

Accounting Information and the Performance of SMEs in Masvingo, Zimbabwe

¹Innocent Tambadini and ²Joseph Bemani

¹Zimbabwe Open University, Faculty of Commerce and Law, Masvingo, Zimbabwe

^{2,3}Great Zimbabwe University, School of Commerce, Masvingo, Zimbabwe

¹itambadini@yahoo.com

²jbemani@gzu.aczw

Abstract

This study sought to determine the effectiveness of accounting information on the performance of Small to Medium Enterprises (SMEs) in Masvingo urban in Zimbabwe. Most SMEs do not progress well due to various constraints, one of them being lack of accounting information. The study adopted the quantitative methodology. The study discovered that keeping proper accounting records and the use of accounting information enables SMEs to produce timely and accurate reports for various purposes such as accessing loans and helps in business profitability. Proper book keeping will also help SMEs expand their business. The study recommends SMEs to use consultancy services where necessary on preparation financial statements.

Keywords: Accounting information, Ethics, Financial statements, Governance, Policies.

1. Introduction

Small to Medium Enterprises (SMEs) are making a major contribution to economic growth, employment creation and poverty reduction globally. SMEs provide around 50% of productive employment, on average in the world. SMEs contribution to Gross Domestic Product (GDP) account for an average of 51% in high-income countries, 39% in medium income countries and 16% in low-income countries. In India, the informal sector contributes 70% of the country's GDP. Empirical evidence has shown that small businesses in Europe and Latin America contribute more than 50% of the Gross Domestic Product. SMEs contribute to about 30% of global exports by value. In the EU around 40% of over a million firms that export goods are SMEs (Nyoni, 2014, Maunganidze, 2013 in Matamanda and Chidoko, 2017).

In Zimbabwe, SMEs also play a significant role in economic and social development. Beyond creating jobs and fostering social stability, they are a hub for innovation; a birthplace of future industry and ways of doing business (Matamanada and Chidoko, 2017).

A recent development in Zimbabwe since the 1990s is the growth of the informal sector, and a decline in the growth of the formal sector relative to the informal sector. Due to this growth, Small to Medium Enterprises (SMEs) contribute significantly to the country's economy and employment. This was alluded to by (Mangudya, 2017) who stated that in Zimbabwe, the operating environment over the years has resulted in structural shift in the economy from predominantly large corporates to SMEs. The SME sector is playing a critical role in economic

development through job creation and poverty alleviation contributing more than 60% of the country's Gross Domestic Product (GDP). In view of this assertion, it follows that the informal sector has become indispensable to the development of this country.

SMEs contribute significantly to the economy as intermediate and final producers of goods, contribute to diversity and act as breeding grounds for upcoming entrepreneurs and industries because of this growth in the sector, many prospective entrepreneurs enter into business with a hope to succeed but very few actually succeed. Management needs quality information to make quality decisions. An analysis of the formal sector would show that established business practice, need business transactions to be recorded accurately. This would provide quality information upon which sound decisions are made. The recording of business transactions requires well-trained and skilled personnel to make proper and accurate recordings (Ncube and Lufumpa, 2014).

It is the weaknesses in the record keeping system that hinder the effectiveness of the records for the purpose of decision-making and growth of SMEs. We record accounting information in order not to rely on our memory, which in most case is unreliable. The classification and summarizing of information reduces business activities into manageable form. Interpretation enables users of accounting information to derive meaning. This assertion puts emphasis on the availability of information and effective use of the available information (Cross 2004).

1.2 Statement of the Problem

SMEs in Zimbabwe employ approximately 5.7 million people (2.8 million business owners and 2.9 million employees). This represents 73% of the total workforce of 7.8 million. From this information it can be noted that SME sector plays a significant role in the economy. Despite the importance of SMEs, their failure rate in Zimbabwe is considerably high due to a number of reasons, one of them being lack of accounting records. In most cases, this is a lack of the basic business management skills. Most business people, therefore, end up losing track of their daily transactions and cannot account for their expenses and their profits at the end of the month. It is therefore imperative to study the importance of record keeping among SMEs and the challenges SMEs face in preparation of accounting information.

1.3 Objectives of the study

The objective of the study is to investigate the effects of accounting information on the operations of SMEs in Masvingo Urban in Zimbabwe.

2. Literature review

2.1 Background of Small and Medium Enterprises

Small Medium Enterprises (SMEs) have been defined and used differently in various contexts. Evidence from literature reveals that there is no universally agreed definition of an SME across the academic disciplines. Matamanda and Chidoko (2017) define SMEs as a business with fewer than 250 employees. Maunganidze (2013) defines SMEs as entities that do not have public accountability and publish general purpose financial statements. In Zimbabwe, the definition derived from the Small and Medium Enterprises Act (Chapter 24:12) defines an SME as a legal business entity defined by the following variables; autonomy not subsidiary branch or

associate of a large business organization, number of permanent workers, capitalization excluding fixed assets turnover, economic sector and registration and licensing.

Since the formation of the Small and Medium Enterprises Development Corporation (SMEDCO) in 1983 through an Act of Parliament, various SME development policies have been formulated to promote SMEs. The following are two of the major ones according to Nyathi *et al* (2018).

2.2 National Micro, Small and Medium Enterprises Policy Framework (2014 – 2018)

This policy creates and maintains an enabling environment for the long-term development and growth of SMEs, by ensuring co-ordination of different policies, legislations and programmes at national level pertaining to SMEs. It also seeks to provide an appropriate institutional mechanism to facilitate SMEs growth and graduation from informal, small to medium enterprises and the implementation of SMEs development efforts. Set priorities and ensure access to limited public resources and coordinate resource mobilization strategies. Ensure access to markets and market development, and export promotion; support value addition using environmentally compliant technologies (green economy), and Ensure gender sensitivity and adherence to good corporate governance.

2.3 Developmental SME Projects Intervention to Support Youth, Women and Other disadvantaged groups

This policy intervention unveiled a SME development fund to promote the activities and projects of this critical sector. The SME Development fund programme among other things extended concessional financing support. The Central Bank went on to encourage rural banking initiatives by mainstream banks, by introducing appropriate incentives to those banks that assumed this National Developmental role.

2.4 Challenges faced by SMEs in Zimbabwe

The SMEs sector, while playing a critical role in economic growth and development, is confronted with a number of challenges which according to (Gono, 2006; Chingwenya and Mudzengerere, 2013) include the following among others: access to finance remains the critical challenge facing SMEs worldwide, accessibility and availability of finance is very limited, as the majority of SMEs are owner capitalized, limited access to finance is a major obstacle to development of SMEs in Africa. their inherent higher perceived risk and lack of collateral make financial institutions reluctant to lend them, lack of the capacity to conduct research and development needed to commercialize ideas and grow businesses, weak business structures, and poorly defined legal and regulatory frameworks.

2.5 Measures to address the SMEs challenges in Zimbabwe

It is imperative that tailor made support be given to the SME sector. According to (Gono, 2006; Chingwenya and Mudzengerere, 2013) there is need for effective interventions that include the provision of financial support and entrepreneurial development training, as well as mentorship frameworks. Financial Support included the following: diverse credit finance (loan programs), equity finance, credit Guarantee Schemes for SMEs, and tax breaks for SMEs.

There are various studies that have been undertaken dealing with accounting of SMEs. Uddin *et al* (2017) studied accounting practices of small and medium enterprises in Rangpur, Bangladesh. The objective of their study was to analyze the extent to which accounting information is being used in measuring financial performance by SMEs, to examine the contribution of SMEs to GDP growth in Bangladesh and contribution of SMEs in Rangpur to GDP, to describe the limitation of small and medium enterprises to implementing accounting system and to make some recommendation for the overall issues. The finding of the study was that the level of awareness on the importance of financial management is still very low in small and medium firms. Most of the managers are not aware of the importance of keeping good accounting records.

Musah (2017) studied the benefits and challenges of bookkeeping and accounting practices of SMEs and Its effect on growth and performance in Ghana. The objective of the study was to establish the kinds of bookkeeping and accounting practices SMEs kept, the extent to which bookkeeping and accounting information support the operations and growth of the SMEs and performance, the general attitude of SMEs owners towards bookkeeping and accounting practices and the challenges faced by the SMEs entrepreneurs in bookkeeping and accounting practices. The findings from the study showed that majority of SMEs owners have positive attitude towards accounting record keeping, although most of these do not keep complete bookkeeping and accounting records because of lack of accounting knowledge. This makes it difficult for the entrepreneurs to calculate their business profit efficiently

Nyathi *et al* (2018) studied the role of accounting information in the success of SMEs in Harare in Zimbabwe. The findings of the study revealed that the majority of small to medium enterprises do not keep accounting records at all. It observed that to those who record only keep personal jotters, which are not sufficient to provide information for economic decision, making. The study also revealed that small to medium enterprises keep accounting information for security reasons rather than decision-making. This was attributed to limited accounting knowledge to use tools such as ratio analysis for decision-making. The majority of small to medium enterprises were found not to be utilizing accounting information as a decision-making tool. It was also found that SMEs in Harare hire unskilled accounting personnel, which make their information unreliable and inadequate for decision-making purpose.

Some researchers (Nyamwanza, 2014; Manyani, 2014; Gombarume and Mavhundutse, 2014). have studies SMEs, focusing on different study problems such as management, accounting and financial needs and challenges, causes of small business failures. But only a few (Nyathi *et al*, 2018; Musah, 2017) have investigated the impact of accounting information on SMEs performance. They have pointed out that, some SMEs do not have proper accounting records, while some rely on accountants for record keeping and some face difficulties in evaluating business success. Despite the findings, other researchers did not mention some of the main issues like; what type of accounting information is used or kept by SMEs and also the benefits that have been attained after keeping accounting records. Moreover, among the studies, few studies have been done in Masvingo urban.

3. Materials and Methods

The study design was characterized by the collection and analysis of quantitative data. This study was aimed at the responsive type of research that is the survey research design was selected since it attempted to ascertain knowledge and opinions on use and effects of accounting information in small firms. This approach was chosen because of its logic in deducing inquiry and its reliability in data collection.

3.1 Collection

Closed format and open-ended questions were used to gather data and answer the research question. Closed format questions provide a number of alternative answers from which the respondent is instructed to choose from and the open-ended questions give respondents wide latitude of various responses.

Table 1: Projected population and sample

Target Population	Anticipated sample	Data collection technique
Masvingo City Centre	20	Questionnaires
Mucheke	20	Questionnaires
Rujeko	20	Questionnaires

3.2 Research Instruments

The questionnaire was used in this study to collect data so as to find solutions to the problem under investigation.

4. Discussion of results

A sample of 60 respondents were given questionnaires. They managed to fill in and returned them to the researchers. The purpose of the study was to investigate the effects of accounting information on the operations of SMEs in Masvingo Urban.

4.1 Accounting Records

SMEs should keep all types of accounting records because they are all important towards better performance of the business. Financial statements are the most important report of a business. They are prepared from information extracted in the trial balance. The purpose of these statements is to show the reader the financial position, financial performance and cash flows of a business as well as other useful information concerning the business. The findings have shown that 39% keep or maintain books of accounts. Keeping and maintaining accounting information will have a positive impact on the operations of a business.

4.2 Types of accounting records kept and maintained by SMEs

Keeping and maintaining all accounting records is a must as it helps not only measuring performance but also helps in decision making (Edwards and Hermanson, 2011). The results show that only 10% of respondents keep and maintain the profit and loss account. This supports the assumption that SMEs do not know whether they are making a profit or loss. The debtors and creditors accounts are only kept and maintained by 20% of the respondents. This also supports

the notion that SMEs do not keep prime books of prime entry. However, the research has also shown that 40% of respondents keep and maintain the Profit and Loss account, debtors and creditors account, stock account and financial statements. This is in contrast to the assumption that SMEs fail to follow the general accepted accounting practices.

4.3 Basic accounting procedures implemented and applied in SMEs

According to Celender (2013) the accounting cycle or procedures involve five steps which are source documents, Journals, Ledger accounts, Trial balance and financial statements. The findings of this research has identified that 100% of the respondents use source documents (sales and Purchase receipts), while 66.7% and 60% of respondents use sales and purchase journals respectively, 50% of the respondents use ledger accounts and at least 48.4 % do trial balance and final accounts. These findings have proved that over 50% of the respondents have embraced the basic accounting procedures and are consistent with the accounting cycle.

4.4 Education and Accounting training

The findings have revealed that, SMEs lack proper education on how to keep accounting records. Only 30% of 60 respondents had proper education on record keeping. Most of them attained this education from the schools and universities they attended. This lack of proper education on record keeping is the main reason why they do not keep accounting records in the first place and hence impacting negatively on performance in the business operations. This is consistent with the findings of Majoni, Matunhu and Chaderopa (2016) who indicated that proprietors with business related qualifications tended to survive 30% more than non-qualified proprietors and thus contributing to the high failure rate of businesses.

4.5 Benefits of accounting information

The researcher examined the SMEs who keep accounting records to determine the benefits that accrue to their business by keeping accounting records. It was noted that proper accounting practices and balancing books of accounts has resulted in some businesses progressing so well that they have managed to expand their enterprises into two or more branches. The findings showed that 41.4% of the respondents actually expanded their business by keeping proper accounting records.

Many businesses fail because of the failure to manage debts. It was noted that debt management was achieved by maintaining creditors and debtors' books of accounts. Thus, through creditors account a business owner can know which supplier has not been paid. This helps the business owner to avoid any penalties which will affect finances negatively. Through debtors account, a business owner can know which customers have not paid their debt yet. This will help the business keep proper cash management throughout and avoid bad debtors.

After balancing books of accounts, financial statements are prepared and every other account. These statements facilitate a business owner to access bank loans as bank requires copies of financial reports that include financial statements and cash flows. Keeping such records, a business owner can easily access bank loans which can be used to expand the business. Only 34.4% of the respondents managed to access loans after keeping proper books of accounts. This is consistent with the findings of Gombarume and Mavhundutse (2013) who alluded to the fact

that SMEs must keep proper accounting records so that when they approach financial institutions seeking loans, they will be evaluated against their past performance thereby enhancing their chances of securing a loan.

5. Conclusions

Accounting information is useful in assessing profitability, measuring performance and evaluation of the position of enterprises in terms of profitability, liquidity and taking alternative courses of action were necessary. Thus, it can be concluded that proper accounting information management is a key to SMEs success. A considerable number of SMEs keep or maintain books of accounts. It has also been proved that those who keep and maintain accounting information have a positive impact on the operations of their businesses.

Most of the SMEs lack the basic training in book keeping or accounting as it has also been proven that this has led to high failure rate of businesses. Accounting information has several benefits also among them business expansion, debt management, and access to loans. Thus keeping accounting information will not only help in monitoring performance but will also help in decision making and proper recognition from financial institutions.

6. Recommendations

The study established that SMEs should put in place measures that ensure proper training in book keeping and accounting for the business owners and their employees. Government through its various departments should encourage SMEs to use consultancy services especially on preparation of trial balance and financial statements.

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