**Bindura University of Science Education**

**Faculty of Commerce**



**DEPARTMENT OF ACCOUNTANCY**

**TOPIC:** AN EVALUATION OF ACCOUNTING PROCEDURES BY SMES AND IMPACT TOWARDS PERFOMANCE. CASE STUDY BINDURA DISTRICT

BY

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A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE **BACHELORS OF ACCOUNTANCY HOUNORS DEGREE** OF BINDURA UNIVERSITY OF SCIENCE EDUCATION. FACULTY OF COMMERCE.

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# DEDICATION

In appreciation of the love, contribution and support to this work, I dedicate the research to my mother and family. I appreciate the Higherlife Foundation's moral and financial support of my academic endeavors and the broader academic community. This project wouldn't have been successful without your assistance, both directly and indirectly.

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# ABSTRACT

*The overall objective of this research study was to investigate on how Zimbabwean SMEs in Bindura District are practicing their accounting as well as technology adopted, so as to evaluate the effectiveness of proper accounting in small business’s performance. The research used both questionnaires and interviews to gather primary information from the selected individuals who were responsible in accounting practices of the SMEs, these were the owners, managers, accountants and others who handle the accounting of those SMEs. Over 70 Questionnaires were distributed to 60 SMEs owners out of which 58 questionnaires were answered and returned by participants and also analysed. The key findings of this research paper showed that owners of smaller businesses were less aware of the value derived from maintaining accurate accounting records. Majority of retail SMEs in Bindura did not have proper accounting systems, they only recorded transactions which they regarded as important and forgetting others. Lack of accounting skills and failure in adaption to technology (i.e. use of accounting software) were major factors to improper accounting. The literature analysis also revealed a significant connection between accounting records and performance. Due to this lack of adequate accounting information utilization, the study concluded that Zimbabwean retail SMEs failed to develop their market share or maintain business operations over the long term.*

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**INTRODUCTION**

## Introduction

The background information of the research study, the problem statements, the study's purpose and objectives, the research questions, the statement of the hypothesis, the significance of the study, its delimitations and limitations, the definition of terms, and finally a summary of the chapter are all provided in this chapter.

## Background of the Study

In many countries in the world, Small and Medium Enterprises **(SMEs)** play a key and crucial role in economic development of the country. The growth of SMEs into large corporations can come as a solution in reduction of poverty and unemployment in Zimbabwe, therefor the improvements in accounting practises and procedures adopted by SMEs should also be considered as crucial to their growth. In running a business accounting plays a vital role as it helps in tracking of business transactions, cost management and to ensure statutory compliance, this will enhance efficiency in decision making and enables development of small and medium businesses.

Accounting systems gives a direction to the managers who are involved in directing SMEs, they provide information for financial performance measurement, and this is the backbone for the growth of any business entity despite its size. In Zimbabwe, it’s a requirement that all companies must keep their books of accounts properly as a requirement by Companies and Other Business Entities Act [Chapter 24:31]. From late 1990s to this current period, there is a significant contribution to employment creation as well as economic development in Zimbabwe by small and medium enterprises. Research Council of Zimbabwe (RCZ), a national survey report (2019) states that SMEs provides an estimate of about over 60% of productive workforce as well as over 50% of Zimbabwe’s Gross Domestic Product (GDP). According to a report by ACCA’s professional insight (24 November 2021) state that, about 90% of business is from SMEs and over 50% of employment globally also comes from small to medium firms, global environment and social problems can only be addressed appropriately when fully involving SMEs.

The previous majority research on the databases concerning SMEs has looked at obstacles in performance and growth of small and medium entities. Zimbabwean small to medium sized enterprises are struggling for development and survival due to a variety of challenges and one of the major challenge is failing to do proper accounting especially in the retail sector. SMEs management failing in the record keeping of business transactions which is an obstacle to the effectiveness of the business records for the SMEs to make better decisions towards growth and their performance. Overly, this is leading to only few small businesses growing to large organisations and the rest failing to create wealth which can be passed on to the following generations. This research will analyse and evaluate accounting practices and the impact towards the growth of the Zimbabwean economy focusing mainly on SMEs in retail sector of Bindura and give some recommendations on way that can possibly help small and medium business to improve and grow to large firms.

## Problem Statements

Lack of accounting capabilities and proper accounting practices from managerial of Zimbabwe small to medium enterprises leading them in closure and struggling in growth and developing to large firms. Focusing mainly in Bindura district, this study aim to evaluate the accounting procedures that Retail SMEs undertake and identify the accounting issues that are leading to small firms struggling to develop. SMEs can struggle internally carrying out accounting procedures because of inadequate skills and knowledge in accounting field (Marriott and Marriot, 2000) Small retail shop sometimes use professional services from external accountants to do their financial reporting, however they fail to understand the information from the report and not surely convinced with the usefulness of these reports in decision making

## Research Objectives

**1.** The main aim of this research is:

* To assess the adoption of modern technology in accounting by SMEs.
* To look at the significance of proper record keeping of books of accounts in retail sector by Small to medium sized businesses.
* To analyze the financial reporting procedures adopted by Small and Medium Enterprises.
* To assess the budgeting practices adopted by small retail businesses in Bindura.

**2.** To understand the importance of accounting in developing SMEs businesses into large companies.

**3.** To examine the challenges and effects of improper adoption of accounting procedures in business performance.

## Research Questions

* What is the extent to which small and medium size businesses create a more sustainable world?
* Why is it important to keep proper records of accounts by Small to Medium Enterprises?
* What is the extent to which accounting contribute on the performance of the small firms?
* What are the main challenges and effects of improper adoption of accounting in retail SMEs of Bindura District?

## Statement of the hypothesis

* Accounting procedures have a great significant influence on the development of Small and Medium Enterprises.

## Significance of the study

To discover possible areas where small and medium retails enterprises are lacking in terms of adopting proper accounting practices. The idea of this research is to help SMEs in Zimbabwe through highlighting the importance of “keeping the house in order” that is doing accounting properly making sure every transaction is accounted for. These importance will help SMEs to produce accurate reports in time so as to make economic decision towards the success of their operations for example a firm can make a decision on how to improve the business profitability and also in terms of financing that’s how can the firm access funds such as loans from banks. It is also within the best interest of the Zimbabwean economy for these SMEs to perform well as they help in provision of taxes to the government of Zimbabwe.

## Delimitations of the study

This research will be restricted to SMEs which have less than 40 employees within the retail sector in Bindura District (mainly Bindura Central Business District and other parts of the District). The research study will aim to evaluate the accounting procedures adopted by SMEs and not forgetting the main effects accompanied by improper adoption of these procedures when it comes to the performance of Small to Medium Enterprises. A sample of retail SMEs in Bindura District is selected meaning the research will not be able to cover and assess all the business sectors and all the SMEs in Zimbabwe.

## Limitations of the study

* Time – the time frame, only one academic year in which the research study is expected to be finished.
* Confidentiality of some information from other firms that is important to come up with sufficient and precise conclusions of the study.

## Definition of terms

### Small and Medium Enterprises (SMEs)

A number of definitions regarding SMEs have been put forward by different authors basing on variety factors. Unfortunately, it proves to be difficult to come up with one definition which covers all the aspects and dimensions of Small to Medium Enterprises globally, small and medium enterprises are those firms which fall under a certain level when it comes to revenues generated, assets, number of people employed and each country have its own definition of SMEs (Wach and Tarus, 2021). The goal of each and every country when defining an SME is to be able to differentiate small and medium businesses from large organisations. ZIMRA identify SMEs as organisations that have less than 40 employees with annual turnover and assets of less than $2 million, by Financial Tribune (2018).

### Accounting procedures

Accounting forms an important part of the management process in any organisation, accounting procedures are standardized practises that are used to perform functions within accounting department for example recording of transactions, financial reporting, budgeting and calculating depreciation for company assets. These procedures provides information which is essential in terms of planning, evaluating performance, controlling and making informed decisions of the business (Mahfar and Omar, 2004). Accounting information is provided by accounting systems which comprises the procedures necessary for recording transactions of the business, valuation of assets and liabilities as well as recording them in the books and this will give information which is reliable to use when preparing the financial statements (Hussein, 1983). Without an accounting system, any business will find it difficult to determine how the business is performing whether it is making profit or loss.

## Chapter Summary

This chapter's primary goal was to provide an overview of the research and describe its historical context. Along with identifying the issues that drove the researcher to investigate this subject, they continued with the objectives of the research and research questions. It explains the motivations behind the research study and its importance. Lastly the chapter emphasize on the limits and constraints of the investigation.

# 

**LITERATURE REVIEW**

## Introduction

The Chapter provides the review of the literature on SMEs in general. It goes on further to review the general literature on accounting procedures giving the use of accounting information on improvement or development of business performance in small and medium businesses.

## Small and Medium-sized Enterprises Background

### Definition of SMEs

Micro firms, small businesses and medium businesses employs fever than 250 permanent workers and their annual revenue is less than 50 million euros by The European Commission (2008:7). The government of India states that small and medium businesses have employees not more than 499 and earning annual revenue less than Rs 100 million (Pachouri and Sharma, 2016). Storey (1994) highlighted that there is no one acceptable definition that can come out with all the characteristics of SMEs in the world.

Government of Zimbabwe defined small firms as organizations which employ workers that are below 50 employees and the medium companies employing less than 100 employees and this is according to the Ministry of SMEs and Cooperate Development (2014). SMEs are independent legal entities that have up to 100 permanent workers which earns revenue of less than US$ 1 million as reported by (Mabenge et al., 2020). Micro-enterprises are those businesses which are not formalized through a legal framework, for example registration under the Companies Act or registration under a Partnership Agreement, according to the SMME policy (2002: 6).

Small and microbusinesses are characterized as businesses operated by a sole proprietor who hires one to twenty workers as their company expands. Small businesses may have up to 10 workers or members of a family who are employees (Hussain 2000:2). Since there is no single, universal definition of a small or medium-sized business, different definitions of SMEs are used in different economies, typically based on the number of employees, assets, and annual revenue. As a result, these definitions aim to distinguish between large corporations and small and medium-sized enterprises by placing restrictions on SMEs.

### Small to Medium-Sized Enterprises’ importance

Size and significance of an SME sector differs from one country to the next, just like it does for every other element of the economy. Over the past few decades, industrial countries have begun to recognize this function more and more, whilst developing countries have done so (Bandi. 2010). Almost every economy in the world, but particularly those in emerging nations, depends on SMEs.

SME-related topics are quite popular in developing nations since their development could prove to be a successful anti-poverty initiative. Due to high rate of unemployment in Zimbabwe, improve in performance of small and medium businesses can help in resolving high unemployment (Maseko and Manyani, 2011. Also that significant job loss has made room for the SMEs' expansion and domination in Zimbabwe. The bulk of Zimbabweans now found their ways to survive through SMEs, which have turned into a safety net (Nyathi et al, 2018). Compared to big size enterprises, SMEs in contribute more to employment and economic growth.

Since they make up approximately 90% of businesses, employ about 50% of all workers globally, and are expected to create 600 million jobs by 2030, SMEs are regarded as the backbone of the global economy (Batrancea et al, 2022). For all nations in the world, the economic activities of SMEs serve as growth engines. The commercial activity of SMEs has significantly increased during the previous 10 years in the European Union, according to Batrancea et al. (2022). For instance, there were over 25 million SMEs in the 28 member states of the EU in 2018, and 93% of them were micro-SMEs. SMEs were responsible for 60% of the rise in value added across all member states in 2019.

Small and medium enterprises (SMEs) developed as a backbone of India's economy, serving as the primary employer (Pachouri and Sharma, 2016). The largest business sector in Indonesia in 2015 was SMEs. Moreover, SMEs generated 60.34 percent of the entire national GDP in the same year (Mutmainah, 2016). When the economic crisis struck Indonesia in the late 1990s, this sector of the economy had already demonstrated its capacity to endure and boost economic performance. This was due to SMEs' ability to adapt and thrive despite using their own funds, paying high interest rates, and receiving minimal support from the government.

## Accounting Procedures Background and Importance

Accountants’ record and present financial information for all companies in a similar way using Generally Accepted accounting Principles and report the results in financial statements which will summarize the company’s transactions over a certain period. According to Kuttner et al. (2022), accounting systems included a collection of books and recording techniques. There are so many changes in business environment which are forcing organizations to generate, process and deliver information of high quality which enables the management to come up with better decision making. According to the European Commission (European Commission, 2008), accounting practices are essential for the effective management of any organization whether large or small, particularly when detecting fraud committed in the organization and that’s why these procedures capture the attention of a majority of SMEs' owners. This is accompanied by proper documentation of the firm's financial reports and records transactions (Aruwa, 2005).

For the growth and development of any business, it is crucial to make quality decisions which enhance the performance of entity meaning every transaction should be accounted for and properly recorded. Wach and Tarus (2021) examined accounting system as field that deals with documenting, analysing and predicting the income and value of the businesses and other organizations. They also highlights that accounting provides protection and safeguarding of company assets. Financial data of the highest quality that is timely, relevant, and easy to use must be used to support business decisions.

Numerous studies demonstrate that accounting procedures have been used for many years, and their primary justification for being used was the requirement to measure an organization's performance and make management decisions. According to Bandi (2012) Individual Muslims in general, and businesspeople in particular, were showing a concern about the creation and application of accounting books, accounting systems, and recording procedures.

## Relevance Theories of the study

### Record Continuum Theory

This theory gives the theoretical foundation for maintaining business records, according to Australia Standard, which noted that the record continuum theory is originally the perfectly consistent and coherent of the procedures for management in the subject area with a view to efficiency improvement as well as satisfying users in the specific area. According to Tanwongsval (2008), who thought the theory was highly significant, continuum theory aids in giving a very clear viewpoint on the understand-ability as well as interpretation of practices offered by the production cycle.

Peacock (1988) found that many businesses have failed as a result of inefficient, unethical accounting methods. Given the importance of keeping solid records within the organization, one may naturally wonder why some companies didn't thrive. Given that maintaining adequate and accurate records of a company's actions is a difficult subject, the record continuum theory is crucial because it sheds light on how recordkeeping might improve a company's ability to make a profit.

### Agency Theory

Agency theory governs the approach which focuses on family business professionalization meaning the owners have to let professionals run the business on their behalf and that also gives relevance of the agency theory to this research study. Theory of agency is associated with costs, Wach and Tarus (2021) refers information as a commodity which attracts costs especially when there is result-based contract between the agent and the principal of the business. Bandi (2012) found that increase in agency costs can be triggered by agency conflict that arise between managers and owner of a company.

### Resource-based Theory (RBT)

One of the relevant theory upon this study is Resource Based Theory since the three aspects will be examine as moderating effect are positively related to accountant and Small to Medium-sized businesses. According to Marriott et al (2008), Resource-based Theory is useful according to many studies when it comes to accounting outsourcing, in an SME environment RBT gives a constructive basis which helps a company on determining factors to consider when the firm wants to outsource an accounting task. The factors are as follows

1. **Manager/Owner knowledge**

Nsoke et al., (2021) highlights that the knowledge of a manager and owner of the company partially mediate the influence on a business performance as well as accountant’s technical competence of SME’s performance.

1. **Technical Competence**

According to Caldeira and Ward (2003), another aim of Resource-based Theory (RBT) is to help either the manager or the owner of a firm to realize why technical competences can be seen as a company’s most important asset and to understand the use of these assets to enhance business performance.

1. **Firms Size**

Marriott et al (2008) state that, small firms really need accounting services to improve their competitiveness while business market extension as suggested by RBT.

## Common Accounting Practices

Many empirical research studies found that small businesses use business advisory and support services from professional accountant (Scott and Irwin, 2009). The ability of a firm to have financial stability is regarded as one of the most crucial elements in terms of growth and success determination. Whether it about fulfilling payment deadlines, controlling the cash flow, keeping a watch of invoicing or managing the debt collection operations, financial management has always been an essential element for a thriving firm. Regardless of the nature, scale, and needs of your firm, financial management nevertheless serves a consistent role.

### Accounting Recording Method (Double Entry Concept)

Every transaction has two entries meaning every debit entry has a corresponding credit entry because the system operates on a double entry principle. Alternatively, one's acts on the debit side must be supported by their actions also on credit side. Every transaction is recorded twice in a ledger account, in accordance with Zhou (2010) notion that every transaction has two consequences on the firm.

The summed balances are updated periodically, typically monthly. If the entries are made accurately and complete in the ledgers from their source documents, the trial balance have to balance. According to Zhou (2010), the double entry technique is the most advised method since it is more precise than single entry. The proper recording of transactions is significantly more controlled by the double-entry bookkeeping method. Double-entry accounting, According to Mabenge et al. (2020), the double entry system automatically incorporates an internal cross-checking procedure to the financial records so as to avoid errors going unnoticed.

### Financial Records Kept and books of accounts

The financial records of a firm are maintained in line with the applicable legislation, and their usage according to Zhou (2010). As previous studies explain the relationship between business performance and record keeping, Hussein (1983) highlights that keeping accounting records only does not show that a sound accounting system exist but also the ability of the management or owners to use those records for both internal and external decision making. For a proper system a company should have the following

1. Purchases day book (Purchases Journal)
2. Sales Journal
3. Cash Book (Receipts and Payments)
4. Bank account for bank transactions
5. Petty Cash Book
6. General Journal
7. Nominal Ledger
8. Debtors Ledger
9. Creditors Ledger

When accounting information of a company is preserved, decision-making will be of higher quality. Batrancea et al., (2022) highlights that the ability of an SME organization to adapt to a changing operating environment using of previous information and current knowledge on their financial status is an important factor also when it comes to their survival.

### Financial Reporting

Olufemi (2021) asserts that the primary goal behind financial reporting is to make a provision of information that may be used to evaluate a company's performance and future prospects. Inaccurate and deceptive information in financial reporting of low quality can lead to losses and erode public trust in corporate governance practices. The management of a company gathers information from a variety of sources, including financial documents, to make informed decisions. As a result, financial statements serve as a formal record of a person, business, or other entity's financial activity. The information in this report is laid out clearly and in a systematic manner.

A company can draw financial statements using its own format if it is for internal use by the management since there is no statutory concerning about financial statements for internal purposes. According to Ismail and Mat Zin (2009), Small to Medium Enterprises must generate their business analyses frequently from the following basic accounting reports

* Income Statement or Profit or Loss
* Statement of Financial Position
* Statement of Cash flow
* Bank Reconciliation Statement
* Aging Schedule
* Ratio Analyses

Due to the fact that financial indicators are also based on the idea of profitability, which is one of the major measurable goals of a firm, they are traditionally the most extensively used accounting tool in different organizations (Kaplan and Atkinson, 1998). According to Murphy et al. (1996), among the few financial ratios used in this context are return on assets, return on sale, net profit margin, return on investment, and changes in net income. Financial performance is also evaluated using a variety of financial measures, such as profitability, sales revenue, growth, and efficiency.

### Budgeting Practices

Budgeting, according to Garisson et al. (2003), is a series of steps for predicting a company's future financial needs. A budget is a thorough plan that outlines how assets will be obtained and utilized over a predetermined time frame. Management provides details on the anticipated levels of revenues, cash flows, and costs during the budgeting process. The majority of prior research has focused on large corporations with publicly listed stock in developed economies and their budgeting processes. However small and medium enterprises also need to do budgeting for their future operations to be successful.

The formal process of budgeting in SME's was described by Wijewardena and DeZoysa (2001) as being divided into a formal process of budget planning and a formal process of budgetary control. They further split the companies into three different categories. The first category includes companies that do not use any form of written budget. The second group employs a less detailed planning strategy by producing basic budgets for fewer operating areas. The third type of business uses comprehensive budgeting for a range of operational areas.

## Accounting Concepts

### Cash Basis Concept

This is an accounting concept which requires the recognition of income or expenses only when cash is received or paid. Cash basis refers to how expenses and profits are recorded. According to Maseko and Manyani (2011), costs and profits are recorded at the same level as the cash they were received or paid for, meaning that a transaction can only be recognized by an entity when money is either paid by the company or received. The principal book in this system is the cash book, often known as the receipts and payment accounts. In contemporary enterprises, a point-of-sale, sale, or cash register machine is utilized, particularly in retail stores. Since cash basis accounting is ease to use, it may be suitable accounting practice to employ when it comes to small or micro organizations and that is according to European Commission (2008). A point-of-sale or cash register machine is employed in modern enterprises, particularly in retail stores. However this concept can paint a picture of the company health and growth which is completely inaccurate and mislead in decision making for example a business can record last period’s revenues and think they made profits during operations of the current period.

### Accrual Concept

Under the accrual concept income and revenues are recognized when a transaction occurred even if the company with an expectation of cash flows in the future period. As comparison to cash basis accounting, accrual concept offers a more precise and comprehensive picture of the business's financial status, performance, and also changes to its financial position. According to Zhou (2010), the accrual idea asserts that the receiving of cash is not always related with the amount of revenue generated. Regardless of cash flows when actual cash is being received or actual payments made, revenue and costs have to be recorded in the income statement in the period in which the costs have been occurred and revenue earned. The matching principle must be used since it ensures that revenues and expenses are equal in order to accurately depict an organization's financial success. The implication of this is that any receipts or payments made during the current financial period and which have been occurred in the prior period will not have an impact on the profit for that year (Maseko et al., 2011).

## Technology in Accounting

An accounting information system (AIS), which combines computer hardware and software, is used to gather and handle transaction information to create accounting data (Olufemi et al, 2021). The development of timely, high-quality accounting data as well as the appropriate transmission of that information to those making decisions depend on the accounting software element of a digitized accounting information system in use.

Nowadays there are accounting software programs which are easy to use and which also have positive impact on SMEs business performance (Ismail and Mat Zin, 2009). Over the past years, technology has had a positive impact on the accounting industry. Computerized and online accounting software now provide with many different things to accounting practices which brings a lot of efficiency in many organizations thus most accounting packages gives basic modules which handle general ledger, sales journals, accounts receivables, accounts payables, and inventory functions.

Through the use of this accounting system, SME’s managers or accountants can put ICT-based accounting information systems (AIS) into effect without utilizing any paper. ICT is used to record, categorize, and summarize organizational financial transactions. The accounting automation could improve efficiency in accounting environment and this will also enhance employee’s productivity according to (Anderson, 2016).

Technology improves accuracy, optimizes the flow of the work and to make it even better it automates manual tasks. E-accounting enables SMEs to maintain their financial information and accounting programs like Tally, QuickBooks, Peach Tree, and others in a secure environment that allows key organizational staff to access whenever and wherever they choose through the use of cloud technology. Accounting service businesses have to pay for workers' initial training and annual training for accounting software (Olufemi et al, 2021).

Agyekum and Singh (2018) make the argument that alterations in accounting procedures brought on by the adoption of new technology will boost accounting's importance to an organization's legitimacy and performance. The majority of research on small firms, according to Fordham and Hamilton (2019), assumes that these enterprises have largely adopted computerized bookkeeping software. They studied 1,625 U.S. small firms, finding that 64% of their sample did indeed use computer-based accounting software. Additionally, using cloud computing technology is adaptable and allows a business to access your information from anywhere (Allahverdi, 2017).

## Accounting practices in SMEs

### Importance of Accounting

The financial background of a company is one of the most crucial elements in determining its growth and success. Usually a company needs to know exactly its expenses, how much does it make and spend each operating period and where exactly the profits are coming from and this is according to Nsoke et al., (2021). The goal of financial management can vary depending on the type, scale, and needs of your firm, but the process remains the same.

SME owners or managers requires accounting information that is timely, accurate and complete to make well informed decisions which enhance their survival. In many majority jurisdiction, SMEs are required by the law to prepare financial statements and, frequently make them audited (Maseko and Manyani, 2011), Zimbabwean businesses also need to keep properly their books of accounts in compliance with rules set in the Companies and Other Business Entities Act [Chapter 24:31].

Strategies can also differentiate small firms from large firms according to a number of previous studies. While large firms’ main aim is wealth maximization to increase the value of shareholders, Scase and Goffee (1980) found that usually SMEs place value on survival of the firm, autonomy, financial growth and stability. Many small firms experience difficulties with cash flow, which is made worse by bad financial management.

Daferighe (2019) established a positive relationship between accounting practices and Small and Medium Business’s performance in Akwa Ibom State, Nigeria. Although it is acknowledged that management strategies that work for big companies may not be applicable for small firms, some of the fundamental literacy in financial and record-keeping are still crucial for the SMEs’ survival. Adoption of the truthful and fair view principle is very important to ensure that accounting information generated is presenting fairly the position of the company. This is important since it has an impact on how well a firm performs. If accounting data is accurate, it will reveal how to strategize to enhance business performance or, in the event that the business is operating well, how to keep using the same techniques.

Companies have to prepare and then submit tax returns to the Zimbabwe Revenue Authority (ZIMRA) based on their financial statements in accordance with different tax laws (Paradza, 2003). Accounting practices are the source of information to Small and Medium-sized Enterprises managers and owners operating in any kind of business industry which they use to measure financial performance in their operations by Wach and Tarus (2021).

Small businesses in Africa fail as a result of managerial skill deficiencies, improper recording practices, and poor financial reporting. Given the significance of these issues, one might wonder why operators are unable to keep books of account in the relevant domain. Stokes and Wilson (2006) assert that social structures, interpersonal interactions, and the amount of resources at hand make small business management distinct from management in bigger firms in a number of ways.

It is important for accounting systems to supply information which is complete and relevant so as to come up with reliable financial reports, this will help SMEs in identifying areas which are underperforming. Accounting is essential to the success of any firm, especially small ones, as highlighted by Byrd et al. (2009). Any changes to your company's assets, liabilities, revenue, expenses, and equity must be correctly reflected in the accounting records. Maseko & Manyani (2011) contend that the standard of the records a company keeps has an impact on its capacity to make sound decisions.

Managers and owners of the companies do require financial information to enable them to assess whether their ability to earn future profits or take a certain action has been compromised. Lack of management abilities and business knowledge which also includes accounting skills, according to Nsoke et al. (2021) these are serious obstacles to the expansion of the SME. Numerous studies carried out in Zimbabwe indicate that business owners in the SME sector give little weight to training and typically decline to participate in programs that would require them to pay even a small portion of their entire training expenses.

The use of accounting practices and procedures improperly, poorly maintained records, and inaccurate accounting data can cause SMEs to inaccurately assess their company’s financial situation and leading them to make poor financial decisions (Tanwongsval et al., 2008). SMEs are failing to access debt finance because they lack proper accounting records which makes it difficult to get loans from the banks.

Holmes and Nicholls (1998) draw the conclusion that a variety of operational environment characteristics, such as the size of the business, age and industrial grouping, can influence the capacity of accounting procedures followed by SMEs. Furthermore, SMEs owners have reported that they would rather put their focus mainly on producing and selling their products and services than on maintaining accounting records because they believe that accounting practices are time consuming and also involves too much bureaucracy. However regulations are the primary reason SMEs create financial statements (Maseko and Manyani (2011)). The study's overall findings, according to Karunananda et al. (2011), indicate that Sri Lankan SMEs who followed good financial processes performed better than those that did not.

### International Financial Reporting Standard (IFRS) for SMEs.

International Financial Reporting Standard (IFRS) established international standards for financial reporting created exclusively for SMEs were published by the ISAB on July 9, 2009. The IFRS foundation estimates that SMEs account for more than 95% from all companies. Since the early 1970s, companies whose securities have traded in public capital markets have had specific requirements, which led to the development of IFRS. The amount of disclosures, the quantity of implementation guidance, and the variety of problems covered by IFRS (Institute of Chartered Accounting of Zimbabwe) have all been impacted by this (ICAZ, 2010)..

Since the majority of businesses in Europe are unlisted SMEs that primarily adhere to national standards, the requirement for full IFRSs for over 8,000 listed companies does not provide a sufficient level of international comparability. According to Jermakowicz and Epstein (2010), the EU today uses 55 different SME GAAPs. The potential applicability of IFRS for SMEs in the EU is examined in this context.

The EU held a consultation in 2010 to gather opinions from various nations regarding their stance on the subject of the use of IFRS for SMEs. More than 200 responses were submitted, with an average of less than 10 per nation (with the exception of Germany, 56) (EC 2010). The findings showed that sentiments varied between nations and within subgroups of respondents within a single nation. The replying preparers oppose the IFRS for SMEs, although the standard is well-liked by the consumers (EC, 2010)

Chimanikire (2011) recommends amending the law to enable the successful application of the new standard in his research. Maseko and Manyani (2011) believed that the new standard was simply meant to address issues with SMEs' financial reporting and that keeping records would still be challenging. Poor record keeping practices will hinder measurement of performance for these firms and subsequent reporting, which the new standard seeks to address. Record-keeping practices will eventually increase the possibility that some SMEs will implement the IFRS for SMEs.

## Challenges that restricts the use of accounting procedures by SMEs

### Accounting knowledge and skills

Most entrepreneurs, according to Abor and Quartey (2010:224), does not have the financial muscle to pay for high expense which comes with training and advising services, while others do not recognize the need of improvement in their abilities. There are issues since managers must perform with a broad knowledge base rather than specializing in any one field. Expertise in a certain functional area does not imply managerial aptitude. Management expertise is frequently a talent acquired independently of functional understanding. Even the best salesperson might not be interested in or capable of managing a company that demands expertise in all facets of business operations, including financial management. It should be obvious for the companies that they need accounting knowledge or guidance from accountants in order to set up books and maintain records that result in the financial statements required to manage a business.

### Financial Constraints

Financial resources are required for any business activity in order for it to operate properly and in terms of its development. Due to technology advancement and improvements in nowadays accounting systems and software which comes with much efficiency, SMEs find it difficult to implement proper accounting systems as well as to afford outsourcing professional services. Most small and medium businesses are managed and controlled by their owner who are responsible for the business operations such as accounting, marketing and other operations, However Carter et al., (2000:297) highlights that these owner lack adequate skills which are required in those areas and that is because they do not have resources enough to employ managers and accountants to reinforce these areas.

According to Storey (1994:218) argues that most small and medium organizations due to a variety of reasons that includes access to finance, will inhibit their growth and they will remain as sole traders which are the least in terms of keeping accounting records. Abor and Quartey (2010) also found that access to finance and higher wages for skilled worker are some of the barriers to small businesses in South Africa. SMEs frequently have fewer resources, limited opportunities to access finance from capital markets, less advanced businesses, and very few external users of their financial statements than larger listed companies

## Empirical review

The purpose of empirical review is to provide other previous studies which were conducted by different scholars on the same research topic. This review provide the findings established through the studies, methodologies used, approaches, theoretical foundations as well as concepts. Empirical review is important as it plays a crucial role when identifying research gaps and it also guides when filling those research gaps.

### Impact of accounting on reorganization success of SMEs (Kuttner, 2022)

The results from the examined court-supervised restructurings of SMEs showed positive evidence of a favorable relationship among the common standard of accounting system, the effectiveness of early warning systems, and documented reorganization plans. By assuring the effective and successful utilization of company’s resources during the restructuring process, a reorganization plan in particular considerably boosts the short term and long term success of the reorganization. This research study adds to the body of knowledge regarding how certain accounting factors affect both long- and short-term success of court-supervised SME reorganizations. This study further emphasizes how important restructuring strategies are for SMEs.

### Effect of accounting practices on financial performance of SMEs in Rwanda by. A case study of Musanze District by Wach and Tarus (2021).

This study's main goal was to determine how bad record keeping contributes to the failure of SMEs in Rwanda's Musanze District. It also aimed at discovering how inadequate budgeting practices affect SMEs' capacity for expansion in that region. The study used open-ended and closed-ended questionnaires to collect primary data, and it discovered that many SMEs in Musanze had operators who lack accounting expertise and who maintain their records manually without using an accounting system.

### Analysis on the effects of accounting on the growth of Nigerian micro and small scale businesses by Nsoke et al (2021)

This study looked into how the accounting practices affected the growth of MSEs in Nigeria. The specific impact of financial management methods and bookkeeping and accounting skills on the growth of micro and small firms in Nigeria was then examined. Surveys were employed as the research design for the study. Micro- and small-scale enterprises in Nigeria's South East and South West geopolitical zones participated in the study. A questionnaire served as the data collection tool. A substantially stratified random sample technique was used to distribute these 384 to MSEs. The findings demonstrate that the country's MSE development is significantly influenced by financial management practices and a knowledge of bookkeeping and accounting. This conclusion implies that MSEs will keep growing if they pick up accounting and incorporate financial management methods into their work.

### (Nyathi et al, 2018) The role of accounting information on the success of SMEs. A case study of Harare.

The dismal performance of numerous Businesses in Harare served as the motivation for the study. The researchers of this study used their discretion and random sampling in choosing the samples and found, among other things, that numerous small and medium-sized enterprises usually don't use accounting data when making decisions. SMEs in Zimbabwe were urged to maintain complete accounting records among other policy recommendations to enable meaningful decision-making to ensure their own success.

### Financial Management Practices, Firm Growth and Profitability of (Musah et al, 2018)

Looking at the capital structure, capital budgeting methods, working capital, accounting data, financial reporting, and fixed assets as aspects of financial management practices was the objective of this research study. Profitability in terms of Return on Assets and growth were used to gauge performance by using a questionnaire, the researchers surveyed 100 SMEs in Accra, Ghana for data analysis, and descriptive statistics and Pearson correlation were employed. The statistics revealed that capital structure management, accounting information and financial reporting practices, working capital management practices, and fixed assets management practices had the lowest mean scores overall. The correlation study found a positive link among these elements of financial management practices and the profitability as well as the expansion of SMEs.

### Financial Accounting Practices of SMEs in Ho Municipality, Ghana (Zotorvie, 2017)

In this study, the financial accounting practices of SMEs were examined using data from a survey of 225 business owners in the Ho Municipality. In order to plan and make the necessary adjustments to their businesses, owners and managers found it difficult to determine the profit or loss the company made during a particular financial accounting period and also the position of assets and liabilities, according to the findings, which showed that the majority of SMEs did not maintain complete accounting documents related to their companies. Due to the high cost of hiring certified professional accountants and certain owner-managers' insufficient accounting knowledge, the businesses were unable to maintain accurate accounting records and produce a full set of financial statements.

### Lack of quality reporting systems and impact towards the growth of Zimbabwean SMEs (Wadesango, 2015)

The goal of the study was to determine how poor financial reporting systems affected the development of SMEs in Zimbabwe. The major conclusions of the whole concept paper showed that owners and managers of smaller businesses are less aware of the value of maintaining accurate accounting records. The literature analysis also revealed a significant connection between accounting records and performance.

### Dr. Belal Yousef (2013); The use of accounting information by SMEs in south district of Jordan

Small and medium-sized businesses (SMEs) have been crucial to the economic development of many nations, including Jordan. This study looks into how much people understand the value of financial management in relation to the creation of bookkeeping reports and the use of information in the workplace. 136 SMEs running retail stores, manufacturing companies, and service providers in the southern districts of Jordan made up the target group. It was found that a significant amount of small scale businesses use the single entry accounting system due to its simplicity. According to the study's findings, effective accounting procedures will increase small and medium-sized companies' and sole proprietors' productivity.

## Conclusion

This chapter addressed a body of already existing knowledge on basic accounting methods, how firms might apply them, and accounting procedures for small enterprises. The problem statements and study objectives were primarily taken into account when developing the literature. The significance of maintaining accounting records, the motivation for using technology and how that affects how accounting practices are used in SMEs, and the literature on the effects of these accounting procedures on small and medium business performance were all considered relevant. The next chapter will then highlights on the methodology of the research study.

# 

**RESEARCH METHODOLOGY**

## Introduction

Chapter 3 presents an outline of the methodology of the study. The theoretical and empirical lessons from literature review aid in the development of methodology. This section will outline all of the procedures the researcher utilized to collect data for the study. Managers and owners of SMEs in the Bindura retail sector were sent questionnaires to get their opinions on the accounting practices they use and how they impact business performance.

## Research Design

A research design is the researcher's plan for conducting the study following a review of the literature (Bogdan and Biklen, 2007). For this research, both primary and secondary data were employed. Secondary data is information gained from books, the internet, newspapers and other sources already available. Chapter 2 covered literature review which is based on secondary data, and this chapter adds primary information on the same topic to make the research more relevant. In order to combine relevance to the research goal, research design combines the framework of the study with the elements that make up the research study and the aspects of both collection and analysis of data. The study used a survey methodology as its foundation. In comparison to other research approaches, this method is easier to implement, requires less time to finish, and has the advantage of being less expensive, especially if it is done correctly. The drawback of this approach is that certain individuals might not be keen to reveal information that puts them in a negative position. Positivism and phenomenology, more commonly referred to as qualitative and quantitative methods, serve as the study's fundamental philosophical pillars. No research can be classed as completely quantitative or strictly qualitative, and a well-rounded business research typically uses both positivism and phenomenology as highlighted by Saunders et al. (2009). A survey is a technique for gathering information from many participants, in this case, the managers and owners of SMEs. With the help of the survey, the researcher was able to gather first-hand data on the accounting practices in SMEs.

## Target Population

The population is the entire set of cases from which the required sample is taken. The term "target population" was also used by Musah et al. (2018) to refer to the entire group of constituents that were specifically selected for an investigation based on research objectives. The study's target audience included all of Bindura District's micro, small, and medium-sized retailers. The population was determined on the basis of estimates since the researcher was unable to find information on the number of retail SMEs that were registered in whole Bindura District.

## Sampling

In order to estimate or forecast a population-related information or event, sampling is the act of selecting a representative sample of the population, according to Allahverdi (2017). The researcher will make the choice to just analyze a sample of the overall population in order to save time and money. A representative sample, as described by Saunders et al. (2009), must produce findings that are similar to those that would have been discovered if every member of the population were included. In other words, the sample's margin of error must be acceptable. Where it was required to ensure that a representative sample was chosen, the sample was chosen using a straightforward random sampling procedure and the researchers' judgment**.**

### Probability Sampling

Random sampling, according to Saunders et al. (2009), is a sampling technique in which a sample is chosen at random from a population that has a homogeneous structure. Probability sampling comes in two flavors: stratified sampling and random sampling. Probability sampling is the umbrella term for all selection methods that select observations to be part of a sample wholly at random (by chance) within the population.

### Sample Selection

The researcher targeted 60 organizations which consists of micro, small and medium sized retail enterprises operating in the Bindura District. Owners, managers, accountants and other employees who are involved in the accounting side of these businesses were the respondents to whom communication was sent though the majority of these respondents fall into the owner-managers category. This chapter further categorized retail SMEs within the previously mentioned geographic area using the stratified technique. The sample was divided into homogeneous subgroups according to the type of business, and these groups were then used for the restaurants outlets, ICT, clothes, hardware, and electrical were among these. Then, basic random sampling was used to select sampling units from each stratum.

## Data Collection Procedures

### Data Collecting Instruments

Research instruments are measurements used to collect, measure and analyse data to obtain data on a topic of interest from research area, to provide validation and utilization of the research matter, in this case in accounting practices on SMEs. Through the use of a self-designed questionnaire that covered the various factors noted in the literature, data for the study was collected from managers and owners of SMEs. A review of the literature was done for both primary and secondary materials. This covered all of the key ideas that were utilized in the study and served as the theoretical foundation and background for the creation of the questionnaire, which was a crucial component of the study. The review also serves as the foundation for discussions and offers support for many of the viewpoints expressed in the research, giving some credibility to the findings and suggestions made.

The reasons why the researcher decided to use questionnaires are:

1. Questionnaires gave room for respondents to give their views and options without fear or pressure.
2. As compared to interviews, respondents were given time to think and research if there is need to, about a question since there is no pressure.
3. The questionnaires were well designed, and they solicited straightforward and accurate responses.
4. Also they were cheap as compared to interviews in terms of gathering information
5. Different views were obtained hence views can be compared to verify uniformity.

However there are some limitations with use of questionnaires:

1. There was no room for further clarification from the respondent
2. Information could be wrong if the respondent didn’t understand questions.
3. Some management were ignorant, so they was need of follow-ups

### Interviews

Personal verbal conversations were also conducted by the researcher, this was crucial in order to get additional justifications from respondents that weren't provided in the questionnaires. The conversations with the business owners, managers as well as the accountants of SMEs, helped in gathering additional information by providing additional explanations of an interviewee's responses on questionnaires, However these conversations where not structured interviews but they were a great tool for gathering additional data to the information that where given in returned questionnaires. The main purpose of these interviews was to try to ensure that problem of this research study was addressed fully together with the questionnaires that is seeking clarity from questionnaire responses.

### Reliability and Validity of Instruments

In order to assess the degree to which the expected outcomes were achieved, the researcher looked at the tools utilized in the study. The instruments had no sign of defects like bias and error. According to Wach and Tarus (2021), Data triangulation was also utilized in the research instruments, where the researcher needed to evaluate the details or data gathered from the various sources to ascertain whether the responses had any relationship or were inconsistent as noted by Wach and Tarus (2021). Data triangulation was carried out since it was less expensive and would aid the researcher in determining whether the instruments employed were acceptable and effective for the population at large and respondents selected for the sample.

## Data Sources

### Primary Data

The researcher managed to gather primary data by distributing questionnaires and carrying out interviews with individuals in the SMEs of the Bindura District. Primary data collection enables the researcher to begin with in-depth knowledge as compared to secondary data collection, which utilizes information that has already been published. Data taken directly from the primary source can additionally be trusted because they give a thorough grasp of the researcher's work (Saunders et al. (2009).

### Secondary Data

Simply put, secondary data are facts that have been gathered in advance and with a particular objective in view. In other words, secondary data is history in nature, according to Saunders et al. (2009), because it has already been acquired specifically for a given project and is always accessible when required. Additionally, the researcher used additional information from journals, internet sources, and textbooks. By using secondary data to gather information, it is possible to reduce the cost and effort spent on research.

### Data Validity and Reliability

Reliability is the extent to which findings remain constant over time. Wach and Tarus (2021) assert that qualitative study must be trustworthy and credible. The consistency of a person's answers over time is another sign of dependability. The tool used was precise and appropriate for the study under investigation. The researcher succeeded to gather validity and reliability through encouraging to make sure that the participants were comfortable and free to reply to every one of the questions with no fear or intimidation. The questions were also made clearer and simpler to comprehend. By addressing the respondents at the appropriate time when they were not rushing, the researcher offered them enough time to react. In addition, key informants were chosen for interviews since they are the ones who will be affected by the research problem the most directly.

## Data Analysis

In order to uncover appropriate responses to research questions, Zotorvie (2017) defines data analysis as the categorization, modification, and summarizing of data. Descriptive statistics were used in this study to analyse the data. The researcher verified that the surveys were full and edited, coded, and processed the data in general.

## Data Presentation

Pie charts, bar graphs, and tables that were created using SPSS application were used to illustrate the data. Tables are frequently used as tools for data presentation because of their capacity to categorize various types of data with clarity. The primary reasons why pie charts as well as bar graphs were selected is that they have visibility and ability to display clearly demonstrate patterns of the data being analysed. Large data sets can be handled by SPSS, which can also carry out all of the analyses discussed in the chapter and much more. In the business world, it is frequently employed because the computation and presentation of statistics are made relatively simple, it is simple to use. The application's Excel spreadsheet capability also contributes to its familiarity.

## Chapter Summary

This chapter provided a full explanation of the study's methodology which includes details about the study's target population, the sample size, as well as the sampling procedures. A brief explanation of the research methodology was also provided. The chapter went on discussing the instruments that were mostly utilized to gather primary information about the accounting practices and procedures that are being adopted by small and medium businesses. However, as chapter 2 already covered secondary techniques, they were not discussed in this particular chapter. Surveys were essential tools for gathering information from Bindura District retail SMEs.

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**DATA PRESENTATION, ANALYSIS AND DISCUSSIONS**

## Introduction

This chapter provides the research findings from the information collected from the retail SME business owners, managers, accountants, and other participants who were involved in accounting of these businesses. The research findings in this chapter are presented and discussed in connection with the review of past studies in Chapter 2.

## Rate of Response

Questionnaires were distributed to the owner-manager, accountants and other individuals who were involved mainly in accounting side of the SMEs. An overall of 70 questionnaires were issued to those mentioned individuals of the 60 participating retail SMEs, 38 were personally administered by the researcher and with the help of trusted friends and family members the rest 28 questionnaires was also distributed to the targeted respondents. Due to personal relationship with some of the individuals who participated in filling in the questions, it drives as a motivation for many respondents to complete the survey questions which led to a total number of 58 questionnaires that were completely answered by participants and returned which gives ***83%***. This rate is considered high enough to give validity in the results and conclusions of any research study.

## General Information about the Respondents

The following were the respondents' responses to the questions asked in Section A of the questionnaire about the participants' characteristics.

### Age of the Respondents

Table 4.1: Respondents’ Age

|  |  |  |
| --- | --- | --- |
| **Age Group (years)** | **Frequency** | **Percentage** |
| 18 – 24 | 4 | 7% |
| 25 – 55 | 46 | 79% |
| 56 and Above | 3 | 5% |
| N/A | 5 | 9% |
| **Total** | **58** | **100%** |

The data from the above table 4.1 is statistically presented on the pie chart below

**Figure 4.1: Respondents’ Age**

**Source: Primary Data (2023)**

Understanding the ratio of the participants' ages of people who are responsible in accounting practices of SMEs drives the researcher to ask the participants about their ages. The data on the chart above shows that high number of the respondents fall under 25 to 55 years with 79% of the total respondents, this gives an illustration that generally owner- managers of the SMEs are active between this age group. It supports with Zindiye's findings (2008), who asserted that the two natural age peaks for entrepreneurship are in the late 20s and the mid-50s. However, on returned surveys, 9% of respondents omitted to state their age, and this is shown as Not Applicable (N/A) on the pie chart above.

### Gender of the Participants

Table 4.2: Gender

|  |  |  |
| --- | --- | --- |
| **Gender** | **No of Participants** | **Percentage** |
| Male | 33 | 57% |
| Female | 25 | 43% |
| **Total** | **58** | **100%** |

The table above shows that 43% of the respondents in this research were female, whereas 57% were men, this showed that male owners were more active in SMEs than female. It shows that women are marginally involved in business activities particularly concerning small and medium enterprises, however this could the reason of current economic environment in Zimbabwe and the stratum groups in the selected sample which have businesses that are classified as man dominated for example Hardware and ICT can possibly explain the differences. However it shows that there is increase in females who are getting involved in operating SMEs as compared to previous years.

Figure 4.2 below shows a pie chart that statistically illustrates the data shown in table 4.2.

**Figure 4.2: Gender**

**Source: Primary Data (2023)**

### Position occupied by the Participants

Table 4.3: Position occupied

|  |  |  |
| --- | --- | --- |
| **Position occupied** | **No of Respondents** | **Percentage** |
| Owner | 28 | 48% |
| Manager | 15 | 26% |
| Accountant | 5 | 9% |
| Other | 10 | 17% |
| **Total** | **58** | **100%** |

The results from table 4.2 above shows that the population of owner, manager and other employees who handle accounting for SMEs constitutes the largest part of the respondents with a percentage rate of 91% while accountants population constitutes only 9% of the total participants. This information is an indication that the most accounting of the SMEs is done by the owners, managers and other employees. This responses are also in agreement with research findings on a study carried out by Wach (2021) who highlighted that most accounting of small businesses is done by owner-managers not necessarily the accountants

**Figure 4.3: Position Occupied**

**Source: Primary Data (2023)**

### Education level of the participants

The table 4.4 below presents the qualifications of the owner-managers, accountants and other employees who handle accounting in SMEs.

Table 4.4 Educational Level

|  |  |  |
| --- | --- | --- |
| **Educational Level** | **No of Participants** | **Percentage** |
| O' Level Only | 26 | 45% |
| A’ Level | 11 | 19% |
| Degree | 5 | 9% |
| Other | 16 | 27% |
| **Total** | **58** | **100%** |

Figure 4.4 below statistically illustrates the information from table 4.4 above by giving the respondent’s degree of education.

**Figure 4.4: Educational Level**

**Source: Primary Data (2023)**

From the above response by the participants it shows that majority of accounting in small and medium business was done by individuals with O’ Level and those who indicated other as shown by a percentage of 45% and 27% respectively. Those participants who responded other, their qualifications had nothing to do with the accounting or commerce area. 19% from the respondents indicate that they have a diploma in accounting and only 9% of the participants had an accounting degree which is the highest qualification level in this case. In agreement with a study done by Abor and Quartey (2010), the educational level of those who manage a SME's accounting has effects on how accounting procedures are applied. The responders may seem to have a good education, but due to a lack of accounting knowledge, it can be difficult for them to implement proper accounting procedures successfully and efficiently.

### Years that Participants have been employed on that Firm

In responding to a question which asked about how long respondents have been operating or worked for the SME, the participants gave a variety of answers, which are summarized statistically in figure 4.6 that follows.

**Figure 4.5: Years at the Company**

**Source: Primary Data (2023)**

From the above figure, only 17% have been working or operating the business for more than 3 years. Since most of these respondents were actually the owners of the enterprises under study, it gives a picture that SMEs are struggling to survive for more than 3 years as 81% of the participants responded below 3 years even though 2% of the participants responded not applicable.

## Business or firm characteristics

Section B of the questionnaire is made up of questions and answers which concerned the characteristics of the SME businesses, these questions and answers are presented as well as discussed below

### Nature of the Business

Understanding the nature or type of the business and the industry within which the business operates, gives a pictures of a business main revenue stream, their expenses and how can they possibly implement a proper accounting system that suits the characters of that particular organization.

The responses from respondents are presented in table 4.5 below.

Table 4.5: Nature of the Business

|  |  |  |
| --- | --- | --- |
| **Type** | **No. Participants** | **Percentage** |
| Grocery Shops | 21 | 36% |
| Hardware, Electrical and ICT | 9 | 16% |
| Food Establishments | 6 | 10% |
| Clothing | 15 | 26% |
| Other | 7 | 12% |
| **Total** | **58** | **100%** |

The information is statistically illustrated in the figure 4.6 given below

**Figure 4.6: Business Type**

**Source: Primary Data (2023)**

From the above figure Grocery shops have a higher percentage of 36% followed by clothing with 26% this is probably because they are easy to set up. Hardware, Electrical and ICT retails have 16%, Food Establishments occupied 10% of the SMEs under the study and 12% indicated other in their responses. Hussain (2000:2) highlights that the informal micro-enterprise sector mainly focuses on tertiary activities retail, food preparation and distribution, as well as secondary activities like food processing, cosmetics, building, footwear, and apparel.

### Information about Banking

The information about banking for SMEs under the study is given in the following table

Table 4.6: Do you have a bank account for the company?

|  |  |  |
| --- | --- | --- |
| **Responses** | **No. of Participants** | **Percentage** |
| **Yes** | 15 | 26% |
| **No** | 43 | 74% |
| **Total** | **58** | **100%** |

From the above information only 15 businesses had bank account registered specifically for the enterprise, 74% had no bank accounts dedicated to the firm transactions only although they use their personal accounts for business transactions. However this comes with a challenging issue of keeping track of business expenses while using a personal bank account for both personal and business transactions, which can cause issues to deal with proper accounting for the business.

The pie chart below statistically present information in the above table

**Figure 4.7: Banking**

**Source: Primary Data (2023)**

Some respondents stated that banking involve too much paperwork to open for a company’s bank account and a few didn’t find the need to open a specific bank account for their businesses since they already have personal accounts that they can use to do their business transactions. This makes it difficult for micro, small and medium enterprises to access funds from banks.

## Information about Keeping and Accounting Practices

Information about how SMEs keep and perform their accounting procedures is provided by the answers given by the respondents from questions asked in Section C of the questionnaire .The purpose of these questions was to determine if SMEs are following proper accounting practices and procedures. 9 questions were developed to answer the study's first objective, which was to assess what kind of accounting practices were being used by SMEs in the Bindura District's retail industry.

### Keeping of Accounting Records

Table 4.7: The way of keeping accounting records

|  |  |  |
| --- | --- | --- |
| **Type of record keeping** | **Frequency** | **Percentage** |
| Manually | 28 | 48% |
| Digitally | 19 | 33% |
| Both | 11 | 19% |
| **Total** | **58** | 100% |

The result from table 4.4 above discloses that 48% of respondents were still keeping their accounting records manually and 33% were practicing digital accounting. This showed that the majority of Bindura District retail businesses are still using manual accounting. However some participants highlighted that they use both manual and digital record keeping as this is presented by 19% of all the respondents. When collecting the questionnaires, in-depth questions were asked to understand specifically to those who ticked both manual and digital. The participants stated that their reasons where to keep their data safe and secure in-case the computers get corrupted or stolen they will still have some information on paper.

These findings revealed that the majority of the SMEs in Bindura District are still keeping their records using manual systems even though they are other who are adopting to the digital systems. Figure 4 on the following page statistically illustrates how SMEs kept their accounting records.

**Figure 4.8: Record Keeping**

**Source: Primary Data (2023)**

The responses of SMEs that uses digital accounting main came from businesses that are located in Bindura and some which are located near the town of Bindura. The statistical information on the accounting software programs which were used by the combined 52% of the participants who kept their records using computers including those who uses both is further illustrated in figure 5 below.

**Figure 4.9: Accounting Software**

**Source: Primary Data (2023)**

By asking further questions to the respondents who uses digital accounting they gave the advantages of using accounting software. Respondents said that their businesses where able to enhance accounting function through use of computers. This result is in line with the findings of a study by Olufemi et al. (2021), which showed that an accounting software system is dependable when data is delivered on time and without error, improving corporate reporting reliability and, as a result, improving internal organizational efficiency.

### Preparation of Managerial Reports

To ensure that you have a thorough understanding of how your organization is operating, managerial accounting reports are an essential component which includes preparation of budgets across all departments. Managers, owners and accountants of organizations employ analytical tools to track the performance of the company across many areas and departments of the entity. The information about when SMEs which were participating prepares their managerial reports is given on the table below

Table 4.8: Preparation of Managerial Reports

|  |  |  |
| --- | --- | --- |
| **Period** | **Frequency** | **Percentage** |
| Monthly | 15 | 26% |
| Quarterly | 21 | 36% |
| Annually | 8 | 14% |
| There is no specific time | 14 | 24% |
| **Total** | **58** | **100%** |

The findings from the above **table 4** the respondents highlighted that 26% prepare management reports on monthly basis, 36% prepared quarterly management statements, 14% prepared their reports on a yearly basis and lastly 24% did not provide how frequent do they produce managerial reports. In addition to information provided in the questionnaires, asking further questions from discussions with some participants of these SMEs is was highlighted that they also prepare financial statements monthly in-order for them to monitor the business profitability and this was only for internal use purposes.

The information from the above table 4.1 is statistically displayed on the Figure below

**Figure 4.10: Preparation of Management Reports**

**Source: Primary Data (2023)**

### Identifying and Recording of Transactions

Table 4.9: All transactions are identified and recorded for record-keeping purpose.

|  |  |  |  |
| --- | --- | --- | --- |
| **Reply** | **Frequency** | **Percentage** | **Cumulative Percentage** |
| **Strongly Agreed** | 19 | 33% | 33% |
| **Agreed** | 21 | 36% | 69% |
| **Undecided** | 16 | 28% | 97% |
| **Disagreed** | 2 | 3% | 100% |
| **Strongly Disagreed** | 0 | 0% | 100% |
| **Total** | **58** | **100%** |  |

Out of the 58 respondents, 33% strongly agreed, 36% agreed, 28% undecided, 3% disagreed, and 0% strongly disagreed. A cumulative percentage of 69% shows that the majority of SMEs are in agreement with the recording of transaction for record-keeping process.

**Figure 4.11: Identification and Recording of Transactions**

**Source: Primary Data (2023)**

### All transactions are recorded in their correct journals.

In the accounting cycle, journalizing transactions is an important initial step. The foundation of the financial records are journal entries, so it's critical to maintain them and make sure transaction are correctly entered to their respective journals.

Table 4.10: All transactions are recorded in their correct journals

|  |  |  |
| --- | --- | --- |
| **Reply** | **Frequency** | **Percentage** |
| **Strongly Agreed** | 14 | 24% |
| **Agreed** | 18 | 31% |
| **Undecided** | 13 | 22% |
| **Disagreed** | 8 | 14% |
| **Strongly Disagreed** | 5 | 9% |
| **Total** | 58 | 100% |

The responses given from the above table shows that 24% of the participants strongly agreed with the recording of transactions to correct books and also 31% agreed. However 22% responded undecided, 14% disagreed and 9% strongly disagreed, some small businesses record their transactions in a single book everything concerning transactions written there no specifications and this could be one of the reason why 45% didn’t agree with the recording of transactions in correct books. According to Wach (2021), due to a lack of accounting expertise and the expensive cost of hiring trained accountants, the majority of SMEs fail to maintain correct financial records.

The information above is illustrated in the figure below

**Figure 4.12: Correct Entry of Transactions**

**Source: Primary Data (2023)**

### Reconciliation of bank and cash book

A bank reconciliation is a procedure used in accounting to compare the amount of a bank account as recorded in the cash book of an entity to the balance reported by the banking company the recent bank statement (Olufemi et al, 2021). Any variation between the two numbers needs to be investigated and, if necessary, fixed.

SMEs were asked in the questionnaire if they do bank reconciliation regularly and figure 4.13 present the findings.

**Figure 4.13: Bank Reconciliation**

**Source: Primary Data (2023)**

The results of the assessment show that 26% of the respondents did bank reconciliation on regular bases and 29% respond not applicable (**N/A**), the reason for that could be that some SMEs do not operate bank accounts and their transactions usually they are on cash bases, when there are transactions which requires bank they use personal accounts. However according to the findings, 45% did not do bank reconciliation regularly. When the researcher requested for an explanation, participants stated that their bank transactions where few that they could even spend 2 months without any bank transaction and some do not have bank accounts.

The question further asked the participants how often does they do bank reconciliation and the results from the 26% who responded yes are statistically illustrated on figure 4.14 given below

**Figure 4.14: Bank Reconciliation basis**

**Source: Primary Data (2023)**

From the results given it shows that the majority did bank reconciliation on monthly bases with 53% followed 27% who did weekly and last 20% quarterly. There could be many reasons for these variations for example the difference in the amount of transactions for each company.

### Financial Reporting for SMEs

The following table 4.11 statistically presents the respondents' varied replies to the question of financial statements that where prepared by participating SMEs

Table 4.11: Financial Reporting

|  |  |  |
| --- | --- | --- |
| **Financial Statements** | **No of Participants** | **Percentage** |
| Profit or Loss Statement Only | 9 | 16% |
| Profit or loss and Financial Position | 20 | 34% |
| Cash Flow Statement Only | 0 | 0% |
| Profit or loss and Cash Flow Statement | 7 | 12% |
| All | 13 | 22% |
| N/A | 9 | 16% |
| **Total** | **58** | **100%** |

The table above shows that 13% prepared all the mentioned financial statements, 20% prepared Profit or loss and Financial Position, 9% prepared only statement of Profit or Loss and 9% responded not applicable (**N/A**). Small businesses assume that as long as sales are increasing and there is cash in the bank then everything is okay but they are unaware that the financial statements reflect the regular business operations that they perform on daily bases and the availability of cash doesn’t mean the company is making profits Byrd *et al.* (2009).

The questionnaire went on asking the participants on how often do SMEs prepare their financial statements and the results are presented on the following figure 4.15

**Figure 4.15: Financial Reporting Basis**

**Source: Primary Data (2023)**

The results from figure 4.15 above, 29% of respondents prepared financial statements monthly, 41% prepared quarterly and 31% prepared on yearly bases. Responses from further questions asked by the researcher when collecting questionnaires reviewed that SME owner-managers and accountants prepare financial statements monthly and quarterly in order to determine whether the company is making a profits or not as a form of performance appraisal. From 31% who prepared annually stated that the main reason was for external users and that they also prepare managerial financial statements.

### Main purpose of financial statements

There are many reasons why businesses produce financial statements, table 4.12 presents the findings from those respondents who mentioned that they prepared financial statements on the purpose their financial statements.

Table 4.12: Purpose of Financial Statements

|  |  |  |
| --- | --- | --- |
| **Purpose** | **No of Participants** | **Percentage** |
| Access External Funds | 7 | 14% |
| Tax Purposes | 4 | 8% |
| Audit Purposes | 4 | 8% |
| Performance Appraisal | 34 | 69% |
| **Total** | **49** | **100%** |

The figure below statistically illustrate the given findings in the above table

**Figure 4.16: Purpose of Financial Statements**

**Source: Primary Data (2023)**

From the table a total of 69% of the respondents state that their main reason of producing financial statements was to assess the performance of the businesses particularly on whether the company is making profit or losses. This tend to be the reason why most prepared their financial statements both monthly and quarterly. A similar percentage of 8% for both Tax and Audit purposes, Lalin *et al.* (2011) claim that the primary reasons SMEs prepared their financial statements were because of regulations. Lastly 14% stated that they use financial statements to access funds from external sources such as banks and some individual might be interested in investing to their businesses.

## Factors that hinder proper adoption of accounting practices in SMEs

### Inadequate managerial and accounting skills

The participants where asked whether they agree that lack of accounting and managerial skills inhibit the company to do proper accounting or they do not and the results are presented in the following figure 4.17

**Figure 4.17: Inadequate managerial and accounting skills**

**Source: Primary Data (2023)**

From 58 returned questionnaires, 88% of the participants agreed that the absence of adequate skills necessary for managers to handle accounting for the business is the reason why small and medium enterprises failed to implement proper accounting systems. The majority of SMEs lack the professional business management skills. Managers must perform with a broad knowledge base rather than specializing in any one field, however most entrepreneurs do not recognize the need of improvement in their abilities, according to Abor and Quartey (2010). The rest 12% insisted that lack of accounting and managerial skills have no impact on proper accounting but they failed to give proper reasons for their point of view.

### Accounting involves too much costs

The following table 4.13 provides the responses on whether accounting is accompanied with too much costs.

Table 4.13: Costs of Accounting

|  |  |  |
| --- | --- | --- |
| **Respond** | **No. of participants** | **Percentage** |
| Yes | 50 | 86% |
| No | 8 | 14% |
| **Total** | **58** | **100%** |

The above shows that the majority (86%) agreed that accounting results in too much costs which is one of the reasons SMEs abandoned to follow good accounting procedures. These respondents mentioned that it is costly to employ accounting personnel to handle their accounting, also that it is also expensive to acquire external services from professional accountants and some stated that some accounting system are also expensive to implement. Abor and Quartey (2010), also found that access to finance and higher wages for skilled worker are some of the barriers to small businesses.

Due to the expense of purchasing and licensing accounting software, double-entry bookkeeping is an accounting method that may be difficult for small organizations to fully execute. As a result, they might use the single entry approach that has been proved to be both more affordable and user-friendly. However 14% of the participants didn’t agree with the factor and stated that due to modern technology there are cheap accounting software that handles all accounting especially for small firms and they give examples such as quick books and fresh books.

### Accounting is time consuming and too difficult to understand

Responses on whether respondents agrees with the time consuming and complexity of accounting are presented on the figure 4.18 provided below

**Figure 4.18: Complexity of Accounting**

**Source: Primary Data (2023)**

The above figure shows that 62% agreed with the time consuming and complexity of accounting and stated that they it is difficult to deal with all the accounting standards and it took too much time compile for all the financial statements as well as management accounting so they rather spend that time on moving their products to the market. 32% disagreed and stated that accounting does not consume too much and it’s not that difficulty but it must be done by an individual who is well equipped with knowledge and skills on accounting.

## Chapter Summary

This chapter details the research findings that were consistent with the study's goals. Tables, bar charts, and pie charts were utilized to help with data analysis because they are efficient visual representations of connections and patterns. As justifications were given, the findings were further connected to the literature that had been analyzed. The following chapter discusses the findings and recommendations for further research that were drawn from this one.

# 

**SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

## Introduction

This chapter is dedicated to the study's summary and conclusions while taking into account the data acquired and discussed in preceding chapters, particularly chapter 4, when first-hand data was examined. Following a discussion of the research's findings, this chapter moves on to the research's conclusions as well as recommendations for improving the effectiveness accounting practices and procedures adopted by Small and Medium Enterprises.

## Research Summary

Basing on the findings provided in chapter four as well as other findings from previous research studies, it can be said that the majority of SME’s accounting is being handled by mostly the employees who are not accountants. As a result majority of retail SMEs in Bindura did not have proper accounting systems, they only record some of the transactions but not all of them.

On the other hand, the research study also showed that a significant portion of enterprises relied on a manual system for recording. Some of them gave a reason of high costs in acquiring digital accounting systems that includes the use of computers with accounting software. A significant number of SMEs do not operate a company bank account

In terms of financial reporting, small business only focus mainly on profit or loss statement to see whether they are making profits or not and they don’t care much about the financial position and cash flow statement. However some few of the SMEs did all financial reporting but for regulations mainly. Inadequate managerial and accounting skills and costs associated with accounting are some of the major threats to proper adoption of accounting procedures.

## Conclusions

The study can concludes that, SMEs are failing to adopt proper and complete accounting practices since they lack the necessary accounting skills as the accounting procedures were being handled by individuals who are not qualified in that area . Although the fact that a number of SMEs have agreed with the use of accounting procedures to enhance their operations, owners of smaller businesses are not properly maintaining accurate accounting records. The study also found that a sizable portion of SMEs do not keep comprehensive company records because they lack the accounting expertise and resources to do so. Additionally, the study's findings suggest that accounting information is ineffectively used to enhance the business performance of SMEs. Due to this lack of adequate accounting information utilization, small businesses in Zimbabwe have been unable to develop their market share or maintain business operations over the long term. Also that many small firms are established with their own money, but due to improper accounting procedures, they frequently fail to attract outside sources of funding, such as banks.

## Recommendations to research study

In order for small and medium enterprises to practice good and complete accounting in their organizations which will also help them in business performance as well as expanding in operations, the study have come up with the following recommendations

### Owner and manager training

To apply accounting methods successfully and efficiently, SME owner-managers must receive training in their managerial and financial abilities. Also to improve the usage of accounting procedures, the Zimbabwean government should offer free trainings on entrepreneurial skills to all owner-managers. The government should host workshops and seminars on small to medium-sized business accounting procedures through the ministry of commerce.

### Use of accounting software for accounting purposes

The study is encouraging SMEs to adopt to the modern accounting that is the use of accounting software. Accounting software is created specifically for businesses to handle accounts and helps business owners to handle financial processes more effectively, completing financial activities swiftly and correctly there by improving corporate reporting in a computerized business environment.

### SMEs must hire accounting graduates

Small and medium-sized business owners and managers should recruit accounting graduates to assist them in maintaining an efficient record keeping system. Fresh accounting graduates are more flexible, open-minded and thirsty for knowledge, they might be also affordable.

### Compulsory on proper accounting in SMEs

The government of Zimbabwe should make the preparation of financial statements and accurate accounting records a requirement for SMEs as their possibilities of getting funding from external sources are increased by keeping accurate records and producing meaningful financial statements. The Zimbabwean government can achieve this through offering simple and affordable registration procedures to SMEs, this will force them to use proper accounting systems because they will be subject to Companies and Other Business Entities Act [Chapter 24:31].

### SMEs must have company bank accounts

Zimbabwean banks must offer simple registration procedures for small businesses and also reduce cost associated with banking which will encourage SMEs to register. Having company bank accounts that are separate from personal accounts can help them to account for their business transactions accurately and they will access to bank loans also.

## Suggested Area of Further Study

The report recommends further investigation to identify the most effective innovation techniques for the survival and growth of small and medium-sized enterprises (SMEs) in Zimbabwe.

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# APPENDEX

**Questionnaire sample on evaluation of accounting procedures adopted by retail SMEs and their impact on business performance.**

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 Rodwell P. Dzafunwa’s Bachelors of Accountancy Dissertation with the Bindura University of Science Education. This is in partial fulfilment of the requirements of the Bachelor of Accountancy Honours Degree requirements with the University. You are therefore kindly requested to complete the attached questionnaire to your best ability. Your response will be kept strictly confidential. 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,

Rodwell Petgrew Dzafunwa

Email: rdzafunwa@gmail.com

**SECTION A:** GENERAL INFORMATION

***Please kindly indicate your answers by ticking where appropriate in the boxes and writing in the spaces provided***.

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

2. Sex: Male Female

3. Are you the owner, manager or accountant of this firm?

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 1.Onwer |  | 2.Manager |  | 3.Accountant |  | 4.Other |  |

4. Level of education:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 1.O'level |  | 2.A' level |  | 3.Degree |  | 4.Other |  |

Please explain if it’s ‘**Other**’.............................................................................................

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

5. How long have you been employed by this company?

1. Less than a year 2. 1-3 years 3. 4 and above years

**SECTION B:** INFORMATION ABOUT THE COMPANY

1. Nature of firm: ..................................................................................................

2. Do you have a bank account for the company?

|  |  |  |  |
| --- | --- | --- | --- |
| 1.Yes |  | 2.No |  |

3. The motivation behind starting your own business or firm? **(Owners)**................................................................................

**SECTION C:** ASSESSMENT OF PROPER ACCOUNTING PROCEDURES

1. How do you keep the company’s accounting records?

|  |  |  |  |
| --- | --- | --- | --- |
| Manually |  | Digitally |  |

2. Please describe what type if it is digital record keeping? ................................................................

3. When do you prepare managerial reports for your business?

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Monthly |  | Quarterly |  | annually |  | There is no specific time |  |

Responses for the following questions: Strongly Agreed - **SD**

Agreed - **A**

Undecided - **U**

Disagreed - **D**

Strongly Disagreed - **SD**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Q** | **Items** | **SA** | **A** | **U** | **D** | **SD** |
| **4** | All transactions are identified and recorded for record-keeping purpose. |  |  |  |  |  |
| **5** | All transactions are recorded in their correct journals. |  |  |  |  |  |

**6 a.)** Reconciliation of bank and cash book is done regularly?

|  |  |  |  |
| --- | --- | --- | --- |
| 1.Yes |  | 2.No |  |

**b.)** How often?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Weekly |  | Monthly |  | Quarterly |  |

**7.** Which of the following Financial Statements does you prepare at the end of the year?

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Profit or Loss Statement |  | Financial Position |  | Cash flow Statement |  | N/A |  |

**8.** The regularity of your financial statements preparations

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Monthly |  | Quarterly |  | Annually |  |

9. What is the main purpose of the financial reports to your organization?

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Access external Funds |  | Tax purposes |  | Audit purposes |  | Performance Appraisal |  |

**SECTION D:** FACTORS THAT INHIBIT THE USE OF MORDEN ACCOUNTING SYSTEM AND PROPER ACCOUNTING PRACTICES

Do you agree with the following as factors that affect proper adoption of accounting practices in firms?

**1.)** Inadequate managerial and accounting skills

|  |  |  |  |
| --- | --- | --- | --- |
| Yes |  | .No |  |

Please briefly explain.............................................................................................

**2.)** Accounting involves too much costs

|  |  |  |  |
| --- | --- | --- | --- |
| Yes |  | .No |  |

Please briefly explain.............................................................................................

**3.)** Accounting is time consuming and too difficult to understand

|  |  |  |  |
| --- | --- | --- | --- |
| Yes |  | .No |  |

Please briefly explain.............................................................................................

***End of questionnaire***

***Thank you for your time and your effort is really appreciated*.**