

Bindura University of Science Education



**THE IMPACT OF PROPER RECORD KEEPING ON THE PERFORMANCE OF SMEs
IN HARARE CBD**

BY

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**THIS DESSERTATION IS SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS OF BACHELOR OF HONORS DEGREE IN ACCOUNTACY**

APPROVAL FORM

The undersigned certify that they have supervised the student's dissertation entitled, **The impact of record keeping on the performance of SMEs in Harare CBD** and have approved its submission for marking after confirming that it conforms to the requirements of the Bachelor of Accountancy Honors Degree at the Bindura University of Science Education.

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DATE

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DATE

DEDICATION

This dissertation is dedicated to my late mother. Although she was my inspiration to pursue my degree, she was unable to see my graduation, this is for her. It is through her love, wisdom, strong Christian faith and support that gave me the strength to carry on even after her death. I also dedicate this dissertation to my supportive dad and sisters who encouraged me to pursue my dreams and finish my dissertation. Thank you to my academic supervisor who guided me in this process and kept me on track.

ABSTRACT

The study investigated the impact of record keeping on the performance of SMEs in Harare CBD. The objective of this study is to look at the challenges faced by SMEs in maintaining proper records, importance and benefits of proper record keeping. The study used a questionnaire research instrument. Data was collected through questionnaires from twenty-four (24) participants. The questionnaires' data was analyzed and presented using pie charts, tables and graphs. The findings showed that half of the participants did not implement proper record keeping although they were aware that it has an impact on the performance of SMEs and understand the importance and the role of keeping records for their businesses. The findings from this study also show that SMEs keep some books of accounts but lack of accounting expertise within their businesses as most of them keep single entry system which will lead to incomplete records which results in insufficient information for sound decision making. Most challenges faced by SMEs in the Harare CBD are as a result of little or no use of accounting records in improving their performance. Most SMEs from the study are not able to hire or train their staff because of lack of finance. The study also shows that a lot of the SMEs do not have filing systems which can be used in the assessment of business 'present and future performance. This study conveys information that contributes and helps SMEs businesses owners to keep business records and to maintain accurate business records of transactions in order to improve business performance.

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CHAPTER I

INTRODUCTION

1.0 Introduction

The main aim of the study will be to investigate the impact of proper record keeping on the performance of SMEs. This study will be of key importance as there is a growing recognition of the important role small and medium enterprises (SMEs) play in economic development. This raises the need for more effective ways of sustainably running these enterprises so that their contributions to the economy can be fully realized.

1.1 Background to study

Griffins and Ebert (2006) define an SME as a business venture which is independently owned and managed, does not dominate its market or cannot be part of another business operator as they are free to run their business as they are pleased.

SMEs are micro and average business entities whose employee numbers fall below certain limits. The output of SMEs accounts for at least 60% of the country's gross domestic product, generating more than 75% employment opportunities in Zimbabwe (The Herald, 2016). In Sub-Saharan Africa, SMEs are discussed in the context of growing unemployment and high population rates as the region rushes past billionth person population mark, most of who are under 30.

Tasara Majoni, J Matunhu, Billiat Chaderopa (2016), stipulates that SMEs contribute more than 70% to employment, 60% Gross Domestic Product and to the tax base in Zimbabwe. This statistic shows the vital role being played by SMEs in the economy. Improved record keeping may result in the sustainability of these businesses as it results in better progress tracking and management.

Over the years, SMEs have gained wide recognition as the main source of income generation, poverty reduction and employment creation SMEs are an important sector in the Zimbabwean economy due to their provision of employment ,contribution to the GDP, alleviation of poverty

(Government of Zimbabwe GoZ, 2012) and provision of an opportunity for women and youth to participate in the mainstream economy (GoZ,2012).

Regardless of the positive contributions to the economy, SMEs are confronted with plethora of challenges of growth. Such obstacles include lack of access to funding, managerial inefficiencies, poor physical infrastructure and inadequate access to markets.

Majority of SMEs have failed to recognize the importance of proper record keeping, have had limited access to finance and insufficient working premises. SMEs continue to fail to run their businesses effectively and this is mainly because most of them do not have reliable and consistent records of their business plans, budgets, activities and financial performance.

Record keeping is the process of keeping an account of business transactions in a systematic manner so that the financial position of an entity can be ascertained at any point in time. It foils the exploitation of assets, aids in better expense control and helps to improve the efficiency and effectiveness of management.

Okechuku (1993), argues that record keeping is crucial for successful performance of a business. Comprehensive record keeping makes it easier for entrepreneurs to develop accurate and timely financial reports that show the true financial position of the company.

The importance of financial performance to any organization cannot be over-emphasized. Hence, the accounting basis, concepts and principles adopted may help in reporting of relevant information to ensure reliability in its measurement of performance.

The objective of financial statements is to provide information about cash flow movements, financial position and performance and changes in equity of an enterprise that is useful to a wide range of users in making economic decisions, including the owners of the businesses and potential debt providers. Financial records created from proper record keeping can assist in comparison of one period to another and decisions can be made on how to improve and monitor performance.

By keeping proper financial records, SMEs may meet the standard requirements of various sources of finance as they will have a consistent and reliable record of their financial performance and position. The process of maintaining proper records may also improve the managing of SME businesses.

Furthermore, the results of this study may provide insight to Entrepreneurs running their Small and Medium Enterprises on the importance of record keeping. This can be a starting point for SMEs to have an opportunity to be sustainably run and have access to resources and markets that grant them economic longevity.

1.2 Statement of the Problem

Studies have revealed that poor record keeping is the cause for poor performance which contributes to business failure for Small and Medium Enterprises. In most cases, this is not only due to the low priority attached to record keeping by new entrepreneurs, but also lack of sound business managerial skills. Most entrepreneurs, therefore, end up losing track of their daily transactions and cannot account accurately for their expenses and revenues and their income at the end of the month. Inaccurate record keeping causes SMEs to inaccurately assess their financial situation and make poor financial decisions as well as leads them to face high failure rates (Byron & Friedlob, 1984). The above-mentioned problems have been hindering the success of many SMEs. As a result, this study is aimed at finding out the impact of proper record keeping in the performance of SMEs in Zimbabwe.

1.3 Research Aim

The aim of this study is to assess the impact of proper record keeping in the performance of SMEs in Zimbabwe.

1.4 Research Objectives

1. To determine the challenges SMEs, face in maintaining proper records.
2. To assess SME entrepreneurs' awareness of the importance of proper record keeping.
3. To determine the benefits of record keeping to the SMEs.

1.5 Research Questions

1. What are the challenges SMEs face in maintaining proper financial records?

2. How important is record keeping to the SME entrepreneurs?
3. What are the benefits of record keeping to SMEs?

1.6 Significance of Study

i. To the SMEs

Small business owners will be able to assess if the business is making profits and losses. Proper record keeping makes SMEs prove to suppliers and lenders that their business is worth partnering up with as records will prove that for instance lenders can assess if the company can meet their obligation by assessing their creditors and cash in the statement of financial position under the current liabilities and current assets

ii. To Bindura University of Science Education

The University may introduce a compulsory module on entrepreneurship on record keeping so that the students who choose to become small business owners may become efficient entrepreneurs.

iii. To the researcher

The researcher enhanced her knowledge acquired in the research and a full understanding was gained on the impact of accounting records on the performance of any business environment. The research also helped the researcher in filling gaps in knowledge and changing the way SMEs practice book keeping.

1.7 Scope of Study

The study will be only confined to SMEs with employees within Harare Cbd. SMEs owners are known to be very busy, it might be difficult for the researcher to get their attention regarding all questions that the study will answer to. The study will not attempt to add accounting regulation in Zimbabwean SMEs. The study will assess the impact of record keeping on the performance SMEs operating in Harare Cbd in the year 2021. In considering significant aspects of the

business record keeping, the study concentrated on internal factors of SMEs but not external environment factors. The internal functions which were of great concern in this study was record keeping while other functions like finance and marketing were not included as it was felt that they were less relevant to the problems affecting to SMEs at the moment yet they also contribute to a better performance for any small business

1.8 Limitations to study

SMEs privacy and confidentiality were compromised as most owners were not at liberty to disclose important information. The researcher overcame this limitation by securing confidence and trust to the respondents that any information disclosed in the research was to be kept private and confidential

The time factor also weighed in as most respondents were always busy or not available resulting in low response rates in some samples. The researcher carried out continuous follow ups to secure responses from the respondents.

1.9 Summary

The chapter introduced the research topic and gave the background to the research topic. The problem statement was identified and from it, research objectives and questions were established. The second chapter will review the literature relevant and review of empirical studies to proper record keeping on performance of SMEs.

CHAPTER II

LITERATURE REVIEW

2.0 Introduction

This chapter will explore on theoretical review as well as empirical review on impact of record keeping practices on performance of SMEs. In theoretical review the researcher defines the concepts and terms according to how different authors have defined them and empirical literature review provided the different findings from different researcher who has done similar study. The scope of study is limited to Harare CBD SMEs although wide reference is also made to related studies outside Zimbabwe's borders.

2.1 Theoretical literature Review

2.1.1 Definition of SMEs

Most SMEs, despite their size, are important contributors to the national economies of countries around the world. In most countries, they represent the majority of enterprises, provide most of the employment and also make an important contribution in terms of income generation.

SMEs can be defined as micro and average business entities whose employee numbers fall below certain limits. The output of SMEs accounts for at least 60% of the country's gross domestic product, generating more than 75% employment opportunities in Zimbabwe (The Herald, 2016). In Sub-Saharan Africa, SMEs are discussed in the context of growing unemployment and high population rates as the region rushes past billionth person population mark most of whom are under 30.

Griffins and Ebert (2006) defines SMEs as the one which is independently owned and controlled, does not dominated its market and this cannot be part of another business operator must be bosses themselves, free to run their business as they are pleased. The Ministry of SMEs in

Zimbabwe, (2000) has defined a small enterprise as any business which employs not more than 50 people and a medium enterprise was defined by Maseko and Manyani (2011), as a registered entity employing 75 to 100 people.

2.1.2 Challenges faced by SMEs in maintaining proper records

Ntim et al (2012), argues that the main reason why SMEs fail is due to poor financial management and reporting. Poor financial management constitutes when credit facilities are used to pay for items that an individual cannot afford out of their income. It is essential for SMEs to prepare for large expenses in advance.

Planning for future financial events is made possible by keeping records such as yearly budgets and cash flow forecast which will determine if SMEs can fund future financial plans hence, small business owners should be able to prepare financial statements. Most entrepreneurs began trading in order to make profits and they do not appreciate record keeping yet it's vital as the only way to ensure financial security in any business is through proper financial planning.

Lack of sufficient funds to finance bookkeeping services constitute challenges SMEs face in maintaining proper books and might lead small business owners producing incomplete records. Incomplete financial record results in financial problems like not being able to access bank loans. Third parties cannot ascertain if an SME is going to continue to operate in the future and payback their obligation.

Mutambanengwe, (2012) stipulates that there is a critical weakness with the informal setup of SMEs being that they do not keep proper accounting records of their activities. Record keeping regarded as time consuming, increases costs and effort. It can be used to ensure that there is no track record of what the proprietor would have done, in the event that any government agency comes to visit. Bank accounts are also shunned for the same reason; with transactions occurring on a cash basis.

Maseko & Manyani, (2011) supports that the correct use of accounting information to produce accurate records will solemnly take place in situations where the SMEs owners have a certain level of accounting knowledge and technical qualifications, which does not tend to prevail in small companies. If no financial records are kept, income/losses are difficult to calculate and tax authorities may overestimate the profits and thus business will suffer for not having kept accurate

business records. Senik, Said, and Khalili (2012) add that using accounting information wrongly results in miscalculations and incorrect assessment by SMEs of financial situation, resulting in poor financial decisions that lead to gross failure rate.

Moreover, lack of business knowledge could be the reason why most SMES are not keeping accounting records. Most SMEs do not have knowledge on which accounting books they should keep and why they are important to keep these records hence this might lead in failure to separate personal to business activities. When transactions are not accurately recorded, the income and expenses will not be spared hence the business might become bankrupt as there will not be able to continue trading if the costs of operating are higher than income.

2.1.3 Basic accounting records to be kept by SMEs

All companies in Zimbabwe are required to keep accounting records in compliance to the Companies Act (24:3), to prepare tax returns based on their financial statements and submit them to the tax authority which is Zimbabwe Revenue Authority. Small business owners should consider keeping adequate records of their business income and expenses in order to prepare an accurate self-assessment tax return.

Jacqueline Mkonyi (2013), defines a journal as a book where you record each business transaction shown on your supporting documents, and a ledger is a book that contains the totals from all of your journals. It is organized into different accounts

SME Beginners should keep the few accounts since the business is small and only have few transactions as explained by Sarapaivanich and Kotey (2006):

(i) Sales account: Sales Book records all transactions involving the sale of goods or services. Information recorded include date, invoice no., amount, customer name and type of transaction – whether cash or credit.

(ii) Purchases account: The Purchases Book records all transactions related to the acquisition of raw materials or inventory. Information recorded include date of purchase, purchase order No., stock number of item purchased, purchase price, and whether bought on credit or cash.

SMEs that have been in business for longer period of time are required to keep more accounts which will cover all larger transactions that take place in the business:

Among others the following are some of them:

(i) **Trade receivables:** The Accounts Receivable ledger is useful for monitoring the level of receivables for each customer. If products or services are paid for at time of delivery, you will not need an accounts receivable tracking system. However, if you provide services or products for which people pay you at a later date, the accounts receivable records keep track of what is owed to the business. One can monitor accounts receivable by holding on to a copy of all invoices sent out or by keeping accounts receivable record. Either way, the information required to be captured includes: invoice date, invoice number, invoice amount, terms, date paid, amount paid, and the name of the entity being billed.

(ii) **Trade Payables:** Accounts Payable ledger, keeps track of amounts owed to suppliers/creditors. Knowing the level of the accounts payable and when these are due makes for better cash control and also contributes to establishing a good credit standing with your suppliers and creditors. Regardless of the system chosen, the business should retain the following information about accounts payable: invoice date, invoice number, invoice amount, terms, date paid, amount paid, balance (if applicable), and supplier names and address.

(iii) **Cash account:** this account records all the receipts and payments made in the business.

(iv) **Inventory account:** Keeping on top of the inventory records will prevent pilferage, keep inventory holdings to a minimum, and track buying trends, among other things. The crucial inventory information you need to capture is: date purchased, stock number of item purchased, purchase price, date sold, and sale price.

(v) **Financial Statements:** financial statements are the result of the activities of an entity and are prepared to help interested persons decide on questions such as whether to lend money or invest in shares. Financial statements analysis can be seen as part of the link between the financial statements and the decision making process. Financial Statements are made up of statement of comprehensive income, statement of financial position, statement of cash flows and the statements of changes in equity (ACCA, 2016). Financial statements are the provision of information to meet the needs of the accounting information.

2.1.4 The importance of maintaining proper records to entrepreneurs

Abdul-Rahamon, O.A. and Adejare, A.T, (2014), states that accounting records include entries from day to day transactions of business for instance transactions in respect to receipts and expenditure. Records may include a list of organizational assets and liabilities. These help the enterprise to evaluate their performance in a particular period of time usually at the end of a financial period.

Prihatni et al (2012), suggest that one of the main objectives of accounting are to provide accurate financial information to the owners and the stakeholders that are the parties who are interested in an organization, to help them reduce uncertainty in decision-making. On the other hand, Maseko & Manyani (2011) add that efficient financial managers dwell on the past and present in order to predict the future and for proper evaluation and comparison of financial activities.

Proper record keeping provides evidence of how the transaction was handled and substantiates the steps that were taken in order to comply with business standards. Record keeping is the foundation on which a compliance program should be built upon measures should be put in place to capture the documentation and events that take place throughout a transaction commencing from delivery and payment (Reed 2010).

From appropriately maintained set of books of accounting, small business owners can easily identify business equity, total trade receivables and trade payables, profit or loss made or sustained for any given period and how the income or losses came about, and the amount of equity or deficiency Okwena et al (2011). Mwangi (2011) argues that, if no proper financial records are kept, the business owner will fail to produce to the courts the true picture of the business when insolvent. Future business plans and policies can be planned when proper records are kept. Also ascertaining the price of business to be sold or disposed of will be easy when records were being kept.

The emphasis of most SMEs is to concentrate on producing and marketing their products rather than focus on accounting systems. Okpala (2012) states that the process of accounting is just as good as conducting daily business routine. Many great businesses have collapsed due to a poor

bookkeeping system. Ademola et al (2012), provides the benefits of financial record keeping as follows:

- It reduces business failure
- Is beneficial for financial management planning and control
- Helps to make sound assessments
- Gives relative depiction which helps organizational change and
- Is critical to business survival and growth.

Over emphasizing the benefits of financial record keeping would be wrong thus SMEs should partake in sound accounting practices. Thus, for every entity, accounting records are the lifeblood of its operations. Failure will result in the entity collapsing. Therefore, it has to be done in accordance with the accounting standards (IFRS) in order for the business to thrive.

Record keeping for SMEs is vital to boost business performance as it can help entrepreneurs to manage their short-term problems in critical areas like costing, expenditure and cash flow by availing information to support monitoring and control. The measurement of the performance of the business by its owners is mostly obtained from proper financial records from accounting systems Karunananda and Jayamaha, (2011). Maseko and Manyani (2011) also stipulates that proper record keeping is important for a successful performance of any business entity, whether large or small. It is important that the accounting practices of SMEs supply complete and relevant financial information needed to improve economic decisions made by entrepreneurs.

Maintaining accounting records also facilitates rational decision-making to small business owners. Managerial decisions based on facts and figures take the organization to heights of success. An effective price policy, satisfied wage structure, collective bargaining decisions, competing with rivals, advertisement and sales promotion policy, all owe it to well set accounting structure. Accounting provides the necessary database on which a range of alternatives can be considered to make managerial decision-making process a rational one (Shim and Siegel, 1999).

2.1.5 The relationship between proper record keeping and performance of SMEs.

The most important function of the business owner is to set objectives. Objectives determine the character of the business, they give the business its direction and provide standards by which to measure performance. Objectives are goals toward which the activities of the business are moving. Some of the important objectives of the small business include providing a service, profit, and growth (Stain bank, 2008).

These objectives can be set by comparison between budgeted statements against the actual statements hence, small businesses must define a workable financial strategy that sets them apart from their competition. Normally, small businesses are a result of trying several approaches figuring out which one works, without a cohesive plan of action.

In Zimbabwe, the SMEs have the potential to turn around the country's economy but the major challenge remains that of being underfinanced, Gono, (2013). Studies have shown that the major reason why small firms fail is due to poor financial management and reporting. So it is important for SMEs to have some form of financial reporting.

Record keeping plays a vital role in SMEs and it is importance therefore to identify the strong influence of business record keeping attached to SMEs' performances and development. The importance of record keeping cannot be overlooked in any means. Hughes (2003) supports that keeping business records is an important tool for the success of any business and adds that a thorough record keeping system enables business owners to develop accurate and timely financial reports that detail the progress and prospects of the business

Accounting is also a strategy for meeting legal requirements as it assists in the process of complying various legal requirements. Various returns such as income tax, sales tax are prepared with the help of the financial accounts (Hayes, 2002). Shim and Siegel (1999) also assert that record keeping facilitates protection and safeguarding of business assets. Records serve a dual purpose as evidence in the event of any dispute regarding ownership title of any property or assets of the business. It also helps prevent unwarranted and unjustified use. This function is of paramount importance, for it makes the best use of available resources.

2.2 Empirical Review

2.2.1 The impact of accounting records on small and medium enterprise's performance: A case of small and medium enterprises in Ilala district, Dar es Salaam, Jacqueline Mkonyi (2013; Tanzania)

This research was conducted at Dar es Salaam region to investigate the impact of accounting records on Small and Medium Enterprises (SMEs) performance in Tanzania. Most SMEs do not progress well due to various constraints, one of them being poor accounting records. The study recommends for the SME owners to attend entrepreneurship seminars and short courses whereby they will be able to gain knowledge on accounts record keeping.

2.2.2 A Challenge of Business Record Keeping for Tanzania Small and Medium Enterprises (SMEs): A Case of Madukani Ward- Dodoma Region, (2014; Tanzania).

The study aimed to assess the general attitude of SMEs owners from Madukani ward- Dodoma of being unbothered on record keeping and its challenges emanating therein. The study found that, this attitude has been largely contributed to inadequate education and training particularly record keeping skills and knowledge and the absence of guidelines that are relevant to the size of their business. The paper concludes that a concerted effort should be made by the government and other stakeholders to set out proper guidelines for record keeping and proposes that SMEs owners be trained on key skills for records and information management.

2.2.3 Accounting practices of SMEs in Zimbabwe: An investigative study of record keeping for performance measurement, Maseko and Manyani (2011; Bindura Zimbabwe)

The research emphasized on the development of sound accounting systems in SMEs in order to improve financial management in these entities. The research investigated accounting record keeping practices for performance measurement employed by SMEs. The survey research design was used. The target population comprised of 100 SMEs operating retail shops, manufacturing firms and suppliers of various services in Bindura. In their study, they found that majority of the SMEs in Zimbabwe do not keep complete accounting records due to lack of accounting knowledge. The study recommended accounting training programs for entrepreneurs in small businesses.

2.2.4 An assessment of business record keeping as an aid to growth of SMEs in the manufacturing sector in Glenview 8 industrial area, Terrence Gunda, (2016, Harare).

The study seeks to explore the accounting records kept and maintained and analyze the completeness and adequacy of them in aiding growth thereby assessing the relationship between accounting information and growth in SMEs. A descriptive survey method was used to explore the accounting records kept, maintained and analysed the completeness and adequacy of them in aiding growth thereby assessing the relationship between accounting information and growth in SMEs. To achieve the objectives of the study, document analysis was conducted and questionnaires were administered to 100 SMEs out of a population of 1000 SMEs in at Glenview 8 industrial area in manufacturing sector. Data was analysed and presented using tables and graphs and the study found out that accounting records are significant in aiding to growth of SMEs. It also revealed that the level of education affects the knowledge base of small to medium entity entrepreneurs thus impacting on the record-keeping thereby influencing practices that enhance growth. In summary, this particular study revealed that most of SMEs managers are not well knowledgeable in the field of accounting and do not find it important to employ and or consult accounting officers in their operations.

2.2.5 Accounting and Financial Reporting by Small and Medium-sized Enterprises: Trends and Prospects, Mukhisa Kituyu, (2016; New York, Geneva)

Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) played a pioneering global role in addressing the accounting and financial reporting needs of SMEs. ISAR was the first group of experts to provide SMEs with simple, user-friendly accounting and financial reporting guidelines. Most notably, ISAR has succeeded in changing an earlier widely maintained view that “one size fits all”. In tackling this issue, the ultimate objectives of ISAR – beyond the technical accounting details – have been to build a competitive SME sector, create employment opportunities, encourage entrepreneurship, increase productive capacity and trade, and achieve sustainable and inclusive economic growth.

2.2.6 The challenges that small and medium enterprises (SMEs) face in maintaining financial records: A study of the top 100 SMEs in Nairobi (For the financial year 2012), Philip Mbae (, 2015; Nairobi Kenya)

The purpose of this research was to identify the challenges the top 100 SMEs in Nairobi face in maintaining financial records. The study comments that SMEs should introduce standardized records management solutions and adequate training. Management should provide leadership and overall responsibility for records management and put in place adequate, regularly updated processes and cost efficient facilities for storage. Records management should be incorporated in the day to day running of organizations and be a culture for all staff. The study suggests further research on organizations in other industries such as learning institutions, banks and governments which were not included in the current study.

2.2.7 Evaluating financial literacy impact on business performance, the Zimbabwean SMEs experience, Lazarus Nyarusanga (2019; Harare Zimbabwe)

The research study was an evaluation of financial literacy's impact on business performance, the Zimbabwean SMEs experience. The study was based on a survey of SME businesses across Zimbabwe who were reached for responses through structured questionnaires and interviews. It was therefore concluded that financial literacy level impacts highly on business performance of SMEs and among key recommendations is that governments prioritize literacy training of SMEs as they are critical to economic growth. The study also recommended that future studies look at other aspects such as the impact that external factors have on SME business performance.

2.2.8 The Analysis of the impact of Accounting Records Keeping on the Performance of the Small Scale Enterprises, Onaolapo Adekunle Abdul –Rahamon and Adebile Tajudeen Adejare (2014; Oyo State , Nigeria)

The study investigated the effect of accounting records keeping on Small scale enterprises. In line with the objectives of this study, a descriptive design such as personal interviews and questionnaire were employed as the major techniques for primary data collection. Data collected were analyzed using both the qualitative and quantitative methods. Following the outcome of this study, it is therefore concluded that that there is a strong positive relationship between accounting records keeping and performance of small scale enterprises. Accounting records keeping is essential for decision making which invariably affects performance of small scale

enterprises. It is recommended that the owners and managers of the small scale enterprises should embrace proper accounting records keeping practices for effective financial performance in their business.

2.3 Appropriate record keeping practices for SMEs

According to Hayes (2002), financial accounting is based on several concepts and these are called as GAAP. These principles include the business entity concept, the objectivity concept, the concept and the going-concern concept.

SMEs should observe basic accounting principles like the double entry concept which entail that for every business transaction, there are two accounts involved. There is an account to be debited and an account to be credited. The SMEs maintained ledger accounts in which transactions were recorded in accordance to the Money Measurement Concept. The money measurement concept states that transactions are in monetary terms hence, only those items, which are quantifiable in monetary value, are subject to accounting records. Accounting records contained monetary values.

Goodwill, number of clients, number of employees and their skills were not shown Business Entity Concept The business entity concept entails that the business has a separate existence from its owner. Accordingly, the proprietor's personal affairs are not mixed up with the business though most SMEs were owner managed, some owners kept records of drawings.

Matching or Accruals Concept requires that the expenses incurred during a period be recorded in the same period in which the related revenues are earned. In a similar vein, expenses or revenue for the year are recognized in the period they have incurred even if there was no payment made thus, adjustments for amounts due and prepayments are duly made. SMEs kept records of debtors and creditors

The materiality concept states that there is need to consider the significance of the value of an item, to the business, before classifying it as an asset. Minor items were not reflected as assets. This concept is very subjective relative to size and importance. Financial information might be of material importance to one company but immaterial to another company.

In addition, Marriot and Marriot (2000) argue that the professional accountants should develop their services to also include graphic presentations and comments and interpretation of the amounts in financial statements. Everaert et al. (2006) and (Jayabalan and Dorasamy, 2009) however argue that the high cost of hiring professional accountants leaves SME owner-managers with no option but to relegate accounting information management. 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. McMahon (1999) argues that financial reporting practices in SMEs seem to fall short of what is dictated by various external financial reporting imperatives that exist for them, further arguing that owner-managers appear particularly reluctant to produce financial reports which might become accessible to outside parties either directly or through the offices of regulatory authorities.

The International Accounting Standard Committee (IASC) Conceptual Framework document stated that the objectives of financial statements are to provide information about the financial position, performance and changes in the financial position of the firm (Kazunga, 2005).

According to IASB (International Accounting Standards Board, 2010), the IFRS (International Financial Reporting Standards) for SMEs is a self-contained standard designed to meet the needs and capabilities of small and medium-sized entities (SMEs), which are estimated to account for over 95% of all companies around the world. IFRS for SMEs is about good financial reporting made simple. It is simplified IFRSs, but built on an IFRS foundation. It is designed specifically for SMEs and is internationally recognized. The IASB took six years to develop it.

The final standard was issued by the IASB on the 9th of July 2009. The standard is available for any jurisdiction to adopt, whether or not it has adopted full IFRSs. Each jurisdiction must determine which entities should use the standard. The IASB's only restriction is that listed companies and financial institutions should not use it. Over 99% of private entities around the world are expected to be eligible to use the standard.

Holmes and Nicholls (1988) conclude that the volume of accounting practices in SMEs is dependent on a number of operating environmental factors that include size of the business, business age and industrial grouping. They further argue that most owners and managers of

SMEs engage public accountants to prepare required information and that owners and managers search for additional information, but only to a limited extent. Ismail and King (2007) conclude that the development of a sound accounting information system (AIS) in SMEs depends on the owners' level of accounting knowledge. Keasy and Short (1990); Bohman and Boter (1984) report that small firms use professional accounting firms for preparation of annual reports and for other accounting needs.

2.4 Gap Analysis

Many researchers have studied SMEs, focusing on different study problems such as; management, accounting and financial needs and challenges, causes of small business failures. But only a few have investigated the impact of accounting records on SMEs performance. They have pointed out that, some SMEs do not keep proper accounting records based the International Financial Reporting Standards, have incomplete records and this has often led to complexity of information and accounting records hinder the application of appropriate measures in evaluating business success. Despite the findings, other researchers did not mention some of the main issues like; how many SMEs really do keep accounting records? What challenges do SMEs incur in keeping proper accounting records? What are the benefits of keeping proper recording and use of accounting records? This study tried to respond to this knowledge gap.

2.5 Summary

This chapter reviewed literature on the importance of keeping accounting records for SMEs, challenges faced by entrepreneurs in maintaining proper records and the appropriate record keeping practices for small business owners. The next chapter outlines the methodology of the study.

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

According to Jankowicz (2011), the intention of research methodology is planning the methods of research, approaches and technics to be used by the researcher. This chapter aims to give a description of how the study will be conducted.

3.1 Research Design

The research design refers to the overall strategy chosen to integrate different components of the study ensuring that the research questions are addressed. A survey design will be used in this study. This is because the study requires an explanation of the relationship between record keeping and performance of SMEs.

Qualitative research is defined as a systematic investigation in which the researcher attempts to understand and provide sense to reality by gathering responses from the target population by asking them about their experiences Julie P Combs and Anthony J. Onwuegbuzle, (2010). This will enable the researcher to obtain a better understanding of the target population's point of view. According to Zikmund et al, (2010) qualitative research focuses on obtaining data through open-ended conversations and this method is not only about what the population thinks but also why they think so. The qualitative approach in research design is partly used to provide a better understanding of efficiency and volatility where quantitative methods are not ideal in answering certain questions.

Although a distinction is commonly drawn between qualitative and quantitative aspects of scientific investigation, it has been argued that the two complement each other (Saunders et al., 2009).

3.2 Area of Study

The study was conducted in Harare CBD. This point layer displays the Central Business District (CBD) of Harare, the Capital city of Zimbabwe. The area has over 18 500 licensed and unlicensed micro, small and medium enterprises (Chronicle January 4, 2019).

3.3 Target Population

Waters, 2011 defines targeted population as a composition such that all the constituency of the study should be included. The target population for this study was of owners and managers of 24 small businesses in Harare CBD. These selected respondents were considered to have adequate information to reach insightful findings and conclusions pertaining to the study. Since the study focused on the impact of record keeping on performance of SMEs, the study assumed that owners and managers possessed valuable information pertaining to the study. This was because these parties were involved in one way or the other in the record keeping practices of their respective enterprises.

3.4 Sampling strategy

Jacqueline Mkonyi (2013), defines sampling as a process of selecting a sub-section of a population that represents the entire population in order to obtain information regarding the phenomenon of interest. The researcher selected a sample of 24 SMEs.

3.5 Research instruments

Two methods of data collection that is the questionnaire and the interview were used by the researcher.

3.5.1 Questionnaire

Combs J and Onwuegbuzie G (2010) define questionnaires as a written list of questions, the answers which are recorded by respondents. The questionnaire has the advantage that it is cheaper than other methods, saves time and its anonymity facilitates the obtaining of honest responses. However, the percentage returns can be very low if not diligently followed up and the use of close ended questionnaire limits the responses to what the researcher perceives as what the respondent meant (Watters, 2011; Saunders, 2009). A combination of open ended and closed ended questions was used.

Questionnaires are easy to administer hence the researcher chose them. When developing the questionnaire items, the fixed choice and closed- ended formats will be used. These were used so as to guide the respondents to answer questions according to the requirements of the research.

3.5.2 Interviews

Interviews were mainly used to collect data from a small group so that the interviewer would immediate feedback the interviewee. One of the drawbacks of interviews was that data was collected and arranged in an unorderedly manner such that analysis will be difficult to make. The researcher used a structured interview that consisted of a series of questions that were consistently asked to each interviewee, in order to increase accuracy and reliability. Time periods were needed to complete interviewing the respondents. The researcher therefore chose a small representative sample (five) and arrange a timetable to complete the interviews in a short space of time since the respondents are the same people who will be doing their daily work and do not need much disturbances.

3.6 Reliability and Validity

Research instruments used by the researcher ought to be able produce research findings which are valid and reliable (Saunders, et al., 2009). Validity refers to the degree to which the research reflects the given research problem and there are many types of validity that include external and internal, to name but a few. According to (Smith, 2012; and Saunders et al., 2009) validity can be debated in two ways that is internal validity (validity of the research findings), and external validity (the degree to which the research findings can be universal to similar research settings) for example, to similar institutions.

Reliability is how consistent a set of measurements are. Reliability is how often the researcher would get the same results if they did everything the same all over again (Saunders, et al., 2009). Put in pedestrian terms, external validity is the degree to which the conclusions in a study were held for other persons in other places and at other times. Since purposive sampling was used, there will be sampling bias.

The researcher exercised great care in the language and phrases used for the research to be understood clearly by participants. No ambiguous terms were used, and all terms were clearly defined. Interviews helped in assuring validity as feedback is obtained immediately and body language from interviewee led the interviewer as well as probing further questions.

3.7 Data Analysis

The researcher used both qualitative and quantitative methods of data analysis which aimed at determining relationship between variables of research data. Data collected from respondents was qualitative in nature. The data was analysed using the Survey Monkey application software. Data was analysed using descriptive statistics such as percentages and frequencies. The foundation of using descriptive approach gave a basis for determining the weights of the variables under the study. For easier explanation, the findings were presented using tables, charts and graphs.

3.8 Summary

The researcher used both qualitative and quantitative methods of data analysis which aims at determining relationships between variables of research data. All data collected was organised and checked before it was presented and analysed to ensure completeness, accuracy, and validity. Furthermore, questions were checked if they were complete and the meaning corresponds to the data needed. By clarity, it means data was checked if it was correct and corresponds to the intended requirements.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter presents findings of the research done on “The impact of proper record keeping on the performance of SMEs”. SMEs entrepreneurs need to know importance and ways to keep accounting records of all transactions in the business in order to achieve proper financial management. Failure to do this, may adversely affect the business.

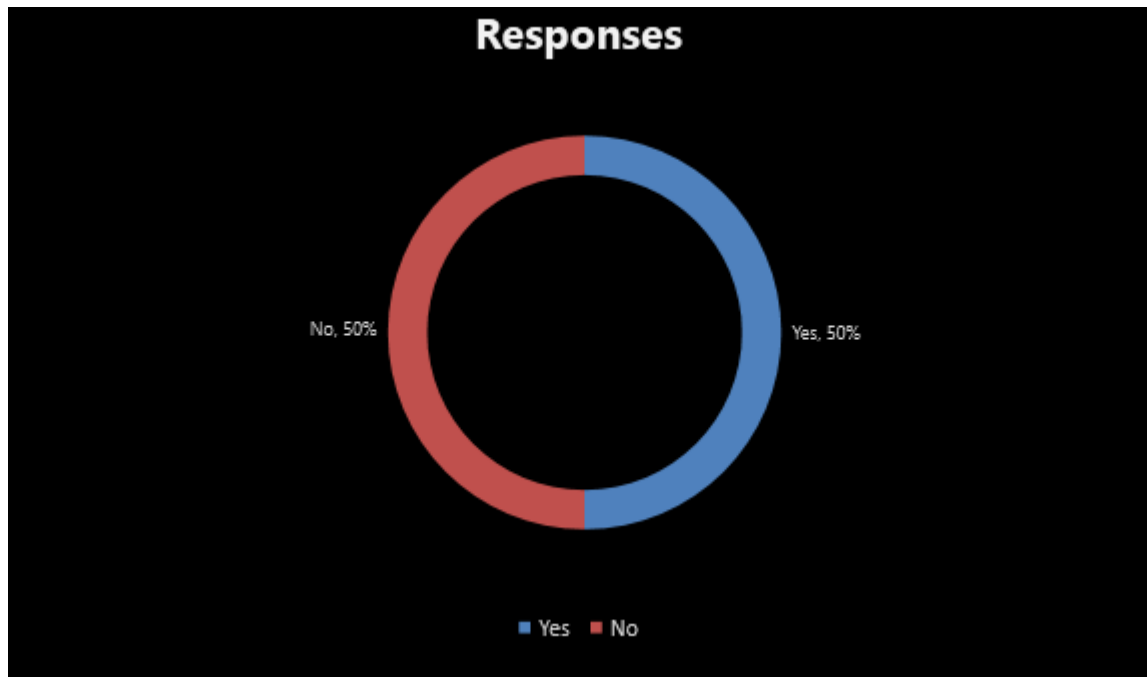
4.1 Data Presentation Process

Most the distributed questionnaires were completed and returned since purposive sampling was used. The analysis and presentation of findings was done using Survey Monkey application. The analysis was closely focused on tables, graphs, pie charts and descriptions to give an overview of the results

4.2 Analysis of questionnaire responses

From the results of the study, the following diagrams indicates responses to the questions that were aimed at getting a general understanding of the respondents. The illustrations below addresses questions that were focusing on the research objectives of the study.

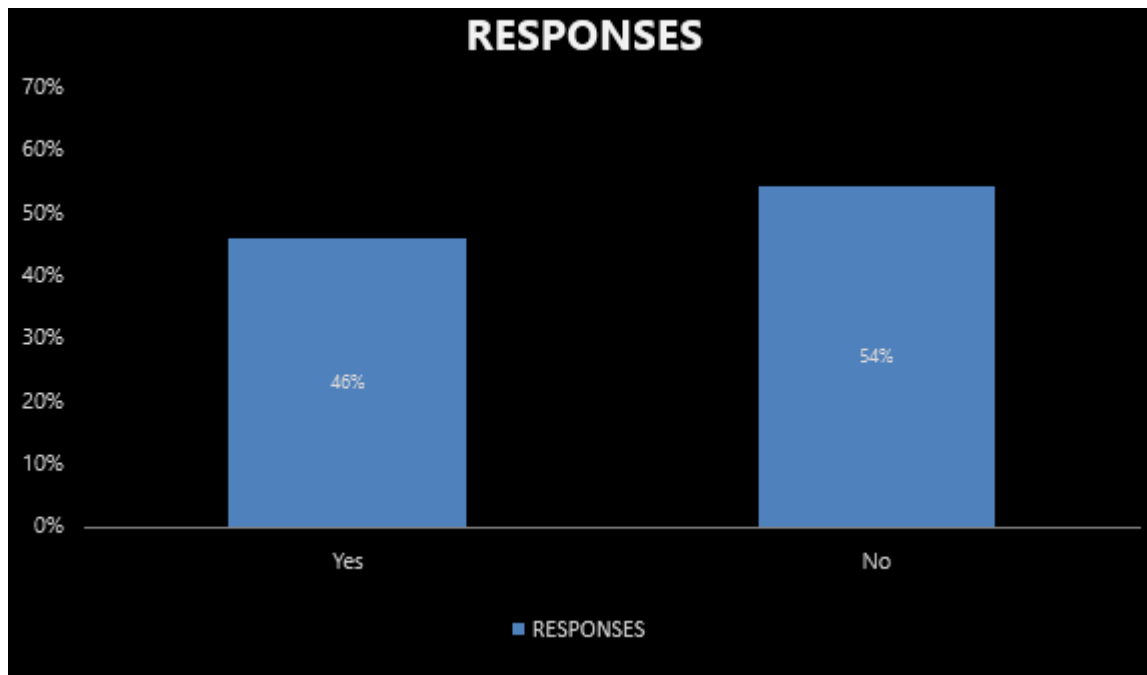
Figure. 4.1 Accounting records



Source: Survey data, 2021

Figure 4.1 shows that 50% of the respondents maintain accounting records whilst the remaining 50% does not maintain accounting records. This shows an equilibrium between respondents who see value in the maintenance of accounting records and those who are managing their businesses without records. Maseko and Manyani, (2012) are of the view that record keeping in SMEs was not being done for the purpose of capturing accounting information for performance measurement but for security and control hence record keeping is necessary to ensure that the SMEs' resources are used effectively and efficiently to improve its overall performance.

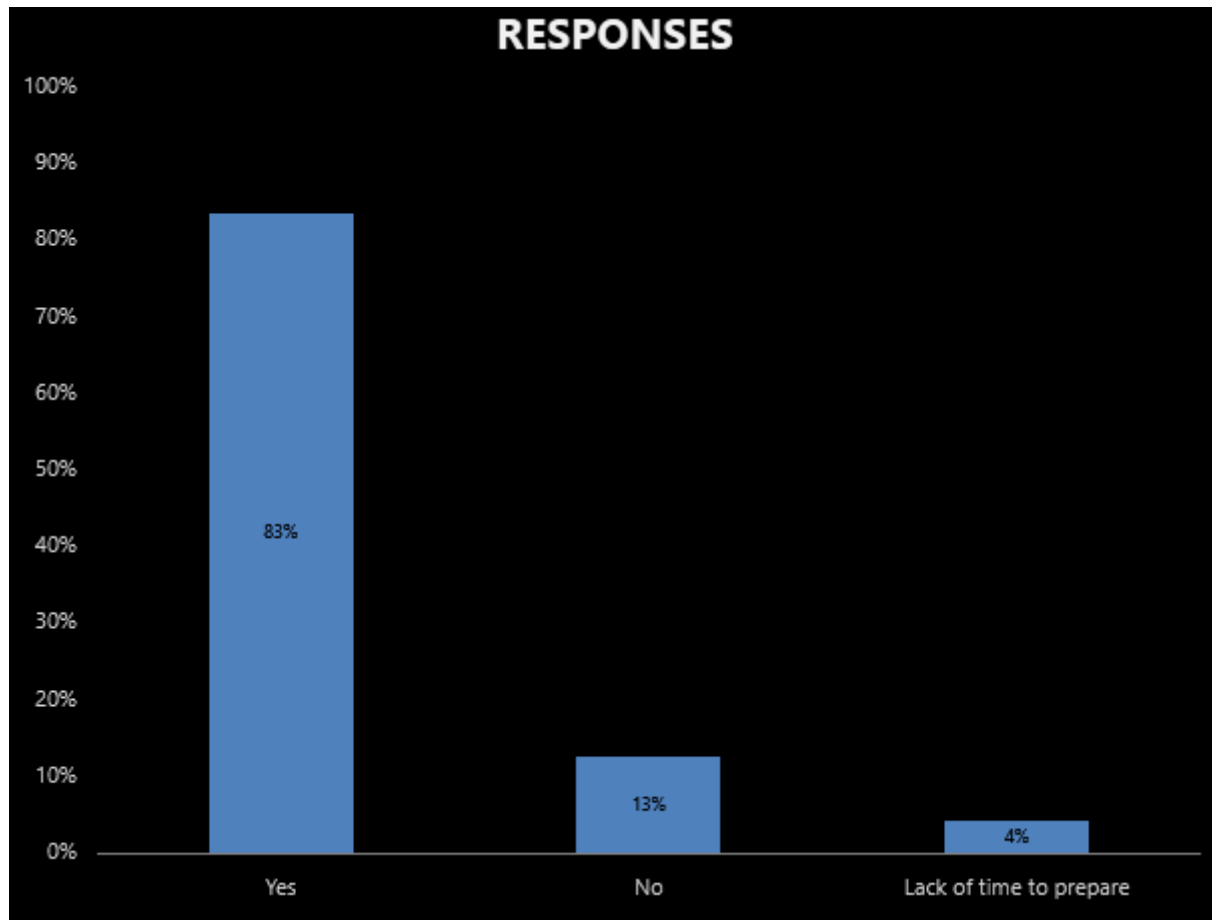
Figure. 4.2 Double entry system



Source: Survey data, 2021

Figure 4.2 shows that 54% of the respondents used the single-entry method whilst 46% used the double entry method. This indicates that most of the SMEs use single entry method of bookkeeping. Zivanai, (2009-2013) argues that, single entry system does not show a true view of any business because it provides incomplete and unrealistic result of trading. There is no record of outstanding debtors or creditors, or of stock, or, without analysis, of what receipts and payments have been received and paid, or in some cases, it delivers improper valuation of assets and liabilities.

Figure. 4.3 Effect of record keeping on business



Source: Survey data, 2021

According to responses of figure 4.3 ,83% of SMEs from the respondents are of the view that record keeping affects the business.13% of the respondents think there is no effect in keeping accounting records on business performance and 4% agree that record keeping has an impact on business but they lack time to prepare records. Herald, (15 November:2017) stipulates that most small business owners take record keeping for granted but it can make the difference between success and failure in any business.

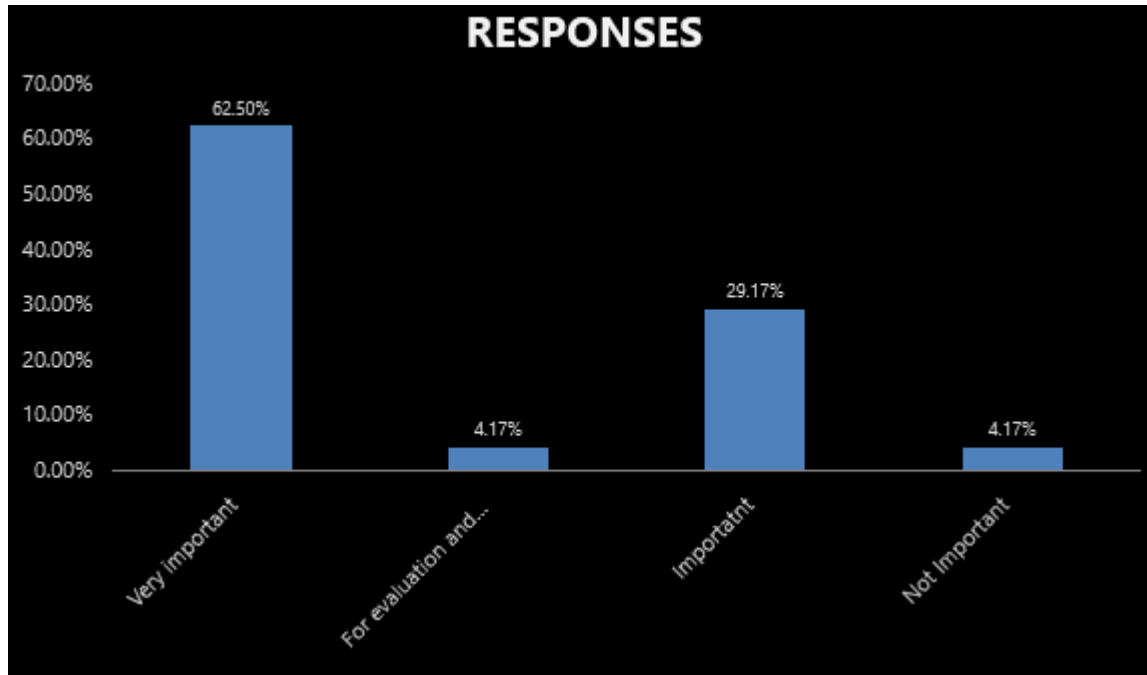
Table 4.1 Benefits of record keeping

Benefits of Keeping records to your enterprise	Number of responses	Percentage
Access to loan	0	0%
Proper evaluation and comparison of financial activities	9	37%
Assist in short term problem like costing, expenditure and cash flow by availing information for monitoring and control	3	13%
All of the above	12	50%

Source: Survey data, 2021

The findings on the benefits of record keeping show that 50% of the respondents recognize the benefits that come with proper record keeping as detailed in table 4.1. However, the remaining 50% only note limited benefits. This response is in line with the response as in Figure. 4.1 showing a 50% response rate of respondents who prepare records.

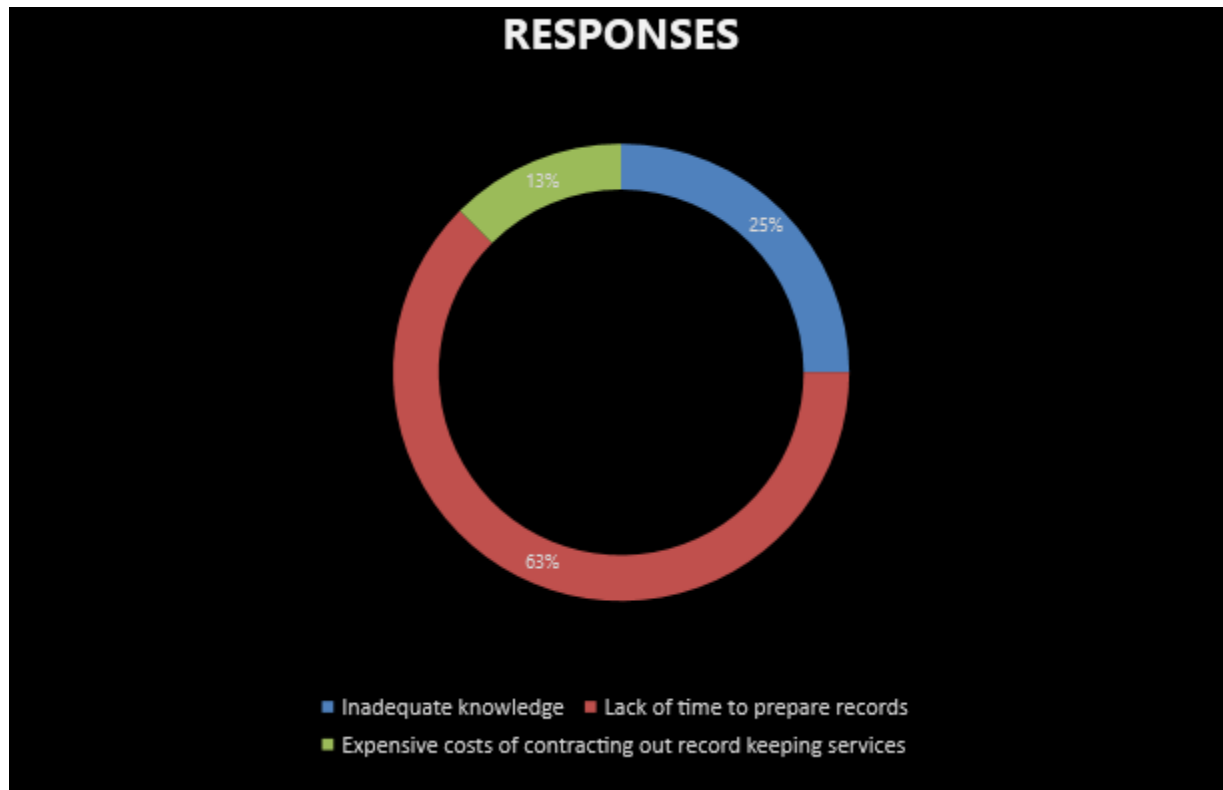
Figure. 4.4 Importance of record keeping



Source: Survey data, 2021

From the results as per Figure 4.4, the only 4.17% of respondents do not see the importance of record keeping. Thus, majority of respondents see the importance of record keeping. Therefore, this suggests that most respondents who do not prepare financial records also acknowledge the importance of record keeping regardless of them not currently preparing the records. Jacqueline Mkonyi, (2013) stipulates that the development of SMEs facilitates distribution of economic activities within the economy and thus fosters equitable income distribution. Furthermore, SMEs technologies are easier to acquire, transfer and adopt.

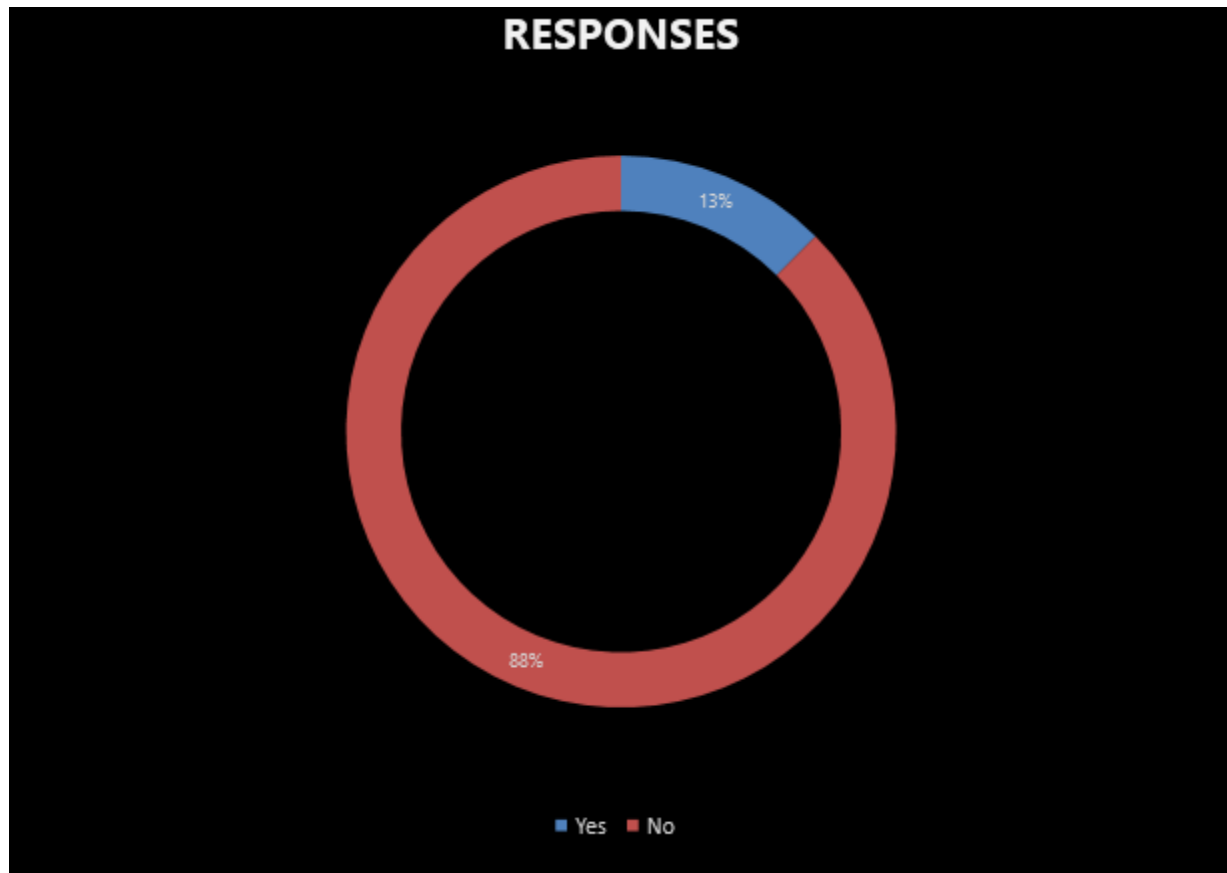
Figure. 4.5 Challenges of record keeping



Source: Survey data, 2021

One of the research questions was “What are the challenges SMEs face in maintaining proper financial records? The detail is statistically presented in the Figure 4.5 above showing results from the respondents. This led the researcher to deeply investigate the exact challenges SMEs face and go through each challenge as SME respondents explained that 13% are always swamped to an extent that they lack time to prepare records ,25% have inadequate knowledge and 62% find the process of maintaining record keeping as expensive as it might carry extra fees of contacting the services. Muchira B and Jagongo A, (2014) is supports that cost and time constraint is an obvious reason given by many SMEs owners but scholars have emphasized that they should keep accounting records in order to improve their operations

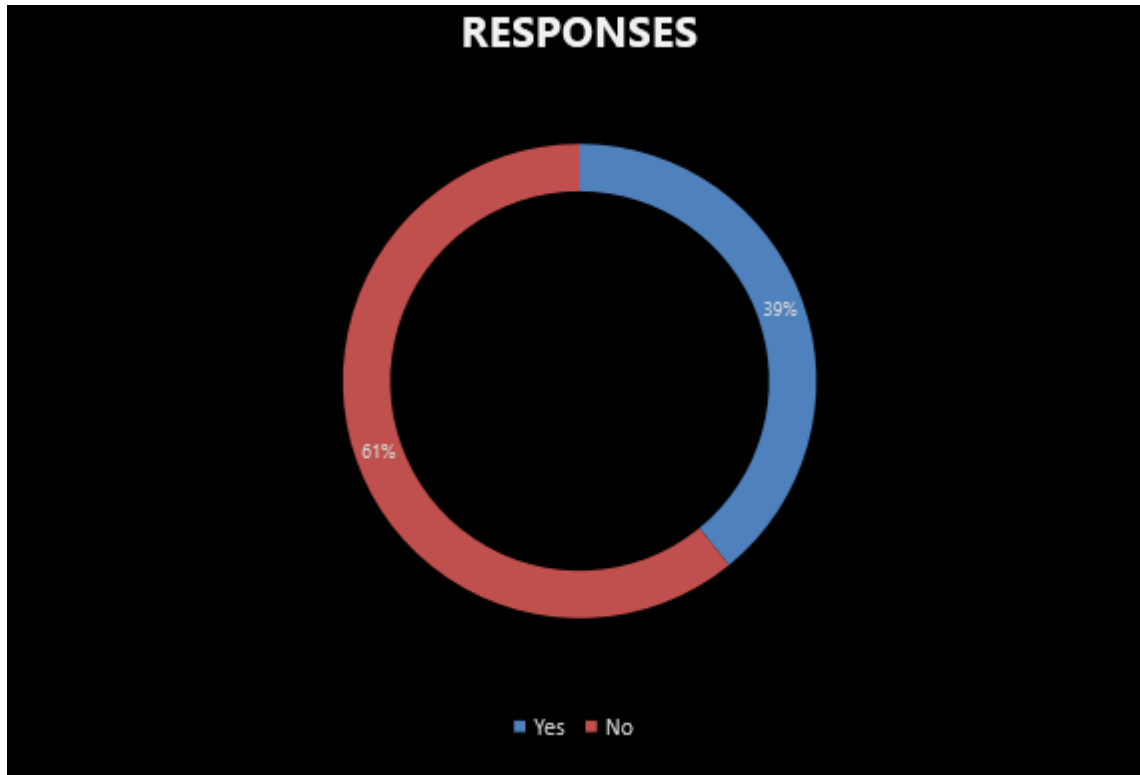
Figure. 4.6 Outsourcing bookkeeping services



Source: Survey data, 2021

Only 12% of the SME respondents hire professionals to provide bookkeeping services in their business and 88% do not. Most SMEs keep accounting records themselves because it is more convenient, secure and cheaper. However, Jacqueline Mkonyi, (2013) suggest that it is best for SMEs without adequate knowledge about bookkeeping to give that work to professionals who can produce good accounting records for the enterprise to improve its performance in general.

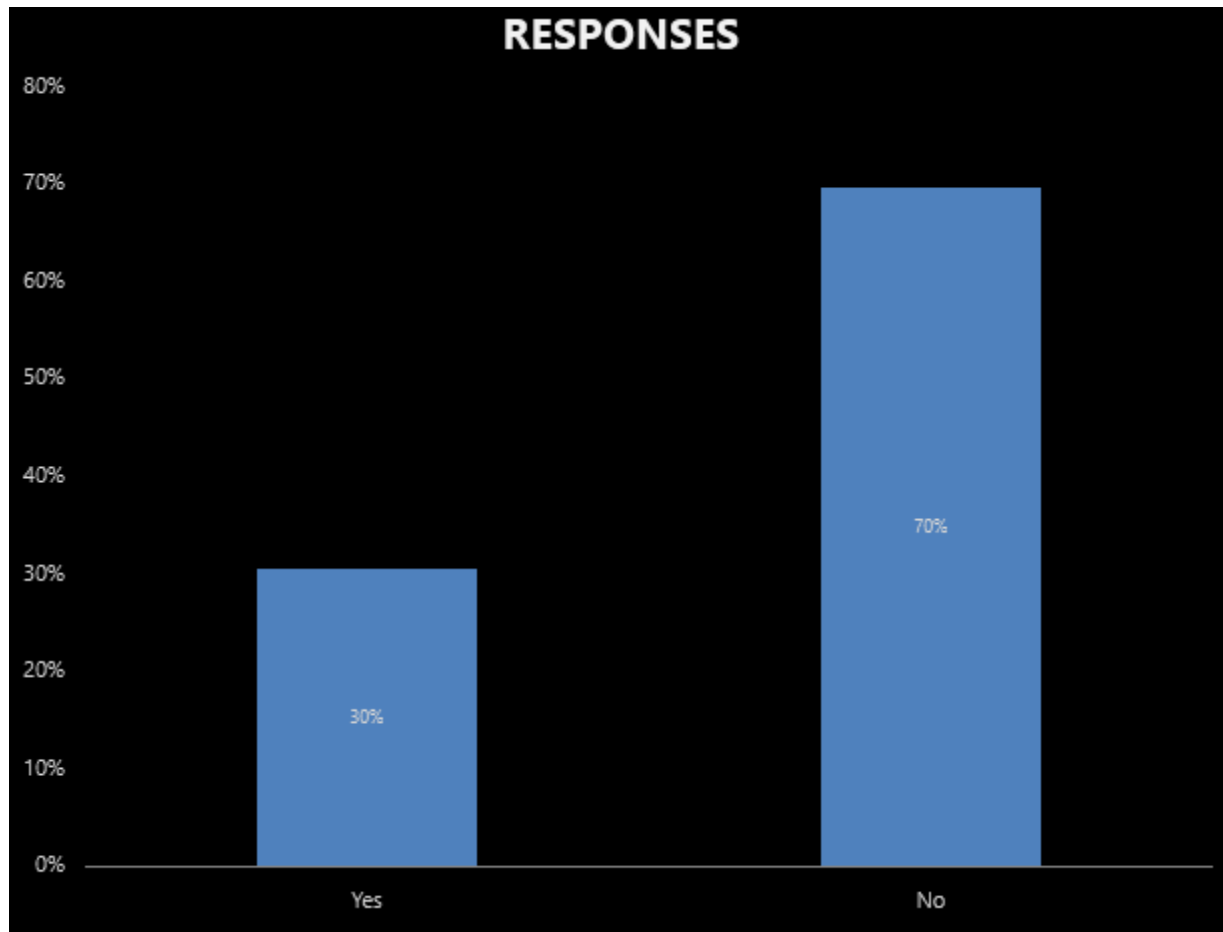
Figure. 4.7 Attendance of bookkeeping training



Source: Survey data, 2021

SME owners can get various information and knowledge from attending seminars. By asking this question, the researcher found out that most SMEs owners do not attend seminars on maintaining proper records for their businesses. Such trainings might assist owners in mitigating problems to do with record keeping especially to those who lack accounting knowledge. Only 39% of the responders have attended seminars and it assists them in maintaining proper accounting records which will improve the performance of SMEs.

Figure. 4.8 Tax registration and compliance

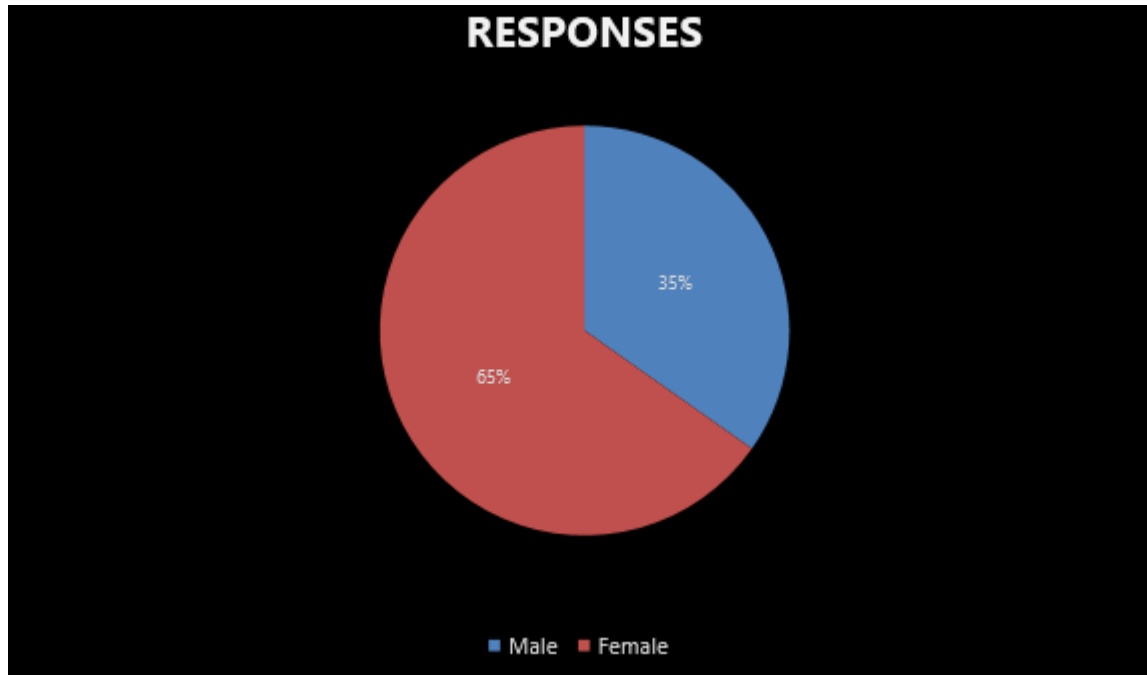


Source: Survey data, 2021

Of 24 respondents, 30% are registered and also tax compliant. 70% are neither registered nor tax compliant, the reason being that to be registered as business in Zimbabwe, proper accounting records is a requirement. Thus, a business can never be tax compliant when it does not have sound accounting records as tax is charged on profits. Profits are calculated using accounting information from revenue less expenses incurred for the period.

Maseko & Manyani, (2012) suggested that government should make it mandatory for small business owners to prepare financial statement for performance monitoring to be able to assess their performance regardless of tax assessment motive.

Figure. 4.9 Gender



Source: Survey data, 2021

From the above response, it is important to note that 65% of the respondents are female whilst the remaining 35% are male. From the researcher's assessment this could be a result of traditional gender roles where males have been in formal employment. With recent developments, women have also started contributing to households through small business ventures hence majority of respondents have been noted as women.

4.3 Summary

This chapter has presented major findings as revealed by respondents of this study. Findings were presented in accordance with the study's specific objectives which were

- To determine the challenges SMEs face in maintaining proper records.
- To assess SME entrepreneurs' awareness of the importance of proper record keeping and
- To determine the benefits of record keeping to the SMEs.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter will present the major findings of the research and will provide recommendations based on the study findings to both SMEs sector and future researchers on the impact of record keeping on the performance of SMEs.

5.1 Summary of Findings

Below are the main research findings summarized;

- About half of SMEs in Harare CBD do not keep accounting records for their businesses.
- Most SMEs in Harare CBD do not follow the double entry system which will lead to incomplete records which makes it difficult for the business access the performance of their businesses.
- SMEs owners are of the view that record keeping has an impact on the business overall performance.
- Key benefits of keeping proper accounting records are proper evaluation and comparison of financial activities and assist in mitigating short term problems like costing, expenditure and cash flow by availing information for monitoring and control.
- Record keeping is very important for more than half of SMEs although some find it very time consuming

- The main challenges that SMEs in Harare are facing are inadequate knowledge, lack of time to prepare and they find contracting out record keeping services very expensive.
- Most SMEs in Harare CBD have never tried contracting out book keeping services in order to keep proper accounting records.
- Most SMEs in Harare CBD have not yet attended book keeping seminars/training hence only a few that have attended and managed to get assistance in maintaining proper accounting records
- More than half of the SMEs in Harare CBD are not registered suppliers and are not tax compliant.
- The study shows that most SMEs owners are women
- The researcher found out that accounting records have an impact on the performance of SMEs because most of the SMEs do not have filing systems which can be used in the assessment of business'present and future performance.

5.2 Conclusions

From the findings, the researcher observed that most SMEs in Harare CBD are proprietors who know the importance of record keeping on the performance of their businesses but have inadequate knowledge and find book keeping, time consuming. The researcher concludes that most SMEs owners have inadequate knowledge in the field of bookkeeping and find it very costly to contract out book keeping services hence this will not allow them to be registered to tax authority as proper record keeping is one of the main requirements of being a registered supply in Zimbabwe. The researcher concluded also that the majority of the SMEs do not follow the double entry system and this will result in incomplete records and performance of the business will be difficult to track. The study concluded that lack of proper record keeping by SMEs in Zimbabwe is hindering the performance of their businesses', thus, the lack of business growth and continuity in many SMEs. Business owners running SMEs lack the accounting expertise and management skills. They also take the use of accounting practices for granted or as an expense.

5.3 Recommendations

It is recommended that owners of SMEs in Harare CBD should seek the attainment of basic book keeping skills through courses offered by various tertiary institutions in order to enhance

their knowledge base and to be well informed of the importance of recording financial information to improve their entities performance. SMEs who can manage provided that their income can cover the costs, should consult and or employ professional accounting officers to assist in the preparation of accounting records and use. This aid to put a stop to the challenge of incomplete recording of transactions and enhance the completeness and adequacy of accounting records for their objective purposes such as tax purposes and aiding sound managerial decisions. The study recommends that further research be carried out on the impact of record keeping on the performance of SMEs in all sectors of the economy since the researcher supports the view that record-keeping has an impact on the performance of SMEs in Harare CBD. The study recommends there is a need for SME owners 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.

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APPENDIX I
QUESTIONNAIRE

My name is Rutendo Abigail Tazviwana and I am a fourth-year student at Bindura University doing a Bachelor of Accountancy Honours degree. I am doing a research in partial fulfilment of my degree programme and the research topic reads: The impact of proper record keeping on the performance of SMEs in Harare CBD. I therefore kindly ask you to assist me in my studies by completing this questionnaire. All the information given is strictly confidential and will be used for research purposes only. Names, employee codes or job numbers are not required.

Instructions

1. May you please attempt all the questions?
2. Please place a tick (✓) in the box of your preferred answer and or a narrative answer in the space provided below each question

SECTION A: RECORD KEEPING

1. Does your business have accounting records?

- Yes

- No

2. Does your business follow the double entry system?

- Yes

- No

3. Do you think record keeping can affect your business in any way?

- Yes

- No

- Lack of time to prepare

SECTION B: BENEFITS AND IMPORTANCE OF RECORD KEEPING

4. What are the benefits of record keeping to your enterprise?

- Access to loans

- Proper evaluation and comparison of financial activities

- Assist in short term problems like costing, expenditure and cash flow by availing information for monitoring and control

- All the above

5. How important is record keeping to your enterprise?

- Very important
- For proper evaluation and comparison of financial activities
- Important
- Not important

SECTION C: CHALLENGES FACED IN RECORD KEEPING AND STEPS TAKEN TO REDUCE CHALLENGES

6. What challenges are you facing in record keeping?

- Inadequate knowledge
- Lack of time to prepare records
- Expensive costs of contracting record keeping services

7. Have you contracted out booking services to solve any of the challenges in maintaining proper record keeping ?

- Yes
- No

8. Have you ever attended any book keeping seminar/training before and have these helped in solving challenges in maintaining proper accounting records for your enterprise?

Yes

No

9. Are you a registered supplier and are you tax compliant?

Yes

No

SECTION D: BACKGROUND INFORMATION FOR RESPONDENTS

10. Gender

Male

Female

INTERVIEW GUIDE

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.

Part A: Awareness of Accounting Records and Financial Procedures

1. Do you normally Record all Transactions in business?
2. How often do you Keep Accounting Records?
3. Do you have any Educational Background in Record Keeping?
4. Do you keep Accounting Records by yourself or you Hire Professionals?

Part B: Challenges in maintaining Accounting records

5. What Challenges are you facing in maintaining accounting records?
6. What steps have you taken to reduce the challenges?
7. Do you have attended current entrepreneurship seminar?

If yes, how many.....

Part C: Importance and benefits of record keeping

8. How important is record keeping to your business?
9. What are the benefits of maintaining accounting records?
10. What can be done to improve record keeping in SMEs?