that tax return forms were too long and cumbersome for the average SME, leading to high fees paid to consultants to handle tax returns. The findings from this study show the reason why most of the SMEs are not using accounting practices, if they were complying with the regulatory requirements they will have to keep records for yearly or surprise audits. Due to their non-compliance the SMEs are therefore not keeping proper records.

4.4.10 Accounting Bases adopted in SMEs

Responses to the types of accounting bases adopted by SMEs in Zimbabwe were statistically illustrated in figure 4.21 below.

![Figure 4.21: Accounting Bases](image)

It was reported by figure 4.21 above, that 70% of the respondents had adopted the cash basis accounting method whilst 10% had adopted the accrual basis accounting method. 18% did not provide any answers and two percent had adopted both accounting methods.
The outcome of the findings is in agreement with a study carried out by Maseko et al. (2011). The study had 72% of the Zimbabwean SMEs using the cash basis accounting as compared to 28% whom had adopted the accrual basis accounting. The findings show reveal that many of the SMEs within this study were very small enterprises. McMahon (2005) suggests that self-employment, very small enterprises, home-based concerns and life style ventures, especially where they are not growing and are fully self-financed, are examples of businesses in which direct observation and only rudimentary cash-based reporting might be perfectly adequate for financial control purposes.

4.5 To what Extent do SMEs Use Accounting Practices
The above had questions numbers 28 to 36 which formed Section D of the questionnaire. These questions were to address whether SME owner-managers had knowledge in using proper accounting practices as a way of measuring their business performance.

4.5.1 Financial Statements Preparation
A question on which financial statements were prepared on a monthly basis was asked and the following table 4.18 statistically illustrates the respondents’ mixed responses.

<table>
<thead>
<tr>
<th>Financial Statements</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and loss statement</td>
<td>14</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Income and expenditure statement</td>
<td>11</td>
<td>10</td>
<td>10</td>
<td>22</td>
</tr>
<tr>
<td>Cash-flow statement</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td>All</td>
<td>14</td>
<td>12</td>
<td>12</td>
<td>37</td>
</tr>
<tr>
<td>1 &amp; 2</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>40</td>
</tr>
<tr>
<td>1,2 &amp; 4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>41</td>
</tr>
<tr>
<td>2 &amp; 4</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>45</td>
</tr>
<tr>
<td>2 &amp; 3</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>51</td>
</tr>
<tr>
<td>N/A</td>
<td>33</td>
<td>28</td>
<td>28</td>
<td>79</td>
</tr>
<tr>
<td>1,2 &amp; 3</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>84</td>
</tr>
<tr>
<td>2, 3 &amp; 4</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>89</td>
</tr>
<tr>
<td>3 &amp; 4</td>
<td>10</td>
<td>9</td>
<td>9</td>
<td>98</td>
</tr>
<tr>
<td>1,3 &amp; 4</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>
Key to the codes Table 4.18 above:
1= Balance Sheet
2=Profit and Loss Statement
3=Income and Expenditure Statement
4=Cash-flow Statement

The above table 4.18 shows that 28% of the SMEs were not preparing any one of the financial statements listed above whilst 12% and a cumulative of 60% respectively prepared all of the above listed financial statements and any of the financial statements. One of the reasons for why 28% did not prepare any financial statements is linked to section 4.4.7 where the study revealed that 52% of the SMEs were not filing any information. Furthermore Byrd et al. (2009) explains that small business owners fail to monitor all aspects of their businesses. They often consider financial statements “as a necessary evil and think everything is fine as long as sales are increasing and there is money in the bank”. They do not realise what they do in their day-to-day business activities is reflected in the financial statements. They tend to pay little attention to the financial information accountants give them.

4.5.2 Use of Financial Statements
Information in the table 4.18 on the following page statistically presents findings on usage of the financial statements prepared by SMEs.
### Table 4.19: Use of Financial Statements

<table>
<thead>
<tr>
<th>Use of Financial Statements</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>For Owner's use</td>
<td>22</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Tax purposes</td>
<td>9</td>
<td>7</td>
<td>7</td>
<td>26</td>
</tr>
<tr>
<td>Audit</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>30</td>
</tr>
<tr>
<td>Organisational performance</td>
<td>15</td>
<td>13</td>
<td>13</td>
<td>43</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>44</td>
</tr>
<tr>
<td>For Owner's use and organisational performance</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>47</td>
</tr>
<tr>
<td>All</td>
<td>9</td>
<td>7</td>
<td>7</td>
<td>54</td>
</tr>
<tr>
<td>2 &amp; 5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>55</td>
</tr>
<tr>
<td>2 &amp; 4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>56</td>
</tr>
<tr>
<td>N/A</td>
<td>28</td>
<td>24</td>
<td>24</td>
<td>80</td>
</tr>
<tr>
<td>1,2 &amp; 4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>83</td>
</tr>
<tr>
<td>3 &amp; 4</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>89</td>
</tr>
<tr>
<td>1 &amp; 2</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>95</td>
</tr>
<tr>
<td>2,3 &amp; 4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>96</td>
</tr>
<tr>
<td>1 &amp; 4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>99</td>
</tr>
<tr>
<td>1,2 &amp; 3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Key for the codes used in Table 4.19 above:**

1-For owner’s use  
2-Tax purposes  
3-Audit  
4-Organisational performance

The above table 4.19 shows that 19% of the respondents were using their financial statements for owner’s use, whilst 13% were using the financial statements for establishing the business’ performance. It was reported that 24% of the respondents were unable to reveal what they were using their financial statements for. Financial statements provide information for use by the owner, tax authorities, in audits and also organisational performance establishment. The study findings reveal limited utilisation of the financial statements. McMahon (2005) agrees with the study findings as he notes that as group owner-mangers of SMEs make considerably less use of standard financial reports, whether historical or future-oriented in the financial management of their businesses than would be proposed or predicted by neoclassical microeconomics or modern finance theory.
Seven percent of the respondents use the financial statements for tax purposes. Lalin and et al. (2010) conclude that regulations are the main drivers why SMEs prepare financial statements. Stone (2001:27) reiterates that, financial accounts have evolved over time to meet the current needs of businesses as well as complex statutory provisions that have been imposed by legislation. Four percent of the respondents also stated the use their financial statements in audit. Another seven percent of the respondents said that they were using their financial statements for all the above listed purposes.

4.5.3 Frequency of Financial Statements’ Preparations

The above is statistically illustrated in figure 4.22.

---

**Figure 4.22: Preparation Frequency of Financial Statements**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly</td>
<td>50%</td>
</tr>
<tr>
<td>Quarterly</td>
<td>30%</td>
</tr>
<tr>
<td>Yearly</td>
<td>10%</td>
</tr>
<tr>
<td>N/A</td>
<td>10%</td>
</tr>
</tbody>
</table>
The findings from the above figure 4.22 the respondents stated that 47% prepared monthly financial statements, 28% did not provide and answers to the question, 22% prepared quarterly financial statements and 3% prepared their financial statements on a yearly basis. From the focus group discussions, it was reported that many SME owner-managers were preparing financial statements on a monthly basis because of the need to know if the business is incurring a profit or not.

4.5.4 Presentation of Financial Statements

As a follow-up to the question asked in section 4.5.3, information on the different stakeholders to whom financial statements were presented to, responses were statistically outlined in table 4.20 on the following page.

<table>
<thead>
<tr>
<th>Presentation of Financial Statements</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors</td>
<td>10</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Managing Director</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>17</td>
</tr>
<tr>
<td>Owner &amp; Investors</td>
<td>27</td>
<td>22</td>
<td>22</td>
<td>39</td>
</tr>
<tr>
<td>ZIMRA &amp; Owner</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>40</td>
</tr>
<tr>
<td>N/A</td>
<td>59</td>
<td>50</td>
<td>50</td>
<td>90</td>
</tr>
<tr>
<td>Family members</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>92</td>
</tr>
<tr>
<td>Banks</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>93</td>
</tr>
<tr>
<td>ZIMRA, ZTA and landlord</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>95</td>
</tr>
<tr>
<td>Staff Team</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>96</td>
</tr>
<tr>
<td>None</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>97</td>
</tr>
<tr>
<td>Owner &amp; Investors</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>98</td>
</tr>
<tr>
<td>Partners and interested stakeholders</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>99</td>
</tr>
<tr>
<td>Accountant and ZIMRA</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>116</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

From the table 4.20 above 51% of the respondents did not provide any information pertaining to the beneficiaries of their income statements. 22% of the respondents presented their financial statements to the owners whilst nine percent, eight percent presented their financial statements to the directors and the managing director.
respectively. This shows that most of the SMEs did not know what to do with the financial statements. Maseko et al. (2011) states that, the majority of SMEs do not keep complete accounting records because of lack of accounting knowledge and as a result there is inefficient use of accounting information in financial performance measurement.

4.5.5 Yearly Audit

Information on yearly audits by SMEs’ is statistically illustrated in figure 4.23 below.

![Figure 4.23: Yearly Audit](image)

69% of the respondents were not conducting yearly audits for their businesses’, whilst 28% were conducting their yearly audits. Three percent of the businesses’ did not provide any answers to the question. This shows that SMEs lack proper accounting practices since their accounting systems are not even reviewed for further improvement. Due to this shortcoming a local audit firm Baker Tilly International (2011:2) advices that, the checks and balances should remain in place, so that growing businesses establish good management practices as they become economically significant.

In support Nandan (2010) analysed that, only a small percentage of SMEs in Australia may actually be successful and the vast majority struggle for similar continuity, an important one being that many owner-managers ‘have little or no conception of workings, or problems encountered in managing a SME’. Therefore the SMEs will have no need for yearly audits that they cannot interpret at the end. Stern and Barbour (2005) argue that for small businesses, the cost of complying with IFRSs could be greater than the benefit
received. A full set of accounts that comply with IFRSs are less relevant for the small business user who is most likely to be the owner-manager.

4.5.6 Person Responsible for Bookkeeping

The information on whether SMEs had a specific person responsible for bookkeeping or accounts of the business or firm is graphically illustrated in figure 4.24 below.

Figure 4.24: Person Responsible for Bookkeeping

Figure 4.24 above shows 52% of the SMEs having stated that, they did not have a person responsible for bookkeeping in their enterprises, whilst 46% stated that they did have a person responsible for bookkeeping in their enterprises. Two percent of the SMEs were not free to provide any information on this particular question. This shows that SMEs lack the required expertises needed in the use of accounting practices. Padachi (2011) suggest that the main factors that contribute to success or failure of small business are categorised as internal and external factors. The internal factors include managerial skills, workforce, accounting systems and financial management practices. The accounting department is generally viewed as a service unit to support the firm’s operations by providing information on costs and performance indicators.
An in-depth question on why SMEs were reluctant to hire bookkeepers was asked. The respondents stated that due to lack of funds they were unable to hire a bookkeeper whilst some stated that they did the books on their own. Another respondent stated that they used to hire a small accounting practice firm but in the long-run that has proved to be very expensive and therefore the enterprise had to suspend the services. In agreement to the study findings Abor et al. (2010:224) note that most entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency. The lack of support services or their relatively higher unit cost can hamper SMEs efforts to improve their management, because consulting firms are often not equipped with appropriate cost-effective management solutions for SMEs.

4.5.7 Board of Finance Existence

Findings in figure 4.25 below relate to the assessment of the responses to whether the SME had a board of finance or not. The responses are from the owner-managers of the SME.

![Figure 4.25: Board of Finance](image)

Results above reveal that 85% of the respondents were operating without a board of finance whilst 13% said that they had a board of finance. This shows that in most of the SMEs, no particular board exists in overseeing the finances of that particular SME. The absence of financial expertise in the SME affects adequacy of financial oversight on the
board including depth of deliberations with regards to financial management and the implementation of key financial issues such as accounting systems of the organisation.

Many small businesses are characterised by informality and poor information systems. Specifically, small businesses are characterised by poor control systems. During the start-up period informality dominates in many aspects of the new business. The lack of information results in poor decision-making, (Carter et al., 2000:298). This literature review adds to the study findings.

### 4.5.8 Meetings to Discuss the Balance Sheet and Income Statement

The figure 4.26 below presents the findings on the use of financial statements in the SMEs.

*Figure 4.26: Meeting to Discuss Financial Statements*

The above figure shows that SMEs were not using accounting practices efficiently and effectively since 59% of the respondents stated that they did not have any meetings to discuss their financial statements. Only 38% of the respondents stated that they did have meetings to discuss their financial statements. The literature review in this study adds to the study findings in that according to McMahon (2005) the need for financial information is useful in evaluating the success of past decisions and in determining present position. The more sophisticated financial reporting system is necessarily prepared to ensure that an SME’s economic resources are used effectively and efficiently.
Therefore, there is a particular need in growing SMEs for the skills of financial analysis which allow financial statements to be read and understood.

4.5.9 Frequency of the Financial Review Meetings

The frequency of the financial review meetings was inquired. The responses have been graphically illustrated in figure 4.27 on the next page.

Figure 4.27: Meetings Frequency

The figure above shows that 19% of the SMEs stated that they held financial statements review meetings on a monthly basis, while 17% held meetings on a quarterly basis. Only five percent have the meetings on a weekly basis. It was reported by 59% that they could not provide any information pertaining to financial statements review meetings.

4.5.10 Meetings’ Impact

As a follow-up to section 4.5.8 above, the study further inquired on the way forward for the SMEs’ after having a meeting. The responses have been graphically illustrated in figure 4.28 on the next page.
A significant 73% of the respondents did not provide any answers on what they will do after the meetings. 20% of the respondents stated that they strategized and implemented changes. Six percent of the respondents stated that they will enhance productivity and boost profitability thus also boost performance. These findings are similar to those in section 4.5.9 which show that the use of financial information in SMEs is lacking.

4.6 What are the Implications of not using Proper Accounting Practices on Business Performance?

The above question formed Section E of the questionnaire, which had question numbers 37 to 40. The responses to these questions should show the implications of not using proper accounting practices on business performance.

4.6.1 Years of SME in Operation

The study evaluated the number of years that the each individual SME had being in operation as a way to seek any correlation between improper uses of accounting practices and business performance.
Figures 4.29 above reveals that 37% of the SMEs had been in operation for a period of between one to five years. 27% had been in operation for a period below one year. Those that have been in operation for a period above 20 years were only 1% of the SMEs. 18% of the SMEs had been in operation for a period between six to 10 years, whilst eight percent for a period between 11 to 15 years. This shows that a lot of SMEs fail to maintain long-term continuity or even grow (which relates to business performance) due to insufficient use of accounting practices. As evidenced by Nandan earlier on in this chapter.

4.6.2 Increase in Profit in the SMEs

The study further went on to analyse if the SMEs were in actual fact realising any profit. The findings are statistically illustrated in figure 4.30 on the following page.
The findings in figure 4.30 above show that 63% of the SMEs expressed joy in stating that they were realising a profit whilst 34% were not realising a profit. Profit alone cannot be the only basis of measurement for business performance because an enterprise might have profit on its financial statements and yet it is facing some serious cash flow problems. Ratio analysis should then be done so as to determine the business’ position. To verify the latter, a follow-up in-depth interview question was asked pertaining to the cash position of the SMEs. Many of the respondents stated that they will not be able to pay for the following month’s business expenses if sales were not incurred in that current month. This therefore this shows that the owner-managers are unable to sufficiently interpret the financial information presented.

McMahon (2005) argues that even if the portrayal of an SME’s financial position and performance and performance in its financial statements has integrity, there is the further issue of whether its owner-managers are sufficiently skilled to be able to meaningfully interpret the information presented. The lack of association between financial ratio use and either survival or profitability in SMEs may indicate that the level of sophistication in use of ratios has not reached a high enough level to make a discernible difference between those who use them and those who do not.
4.6.3 Financial Support or Assistance from Banks and Institutions

The study sought to evaluate the impact of inadequate or improper use of accounting practices on financial support. Responses to this question are graphically illustrated in figure 4.31 below.

**Figure 4.31: Financial Support or Assistance from Bank or Institution**

From the results above 72% of the owner-managers stated that they had not received any financial support or assistance from any bank or institution whilst only 24% agreed to having received financial support or assistance. The large number of SMEs that have not received any financial support or assistance showed that either banks or institutions were unwilling to provide funds to SMEs mainly due to non-use of accounting practices. An in-depth question was further asked to establish the answers to the latter. The majority of the responses stated that they were just neglected and not assisted. The other respondents said that, they were unable to get the available funds due to the high rate of corruption done by the employees of the banks or institutions that offered financial support.

Abor et al. (2010:225) argue that providers of finance, whether formal or informal, are unlikely to commit funds to a business which they view as not being on a sound footing,
irrespective of the exact nature of the unsoundness. Lack of funds is one of the immediate reasons for business failing to start or to progress, even when the more fundamental reason lies in lack of use of accounting systems. A follow-up question on the type of assistance received by the retail SMEs is illustrated in figure 4.32 below.

**Figure 4.32: Type of Assistance Received**

Responses from figure 4.32 above show that 16% of the owner-managers had received loans. Three percent of the respondents received had training whilst another three percent had received both a loan and training. Only two percent of the owner-managers had received a grant. 76% of respondents said that they had received no financial support or assistance. Of those that had received training some of them stated that they had received training from the Ministry of SMEs, whilst others received training from the Ministry of Gender and Youth. This shows that government has definitely being providing financial support and assistance to SMEs since independence.

Literature reviewed acknowledges that since the independence of Zimbabwe, donors and NGOs have provided support to the small scale sector mainly through technical assistance. A number of these organisations were providing non-financial support.
programmes to SMEs. The programs are in the form of training, technical assistance and extension support to enhance business management and entrepreneurial skills of SMEs including business linkage facilitation. In the focus groups a question was asked on how others managed to receive loans and training whilst other SME owner-managers did not. The groups reached a consensus that it was because either the owner-managers had a connection with the bank or institution.

4.7 What Factors Inhibit the Use of Accounting Systems in SMEs?
Below is table 4.21 which is illustrating the major factors that the respondents felt were inhibiting the use of accounting systems in SMEs.

<table>
<thead>
<tr>
<th>Table 4.21: Factors that Inhibit the Use of Accounting Systems in SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>The legal and government requirements</td>
</tr>
<tr>
<td>Lack of finance and funds</td>
</tr>
<tr>
<td>Lack of managerial and entrepreneurial skills</td>
</tr>
<tr>
<td>The process needed when registering a company</td>
</tr>
<tr>
<td>1 &amp; 3</td>
</tr>
<tr>
<td>2 &amp; 4</td>
</tr>
<tr>
<td>2 &amp; 3</td>
</tr>
<tr>
<td>N/A</td>
</tr>
<tr>
<td>1 &amp; 2</td>
</tr>
<tr>
<td>All</td>
</tr>
<tr>
<td>1,2 &amp; 3</td>
</tr>
<tr>
<td>1,3 &amp; 4</td>
</tr>
<tr>
<td>1 &amp; 4</td>
</tr>
<tr>
<td>2,3 &amp; 4</td>
</tr>
<tr>
<td>1,2 &amp; 4</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
Key for the codes in table 4.21 above:
1- The legal and government requirements
2- Lack of finance and funds
3- Lack of managerial and entrepreneurial skills
4- The process needed when registering a company

23% of the owner-managers stated that lack of finance and funds inhibits them from the full use of accounting practices. 16% of the respondents agreed to the legal and government requirements together with lack of funds as factors that inhibit accounting systems in SMEs. 12% stated that all the above listed factors inhibited accounting systems as well as lack of managerial and entrepreneurial skills.

A study by Kapoor et al. (1997) argue that while these entrepreneurs are extremely vocal about the lack of credit facilities and the high cost of capital, they are less aware of the importance of acquiring the skills necessary to run a business. Areas of weakness identified include financial management, operations, management, cost accounting, marketing and general business management. Further explanations to how the aforementioned factors inhibited the use of accounting systems are listed below as per study findings.

4.7.1 The Legal and Government Requirements
The following explanation was revealed by the respondents:
   a) The fiscalisation process required a business to purchase expensive machines which would result in lack of funds to employ the skilled accountant or bookkeeper that the SMEs needed.

4.7.2 Lack of Finance or Funds
The following findings were noted from the respondents:
   a) The purchasing and licensing of an accounting package might be quite expensive therefore the small businesses’ would not be able to fully implement the double-entry bookkeeping method of accounting and thus the use of the single entry method which was found to be much cheaper and easier to use.
   b) Multi-tasking was very much evident in SMEs because they were unable to employ qualified accountants due to lack of finance. Many of the owner-managers
had the technical knowledge on the actual business but little knowledge on the actual accounting practices thus the reason that there was none usage of them. This is in agreement with Storey (1994:218) as he notes that financial constraints will inhibit SMEs in the use of accounting systems because they are unable to pay the required remuneration for the professional skills needed into the implementation of proper accounting systems.

c) There are no funds for any staff development which results in no implementation of accounting practices. Corman et al. (1996) argue that insufficient capital is termed as poor financial practices.

4.7.3 Lack of Managerial and Entrepreneurial Skills
The following findings were reported by the respondents for lack of managerial and entrepreneurial skills:

a) Most of the SMEs are not trained to run the business professionally.

b) Some of the SME owner-managers practice a ‘hand to mouth’ operation due to lack of managerial skills, thus there was no accountability and transparency since money used was not recorded properly.

4.7.4 The Process Needed When Registering Company
From the above the following findings were reported:

a) The process of registering a company takes time and at the same time costs incurred during the process were rather on the high note; this will therefore lead to no hiring of any skilled labour since all the funds will have been used in registering the business.

4.8 Chapter Conclusion
This chapter discussed the research findings which were linked to the objectives of the study. Descriptive statistics such as tables, bar charts and pie charts were used to aid the analysis of data because they are effective illustrations of depicting relations and trends. The findings were also linked to the literature reviewed as explanations were done. The next chapter looks at the conclusions and the recommendations of the study which were accrued from this chapter.
5.0 Introduction

This chapter is dedicated to the conclusions and recommendations; each objective is linked to relevant conclusions and or recommendations.

5.1 Conclusions

5.1.1 Assessment of Keeping and Use of Proper Accounting Records in SMEs

Based on the findings in chapter four and previous studies it can be concluded that most Zimbabwean SMEs are managed by their owners who are actively involved in the day to day operating of their enterprises. This will result in the non-use of accounting systems in SMEs due to lack of expertise and management skills of the owner-managers. Owner-managers take the use of accounting practices for granted or as a burden resulting in no proper accounting records. The study can also conclude that the Muslim religion has a high usage of accounting practices due to their religion teaching and requirements. The study also concludes that the introduction of the IFRS for SMEs will not be of any assistance to Zimbabwean SMEs, in terms of improving the keeping and usage of proper accounting records. it is only when they are able to use keep and use proper accounting records that the IFRS for SMEs will be of assistance.

5.1.2 What are the Implications of not using Proper Accounting Practices on Business Performance?

This study concludes that non-use of proper accounting practices in Zimbabwean small businesses’ has resulted in failure to expand business territories as well as business continuity in the long run. Many of the small businesses’ are started by own resources and because of lack of accounting practices’, they will end up not being able to reorder stock. The latter has also being caused by the incurrence of huge amounts of bad debts since a debtors’ record is usually unavailable upon request.
5.2 Research Proposition
The research proposal that lack of proper accounting practices by SMEs in Zimbabwe is hindering the performance of their businesses has been asserted. Lack of business expansions and continuity asserts the research proposition.

5.3 Recommendations
In order to improve the use of accounting practices in SMEs the study makes the following recommendations:

a) There is a need for SME owner-managers to have training in both management and financial skills so as use accounting practices efficiently and effectively. SME owner-managers should seek training which involves technical assistance so as to enhance business management and entrepreneurial skills.

b) The Ministry of Small to Medium Enterprises should establish a yearly entrepreneur of the year award which will encourage small business competition amongst themselves and this will result in frequent use of accounting practices.

c) Banks should have a special facility for SMEs in terms of bank charges; this will encourage savings amongst the small businesses’. This will also improve the use of accounting practices since filing and financial reports will be encouraged.

d) Like other international countries with reference to Australia, small accounting practices that provide affordable accounting consultancy or services should be encouraged so as to assist the local SMEs.

e) Government of Zimbabwe should provide user friendly cheap registering processes. This will also encourage the SMEs to use accounting practices because they will be bound by the Companies Act Chapter 23:04.

f) The government of Zimbabwe together with the Ministry of SMEs should provide free trainings for all owner-managers on management and entrepreneurial skills so as to improve use of accounting practices.

g) Government of Zimbabwe, the Ministry of Gender and Youth Development and Ministry of SMEs should provide easily accessible financial support through bank and other lending institutions for SMEs, but should also make sure that this funding will only be available to SMEs with proper accounting practices.
Assessments of the SMEs applying for funds should be done before any approval so as to ascertain improper or proper accounting practices.

h) Like the Small Business Act (SBA) for Europe which embodies the EU’s commitment to SMEs and entrepreneurship, whereby Member states have committed to implementing the SBA alongside the European Commission in an effort to make the EU a better place to do business. Since SMEs have to be supported at local level, the Commission helps member states and the regions to develop policies aimed at promoting entrepreneurship assisting SMEs at all stages of development, and helping them to access global markets. The identification and exchange of good practices are key elements of this policy. Zimbabwe must therefore come up with a Small Business Act that compels the setting up of good accounting practices so as to develop and assisting SMEs in making them become large formal companies.

5.4 Area of Further Study
The study recommends that further research be conducted to evaluate the most effective, economic and efficient accounting package to use so as to improve accounting systems in SMEs. There is also need to evaluate whether use of accounting practices will influence the availability of sources of capital.
References


61. **Matarirano, O. and Fatoki, Olawale. (2010).*** ‘Does debt really matter on the profitability of small firms? A perspective on small manufacturing firms in


Appendices

Appendix 1: Questionnaire on Impact of Accounting Practices on Business Performance in Retail SMEs.

350 Twickwenham Drive
Mount Pleasant
Harare

Dear Sir/Madam

The attached questionnaire is part of an extensive research study to evaluate the use of accounting practices by Small and Medium Enterprises in Zimbabwe and then assess their impact on business performance in the Retail sector. The study is part of Miss Namatai Moyo’s Masters in Business Administration Dissertation with the Graduate School of Management- University of Zimbabwe.

You are therefore kindly requested to complete the attached questionnaire to your best ability. The questionnaire will take you between twenty to thirty minutes to complete. Your response will be kept strictly confidential. Only the researcher and GSM will have access to the information. In order to ensure the utmost privacy, there are no names requested in this survey and code numbers are going to be used for analysis purposes.

Yours sincerely,
Namatai Moyo 0772771533
Email: nsmoyo21@yahoo.co.uk
Section A: Characteristics of the Owner-Manager

Please tick where appropriate or make further comments in the space provided. You can use additional paper if the space provided is inadequate.

1. Age: ..............................................................................................................................

2. Sex: Male □ Female □

3. Are you the manager or owner of this firm?
   1. Owner □ 2. Manager □

4. Level of education:
   1. ‘O’ Level □ 2. ‘A’ Level □ 3. Other □
   If ‘Other’ please explain................................................................................................

........................................................................................................................................

   If ‘Other’ please specify.................................................................................................

........................................................................................................................................

6. How many years have you been working in this firm?
   1. Below 1 year □ 2. 1-3 years □ 3. 4-6 years □ 4. 7-10 years □
   5. Above 10 years □

7. Were you employed before joining this firm or starting this firm?
   1. Yes □ 2. No □
   Please explain position ................................................................................................

   How many years were you employed there?.................................................................

........................................................................................................................................

8. How did you start the business? (i.e Own resources) .................................................
   ........................................................................................................................................

9. What was the motivation behind starting your business? (i.e Money)......................
10. Have you received any further training besides your educational qualification, after having started your business? 1. Yes 2. No

Please explain ...

Section B: Characteristics of the business or firm
11. Name of business or firm: .................................................................

12. Nature of firm: ..........................................................................

13. No. Of employees: .................................................................

14. Sales per month: $.................................................................

15. Expenses incurred per month: $...........................................

16. What products do you sale..........................................................

17. State date when did you start the business or firm? ..............................................

18. How are you operating?

1. Under a licence from the Municipality Of Harare

2. Registered under the Companies Act

Section C: Assessment of keeping of proper accounting records in SMEs

19. Do you receipt your sales? 1. Yes 2. No

20. Do you have cash tills? 1. Yes 2. No

If yes, what information do get from the till? ..................................................

What do you use the information for?..........................................................
If No, why? ........................................................................................................................................
......................................................................................................................................................
If yes, what do you do when you receive your bank statements?.................................
......................................................................................................................................................

22. Do you keep a record of your daily sales and purchases in a special book?
   1. Yes ☐  2. No ☐

23. How are records kept?
   1. Manually ☐  2. Computerised ☐

If computerised what accounting package do you use? ......................................................

   If Manual, do you have the following books of accounts?
   1. A book which records your creditors? 1. Yes ☐  2. No ☐
   2. A book which records received goods or supplies? 1. Yes ☐  2. No ☐
   3. A book which shows your credit customers? 1. Yes ☐  2. No ☐
   5. When you purchase an asset do you have a specific recording for it?
      1. Yes ☐  2. No ☐

24. Is a filing system in place? 1. Yes ☐  2. No ☐

Please explain how payments and receipts are filed.........................................................
......................................................................................................................................................

25. From the following list of expenses which ones do you pay on a monthly basis?
26. Which of the following regulatory requirements do you comply with?

1. PAYE □ 2. VAT □ 3. Withholding tax □ 4. NSSA □ 5. Pension □
If not, why? .................................................................

27. When do you record your receipts and payments?

1. Only when cash is received or paid. □
2. When income and expenses of a period are earned or incurred, not received and paid. □

Section D: To what extent do SMEs use accounting practices?

28. At the end of the month which of the following financial statements do you prepare?


29. Please state what do you use your financial statements for?

1. For owner’s use □ 2. Tax purposes □
3. Audit □ 4. Organisational performance □
5. Other specify..............................................................

30. How frequently do you prepare them?


To who are they presented to? ...............................................................

31. Are the financial statements audited at the end of the year?

1. Yes □ 2. No □

32. Do you have a specific person whom is responsible for bookkeeping or accounts of the business or firm? 1. Yes □ 2. No □
33. Does the organisation have a board responsible for finance?
   1. Yes □  2. No □

34. Do you have meetings to discuss the balance sheet and income statement?
   1. Yes □  2. No □


36. After the meetings what do you do? .................................................................
........................................................................................................................................
........................................................................................................................................

Section E: What are the implications of not using proper accounting practices on business performance?

37. How long has the business been in operation? .....................................................

38. Has your profit after expenses increased from when the business started, up to now? 1. Yes □  2. No □

39. Have you received any financial support or assistance from any institution or bank? 1. Yes □  2. No □

40. If yes, what type of assistance did you receive?
   1. Loan □
   2. Grant □
   3. Training □ Briefly explain....................................................................................
   4. Other □ Briefly explain.....................................................................................
Section F: What factors inhibit the use of accounting systems in SMEs?

41. From the list below, what would you say are the major factors that reduce or disturb the use of accounting systems in SMEs?

1. The legal and government requirements.
2. Lack of finance or funds.
3. Lack of managerial and entrepreneurial skills.
4. The process needed when registering company.

42. Please explain the above in the order:

1. ........................................................................................................................................

2. ........................................................................................................................................

3. ........................................................................................................................................

4. ........................................................................................................................................

End of questionnaire
Thank you for your time and effort.
Appendix 2: Letter of Introduction
Appendix 3: Focus Group Questions

The following questions were discussed with 2 focus groups comprising of 10 participants (5 male and 5 female) in each group.

1. What is meant by ‘Other’ type of business?

2. Why you are not formally registered as SMEs?

3. Why do you not record your salaries?

4. Why do most SMEs prepare financial statements on a monthly basis?

5. How do other SMEs receive loans whilst others do not?
Appendix 4: In-depth Interview Questions

In-depth interviews were conducted as a way of following up on owner-managers whom indicated on their questionnaires that they were not keeping proper accounting records.

1. Why are you not receipting your sales?

2. Why do you not have a separate bank account for your business?

3. Why do maintain accounting records both manually and computerised?

4. Why do not you keep all the required books of accounts?

5. Why is there no bookkeeper in the firm?

6. If sale are not realised this month are you able to cover your next month’s expenses without any further assistance?