

# **GREAT ZIMBABWE UNIVERSITY**



**FACULTY**

**OF COMMERCE**

**THE IMPACT OF FINANCIAL ACCOUNTING IN THE DECISION MAKING  
AND COMPETITIVENESS OF SMEs IN MASVINGO**

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**REG NO: M121415**

**SUBMITTED TO GREAT ZIMBABWE UNIVERSITY IN  
PARTIAL FULFILMENT OF THE REQUIREMENTS FOR MASTER  
OF COMMERCE DEGREE IN PROFESSIONAL ACCOUNTING  
AND CORPORATE GOVERNANCE**

**MASVINGO, ZIMBABWE**

**YEAR 2021**

**GREAT ZIMBABWE UNIVERSITY**

**RELEASE FORM**

NAME OF AUTHOR : JEAN CHIPURIRO  
TITLE : THE IMPACT OF FINANCIAL ACCOUNTING IN THE  
DECISION MAKING AND COMPETITIVENESS OF  
SMEs IN MASVINGO

DEGREE FRO WHICH  
PRESENTED : MASTER OF COMMERCE DEGREE IN  
PROFESSIONAL ACCOUNTING AND  
CORPORATE GOVERNANCE

YEAR GRANTED : 2021

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I, the undersigned certify that I have read and recommend to Great Zimbabwe University for acceptance ;a dissertation entitled “The impact of financial accounting in the decision making and competitiveness of SMEs in Masvingo, ”submitted by Jean Chipuriro in partial fulfilment of the requirement for Masters of Commerce Degree in Professional Accounting and Corporate Governance.



**28/02/2024**

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## **DEDICATIONS**

This research is dedicated to my family and friends. They have instilled in me a love of education, the value of hard work, and a dedication to the completion of my goals. They taught me the importance of putting God first in all my endeavours.

## **THE ABSTRACT**

The study set out to determine the impact of financial accounting in the decision making and competitiveness of SMEs in Masvingo and establish the level of uptake of the accounting standards by these small firms. For the purpose of this study descriptive survey design was adopted. Questionnaires and semi-structured interviews were used as research instruments. Questionnaires were distributed to a sample of 30 SMEs and interviews were conducted from 12 selected SMEs from the sample. The research findings indicated that challenges which small business were facing in the process of adoption of financial accounting (standards) for SMEs were little awareness of the standards, lack of necessary skills and expertise to adopt and implement the standards. The research also found out that the level of uptake for the IFRSs and standard was very low. The researcher recommended that the government should put in place regulations which controls and ensure that SMEs are preparing proper financial records so that the implementation and adoption process would be easier. In addition, Small and Medium Enterprise Development Corporation in conjunction with professional bodies such as Institute of Chartered Accountants in Zimbabwe should frequently conduct educational workshops to raise the awareness of IFRSs for SMEs across the country and to educate the entrepreneurs of the benefits that accrue if IFRSs are adopted. The study also recommended SMEs to gradually adopted the standard as they have long-term benefits like such as being able to access funding and improve in the quality of their decisions

there by gaining market shares. The work conducted was important as few researches of this nature have been conducted across Zimbabwe.

## **ACKNOWLEDGEMENTS**

In carrying out this research, a lot of people too numerous to list by name helped me with invaluable support. I want to thank most sincerely my supervisor Dr.J.Bemani for encouragement, assistance and guidance throughout the process of carrying out this research. I would also like to express my gratitude to the management team at Ministry of Local Government and Public Works who generously allowed me time to carry on out my studies. My colleagues also helped me a lot with material and assisted with tutorials. Special thanks are also going to my family for their time and encouragement.

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# **CHAPTER 1**

## **INTRODUCTION**

### **1.0 INTRODUCTION**

The shift in the global economic activities from the formal more into the informal sector has seen the growth of Small and Medium Enterprises in Zimbabwe and beyond. The performance and competitiveness of these entities become of interest to several stakeholders such as development economists, Zimbabwe Revenue Authority, government, capital firms, financial institutions, entrepreneurs, accounting bodies and –governmental organizations (Abipdun and Harry, 2016).

The players in the SME sector were propped by positive policies that encouraged the growth and sustainability of this sector. In July 2009, the International Accounting Standards Board produced International Financial Reporting Standards for Small and Medium Enterprises. This proved to be major breakthrough for SMEs in improving transparency and comparability (Marcellan, 2009)

However, some stakeholder and researchers continue to allege that SMES do not keep proper financial records (Zivanai, Chari and Nyakurimwa, 2016). It is against this background that this study seeks to examine the impact of financial accounting in the decision making and competitiveness of SMEs have adopted financial accounting practices in their decision making. The chapter also covers the background to the study, statement of the problem, related research objectives and questions.

### **1.1 BACKGROUND TO THE STUDY**

The unfavorable economic and environmental factors such as the drought of 1992, 2002 and 2007/2008 led to massive retrenchments, closures and downsizing of most large companies. At the same time, economic downturn induced by policy changes such as indigenization policy, unsystematic land reform program, lack of foreign direct investment, dwindling investor confidence, liquidity crunch, inflationary environment of the Zimbabwe dollar era and economic crisis caused by the corona virus pandemic saw many companies closing shops or shifting their businesses to other countries in the region (Zivanai et al ,2016).

The economic downturns increased poverty levels in towns and cities and the informal sector economy surfaced taking advantage of the economic meltdown. This scenario led to the developments of SMEs street food processing, tuck-shop operation and other micro, small to medium enterprises became the livelihood source for most of these people as indicated by Ndiweni et al(2014). The decline in manufacturing companies in Zimbabwe both in number and production capacities caused the drop-in export and foreign exchange earnings.

According to Masarirambi (2013), by 2013, Zimbabwe had 3.5 million SMEs. The growth, however did not transform into formalization of the sector as it remained hidden and uncontrolled as the government and the tax authority struggled to collect much tax revenue as indicated in the study carried out on SMEs in Zimbabwe by Finmark Trust in 2012, whose findings indicated that only 2% of the 3.5million SMEs paid tax to ZIMRA, meaning to say 98% of them are evading tax.

SMEs in Zimbabwe constitute 85% of the economic activity and contribute half of the country's gross domestic product (GDP)as highlighted by ZIMSTATS (2012).ZIMRA (2016) claimed that this growth of the sector did not transform the sector into being a major contributor as for the period 2015 to 2018, presumptive tax which is the major tax head designed for SMEs was insignificant to be reported in the annual revenue reports as an individual item but under the heading "other Taxes". On interrogating the possible causes of this tax compliance challenge, Zivanai et al (2016) and Maseko and Manyani (2011) agreed that SMEs do not keep proper financial accounting records and this makes it difficult for ZIMRA to collect significant tax revenue.

In the same vein, the study made by Wadesango (2015) established that 80% of the economic activities in Zimbabwe rest in the hands of SMEs but 75% of them normally close shop or remain small and not graduate into big firms.

Jayabalan ,Raman,Dorasamy and Ching(2009)concluded that SMEs often face challenges in sustaining competitiveness in the corporate world because they fail to handle their accounting function in critical areas such as costing ,expenditure and cash flow management as well as adopting new accounting information system that lead to better strategic decisions. In contrast ,owners who can use their financial statement



can evaluate the impact of their decisions and assess the available financial information to manage their business (Breen, Sciulli and Calvert 2004). With this varied information on SMEs economic potential, the need to understand the impact of financial accounting practices in the decision making processes of SMEs, the extent to which SMEs have adopted IFRS and accounting IAS is of paramount importance to tax specialist, government, business community and researcher's view that understanding the variables, financial accounting practices, decision making and competitiveness and their effect on each other is expected to raise revenue collection for the state, macroeconomic stability, development and growth of SMEs and open lines of credit.

Online platforms are central in the development of digital economies and societies. Online platforms can be pure intermediaries, direct service providers, employers, lenders or indeed a combination of all. It is difficult to overstate their role in the rapid development of the internet economy from a low starting point to the current relevant reach and influence. The global COVID-19 pandemic and the related requirements for social distancing has accelerated these trends. However, to date researchers have not shown much how the adoption of financial accounting practices by SMEs in Zimbabwe improved decision making and competitiveness. Hence, it was the objective of this study to fill the knowledge gap.

## **1.2 STATEMENT OF THE PROBLEM**

SMEs globally constitutes more than 98% of the companies operating in the economy of countries such as United Kingdom, United States of America, Japan, Malaysia, Thailand, Indonesia and Zimbabwe included. This means that they contribute significantly with regards to income generation, entrepreneurship, job creation and employment (Ahmad, 2017). Despite being so important economically and socially, 75% of them normally crumble or remain one-man businesses which do not graduate to become big firms but face extinction upon the death of the proprietor. Little known studies have been done to establish this negative pattern, notwithstanding the fact that Zimbabwe Accounting Practices Board and Public Accountants and Auditors Board adopted financial accounting guidelines for SMEs aiming at improving corporate

decision making, accountability, sustainability and compliance. So, addressing this knowledge gap was the primary objective of this study.

### **1.3 RESEARCH OBJECTIVES**

Two sets of research objectives have been discussed, that is primary and secondary objectives.

#### **Primary Objectives**

The study sought to establish the impact of financial accounting in the decision making and competitiveness of SMEs in Zimbabwe with special emphasis in Masvingo for the period 2015-2020.

#### **Secondary Objectives**

The study sought:

- To determine the adoption level of financial accounting practices by SMEs in Zimbabwe.
- To identify the benefits SMEs are set to enjoy by adopting financial accounting practices in their decision making.
- To investigate the challenges faced by SMEs in the uptake of financial accounting practices in Zimbabwe.
- To recommend ways the government and other stakeholder could enhance the adoption of financial accounting practices by SMEs in Zimbabwe.

### **1.4 RESEARCH QUESTIONS**

The following questions were formulated to assist the researcher in dissecting the study area:

- To what extent have SMEs adopted financial accounting practices in their decision making?
- What are the benefits SMEs in Zimbabwe are set to enjoy by employing financial accounting practices in their operations?
- What are the challenges faced by SMEs that are found in full implementation of financial accounting practices in their operations?

- What practical conclusions and recommendations that can be drawn from this study?

### **1.5 JUSTIFICATION OF THE STUDY**

This study sought to investigate accounting bases, concepts and principles as well as accounting records that are being adopted by SME's in their day to day operations .The results of the study would help SME's understanding the accounting skills and knowledge that they can use in their business when formulating strategic decisions that enable them to remain competitive in the business world.

The results of the study have import implications for national economic reforms. The findings and analysis of the study would help the government to understand the extent to which SMEs have adopted best accounting practices and challenges they are facing if any, in the implementation of financial best practices.

ZIMRA once lamented that SMEs are contributing far more to output and employment than to tax revenue. Most SMEs are neglecting the need to honor their statutory obligation of paying taxes. In the same vein, the tax authority is finding it difficult to collect revenue from the sector because SMEs are struggling to maintain basic financial records which form the basis for tax computation. So ZIMRA is set to benefit from this research as it seeks to address the challenges faced by SMEs in the uptake of financial accounting best practices in their day to day operations.

The research findings are expected to generate some interest in SMEs accounting regulation and motivate further research in thefield. Also, the output of this research would serve as an input for other researchers to explore further than the observed points.

The researcher also stands to benefit from this research as it enables the researcher to get an in-depth appreciation of SMEs accounting regulation and research skills. Also, it is an important requirement for the researcher in attaining Master of Commerce in Professional Accounting and corporate Governance Degree.

## **1.6 SCOPE OF THE STUDY**

The research focused on the impact of financial accounting in the decision making and competitiveness of SMEs in Masvingo. The analysis also focused on the adoption level of financial accounting practices by SMEs, benefits SMEs enjoy by implementing financial accounting practices, as well as challenges being faced by SMEs in the implementation of financial accounting decision making and competitiveness.

The research period is from 2015 to 2020, Accounting Practices Board and Public Accountants and Auditors Board adopted financial accounting guidelines for SMEs in 2011. In addition, and the target population covers 30 SMEs in Masvingo.

## **1.7 ASSUMPTIONS OF THE STUDY**

In carrying out this research, the researcher made the following assumptions:

- There would be a reasonable cooperation from SMEs in Masvingo province.
- SMEs in Zimbabwe adopted the International Financial Reporting Standards in 2011 when the accounting regulatory boards adopted them.
- The researcher would respect the ethics and different background of respondents during the study.

## **1.8 LIMITATIONS**

The researcher would need to gather information in the province thus in districts. It is not surprising that the study of this magnitude has cost implications in terms of transport, materials and time to the researcher and respondents. The researcher required a substantial amount of money to travel to different locations in Masvingo to gather data. To address this limitation, the researcher restricted the study to Masvingo, Chiredzi and Gutu districts.

The study was also being done within a limited period since the researcher is a full-time employee. Data collection processes and analysis consume a lot of time; as a result, only 30 SMEs were regarded adequate for this research. In view of the sample size, the study has limited generalizability.

## **1.9 CHAPTER SUMMARY**

The fact that SMEs normally crumble or face extinction upon the death of the proprietor, notwithstanding the point that they contribute significantly to the GDP, challenged the researcher to make an analysis on the impact of financial accounting in the decision making and competitiveness of SMEs. The chapter gave an overview of the statement of the problem, objectives, question, limitations, justification and organization of the study. In Chapter 2, the researcher makes a detailed survey of related literature.

## **1.10 ORGANIZATION OF THE STUDY**

The research study is organized into five chapters. Chapter one is an introductory chapter which outlined the need for research and research objectives and questions to be addressed by the study. Chapter 2 discussed theories and literature related to the topic under investigation. Chapter 3 outlined research methodology, descriptions of research design, the population, the sample and sampling techniques and research tools used to collect data. Chapter 4 focused on data presentation and analysis. Chapter 5 covered summary of findings, conclusions and recommendations as well as areas for further research.

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **2.0 INTRODUCTION**

The study focused on financial accounting in the decision making and competitiveness of SMEs in Masvingo. In doing so, understanding the effect of financial accounting on business decisions and business competitiveness requires attention from scholars and entrepreneurs. It is the intention of the researcher in this chapter to examine the adoption level of financial accounting practices by SMEs in Masvingo and to discuss the benefits, and challenges faced by SMEs in their quest to fully implement financial accounting practices are also discussed. Conclusions about the findings in the literature review are drawn at the end of the chapter.

#### **2.1 THEORETICAL PERSPECTIVE**

The research is going to focus and discuss the following important concepts and terms concerning this study, general overview on accounting regulatory bodies, IFRS for SMEs, SMEs, financial accounting, decision making, competitiveness definitions and relevant information in support from different authors, scholars and standards.

##### **2.1.0 Accounting Regulatory Framework for SMEs**

It is important to note that quality of accounting information is important when making financial management decisions for any size of the business. SMEs are usually being subjected to simplified accounting standards. They are not required to be audited by statutory. Because of the intricacy of full IFRS to apply, many SMEs were failing to adopt them thereby the quality of reporting was being compromised. Comparability of financial information of different SMEs across the globe was difficult, also small businesses are failing to access competitive loans from multinational financial lenders (Perera & Chand, 2015).

##### **2.1.1 IFRS for SMEs**

The International Financial Reporting Standard for Small and Medium -sized entities (IFRS for SMEs) is a set of high quality financial reporting principles that is tailored to the capabilities of smaller businesses and for the needs of those who use small-company financial statements (International Accounting Standard Setting

Board,2016).These standards apply to all entities that do not have public accountability i.e. if entities which does not file its financial statements with a securities' Commission or other regulatory organisation for the purpose of issuing any class of instrument in a public market ,or if it holds assets in a fiduciary for a board group of outsiders(Price water house Cooper,2009)They were published in July 2009 for adoption by smaller entities after a Discussion Paper in 2004 and Exposure Draft in 2007.Which were as a result of the International Accounting Standard Board (IASB) project to consider reporting issues for SMEs (Enerst and Young,2010)

IFRS for SMEs is founded on simplified recognition and measurement principles and numerous easy accounting policies. Topics that are irrelevant to SMEs have been left out, for example earning per share, interim financial reporting and segment reporting (Perera and Chand, 2015).

### **2.1.2 Small and Medium Enterprises**

Atawadi and Ojeka (2012) indicate that SMEs are characterised by uncertainty innovation and evolution. They are usually small, owner or family manged business offering basic goods and lack organisational management structures. He went on to say these businesses do not have separate legal liability, and they are characterised by a few numbers of employees and owner's low level of education.All the researcher in the SMEs development seem to agree that there is no universal definition of the term SMEs, as it differs from one country to another but there are some characteristics common that forms the definition.

The Confederation of Zimbabwe Industries (CZI) in their newsletter (2010) AS CITED by (Chipangura& Kaseke,2012)had another dimension of defining an SMEs where they state that defines a small business is the one with an employment capacity of one to twenty hired employees and an annual turnover below USD 4million dollars .It goes on to define a medium scale enterprise as the one with an employment capacity of twenty -one to thirty-five hired employees and an annual turnover of USD 4 million dollars to USD 4.5 million dollars.

The European commission defined SMEs basing on employment level. Firms with employees up to 9 is regarded as micro enterprise, while firm worth 10 to nine is regarded as classified small enterprises. Firms with 100 to 499 employees are

classified as medium enterprises. In Zimbabwe, the Small Enterprises Development Corporation quoted in Wadesango (2015) defined SMEs as firms that has less than 100 employees and with a maximum annual sales level of up to 830,000. Therefore, for the purpose of this research the definition given by the Government of Zimbabwe through the Ministry of SMEs. The researcher used this Masvingo definition because this will enable the researcher to reach as many SMEs as possible and as the research study is done in Masvingo. Dumbu (2015) further says SMEs are small businesses that are a result of individual or family self-employment. Most SMEs in Masvingo employ between one and fifty employees according to SEDCO Annual report. This study will focus on SMEs in Masvingo.

### **2.1.3 Financial Accounting**

Financial accounting is a critical service area in all entities, small, medium and large, as it contributes significantly to the success or failure of business. Smirat (2013) defined financial accounting as a system of recording, analysing, monitoring, evaluation of financial transactions as well as preparation of financial reports for tax purposes and decision making. Accounting information is important for SMEs as it provides information for businesses to manage their short-term problems of costing, expenditure and cash flow. The above author went further to highlight that accountants and accounting systems are the providers of accounting information and this information is presented in financial statements such as statement of comprehensive income and balance sheet. The function of the accounting system is to analyze and monitor the financial conditions of companies, production of financial documents and information for tax purposes and any other function such as production of financial documents and information for tax purposes and any other functions such as production, marketing, human resources management and strategic management. So, the quality of information produced by the firm is paramount in making business decisions.

Matamande et al(2012) looked at the concept as process of identifying, analysing, calculating, classifying, recording, summarizing and reporting transactions and events as they happen. This is only possible if proper financial records are maintained. On the same note, Siyamapiki (2003) looked at financial accounting as a process of communicating financial information on the financial performance, position and



change of position of the firm over a period of time to stakeholders, for them to make financial decisions.

The above explanations spelled it that financial accounting is a language communicated to a group of specific individuals. Shayamapiki (2003) proceed to identified the following as some of the crucial groups:

- Employers-refers to suppliers of labour and they use financial accounting to assess the stability and profitability of their employers as well as assessing future job opportunities that the employer may offer them.
- Creditors- refers to entities who supply goods and services to the organization on credit. They need the information to calculate the creditworthiness of the firm, that is, knowing whether their claims to the firm will be met when they fall due.
- Investors/Suppliers of Capital Risk-these require financial information to calculate their return on investment as well as risk associated with their investment.
- Customers-consumers of the company's goods and services need to know whether the firm will continue to exist will continue to exist in the foreseeable future offering them their products and services.

Government –it survives mainly through taxes collected from businesses through ZIMRA.Taxes are arrived at basing on the financial statements of the respective companies, hence the importance of financial accounting.ZIMRA (2014), explain that the operation of SMEs may give rise to tax obligations of different types of SMEs. In Zimbabwe SMEs are subject to different types of taxes. Taxation of SMEs in Zimbabwe falls into the following categories, as per ZIMRA (2014) publication:

i) Presumptive tax    ii) Income tax    iii) Value Added Tax (VAT) iv). Pay As You Earn tax

- Society –it is through financial accounting that population at large can ascertain the contribution the firm is making to the economy as well as creation of job opportunities.

Mazhindu and Mfuba (2013) looked at it as a process of analysing and systematically recording company transactions in monetary terms, summarizing, reporting and reporting and interpreting the outcome. All the researchers whose works have been discussed above seems to concur that financial accounting is concerned with recording of financial events of an entity taking cognizance of financial bases and regulations governing the industry, as well as reporting the results to stakeholders for them to make financial and strategic decisions. In addition to identifying the users of financial information, the above definitions acknowledge that financial accounting's main function is to keep systematic records of transactions and events. Wichman (1983),Walhstedt (1996);McMachm (1999) and Zhou(2010) cited in Zivanai et al (2004) agreed that the following accounting records form the basis for any sound and proper accounting system of an entity ;sales day book, purchases day book, cash receipt book, petty cash book, general journal ,nominal ledger, debtor's ledger and creditors ledger.

Jayabalam; Raman; Dorasamy and ChingChing (2009) agreed that for an entity to accurately measure, communicate and interpret financial activities for the benefit of managers, shareholders, investors, employees, creditors and the government. The following accounting functions are important;

- Accounts receivables: this function handles customer records, and it is important in making decisions pertaining to offering credit to customers, service billing and maintaining good reports with customers. The quality and adequacy of the records of this function exhibit the firm's credit and collection policies' effectiveness.
- Accounts payable: This function handles records of goods of suppliers of goods and services. Financial decisions pertaining creditors payment, trade and cash discounts negotiations are based on the effectiveness of this function.
- Inventory accounting: The function is responsible for control and activity of trading stock. The records help in maintaining adequate stock levels and when calculating turnover ratio.
- Cash records: Cash is the life blood of every business. Records of receipts and payments are important as they provide information on cash flows and cash equivalents.

- Payroll: In business, one incurs a cost in order to earn revenue. The function keeps employee records on salaries paid, and these records forms the base for PAYE and other payroll levies paid to NSSA.
- Fixed asset accounting: Assets register is important as it shows asset valuation and depreciation methods used by the ends. The fixed asset base shows the firms net worthiness.
- Accounting Information System (AIS): Computer based system that process financial information and supports decision making in coordinating and controlling organization activities.

#### **2.1.4 Decision Making**

People get into different sorts of business ventures with the objective of making profit. To make profit, the firm in its course of business, it has to make the best choice out of all the available choices; this brings us to the concept of decision making. Mbroh and Assah (2015) defined decision making as a course of action which is diligently taken from a set of available alternatives with the objectives of achieving the designed result.

Heath and Heath (2013) as cited in Mbroh and Assah (2015) looked at decision making as a management function concerned with making a business choice from available business alternatives. All the authors cited seem to agree that a decision is just a choice made out of available options and this option is the most profitable out of available options, and is made within the context of the business objectives. Several decisions are made in business, and the choice of strategy is based much on the structure of the business sector the firm operates in and the position of the entity within the sector. The study focuses much on financial decisions usually made by SMEs in their quest to improve their competitiveness and development in their line of business.

Financial decisions are goals, paths or choices in the context of financial analysis and planning designed to achieve and maintain business competitiveness and position of the organization as a class entry. Ross, Westerfield and Jordan (2000) categorized financial decision into three main classes mainly investment decisions, funding and working capital decisions.

- Investment decisions: is concerned with the allocation of capital to assets that generate satisfactory economic satisfactory benefits to the company taking significance of the magnitude, opportunity and risk of the future cash flows in the short or long term
- Funding decision: These are choices concerned with coming up on optimum capital structure. This is the desired mix of long-term debt and capital that a firm can raise from banks, owner's savings, relatives and friends in order to finance its operations.
- Working capital decisions: They are concerned with the optimum usage of short-term assets (debtors, inventory, cash and bank) and liabilities (creditors and bank overdrafts) in a manner that ensures adequacy of resources for the smooth running of business operations.

In support of the author above, Salazar, Soto and Mosqueda (2012) argues that financial strategic decisions are important for the organisation to achieve its objectives of profit maximization, hence, there is need to maintain a balanced combination of the above-mentioned financial decisions, and these financial strategies need to be consistently evaluated and adjusted for the operations, requirements and specificities of the company. However, for all this to happen, financial accounting information is of paramount importance.

### **2.1.5 Competitiveness**

Business competitiveness is a collection of all the factors that build a company, small, medium or large apart from its competitors and gives it a special position in the market different from other firms offering the same products and services, as put forward by Musanzikwa (2014). Today's business environment is so competitive, as a result of globalization to the extent that just providing a service is not enough for a company to survive competition, the company has to develop financial strategies that in turn enables the firm to develop a set of core competences that enhances its service delivering better than its competitors. The author further defined core competences as unique set of capabilities that a firm develops over time in the important areas such as superior quality, customer service, innovation, team building, flexibility and responsiveness to customer needs

Although there is not just one conceptualization of competitiveness, several approaches make reference to multiple factors that in one way or another affect the competitive position of companies and entire sectors of production. According to the World Competitiveness Report there are three levels of competitiveness

a) Enterprise Competitiveness, which is defined as the ability to design, produce and market goods and services that are more attractive than the competitor benefits package (Chauca,2003).

b) Sector Competitiveness, which implies that a sector offers high returns on investment and is in a strong growth stage.

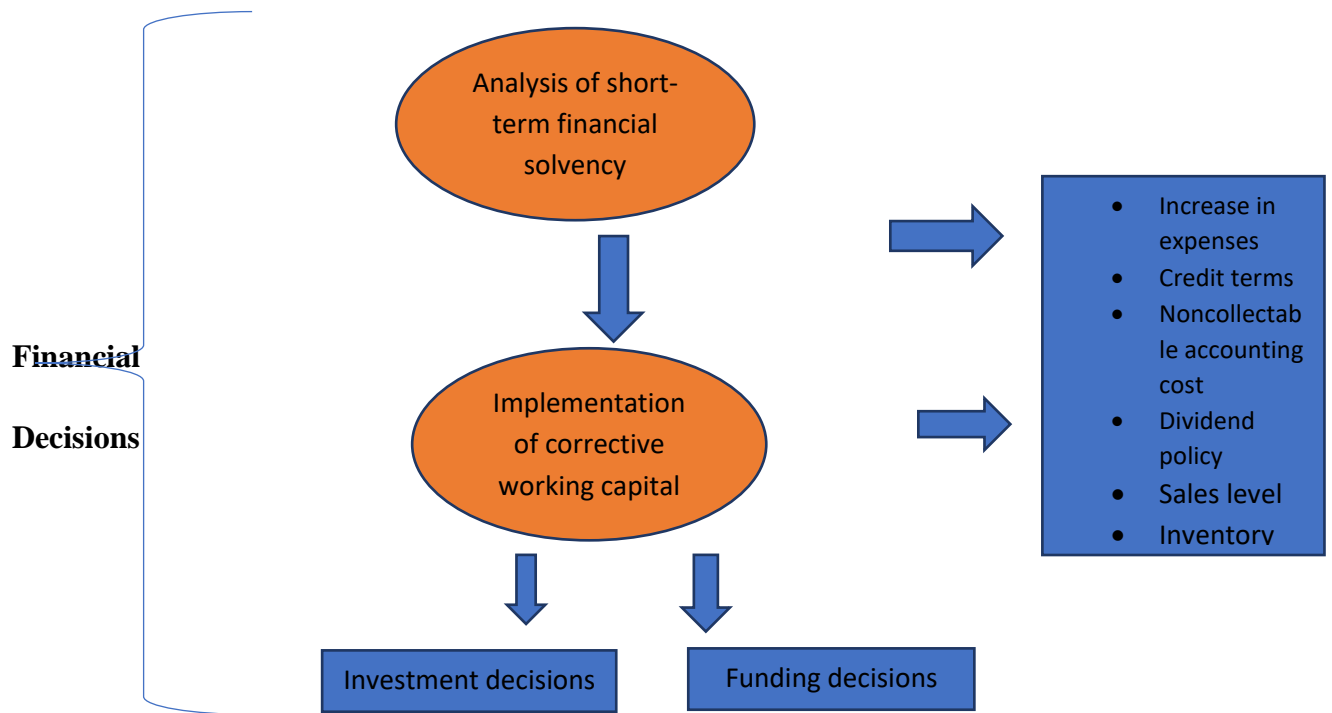
c) National Competitiveness, defined as the ability of a nation to provide an economic, political, social and labor environment favorable to organizational development.

Metcalf, Ramlogan and Uyarra (2003) cited in Organization for Economic Corporation and Development (OECD) (2004) argued that competitors of a firm are found in three aspects namely;

- The efficiency and effectiveness in the use of the resource
- The willingness and ability to invest the profit in the growth and capacity development of the firm
- The ability to adopt innovation in technology that in turn improve efficiency and effectiveness of a company.

Taking into account all the factors mentioned by the above cited researchers, this means competitiveness at firm level has a bearing on sector and national competitiveness, and the government has an important role to play in refining and shaping businesses competitiveness, enacting sound government policies that enhance stability in the macroeconomic environment. Also, the ability of the firm to remain in the business for a long period is a sign of business competitiveness. Also, to note, competitiveness is measured by sales level and firm age. High sales level signifies high customer base and those sales are not being affected by business seasons. The relationship between the variables that form the basis of this study, that is, financial

accounting, decision making and competitiveness modelled by Salazar et al (2012) below



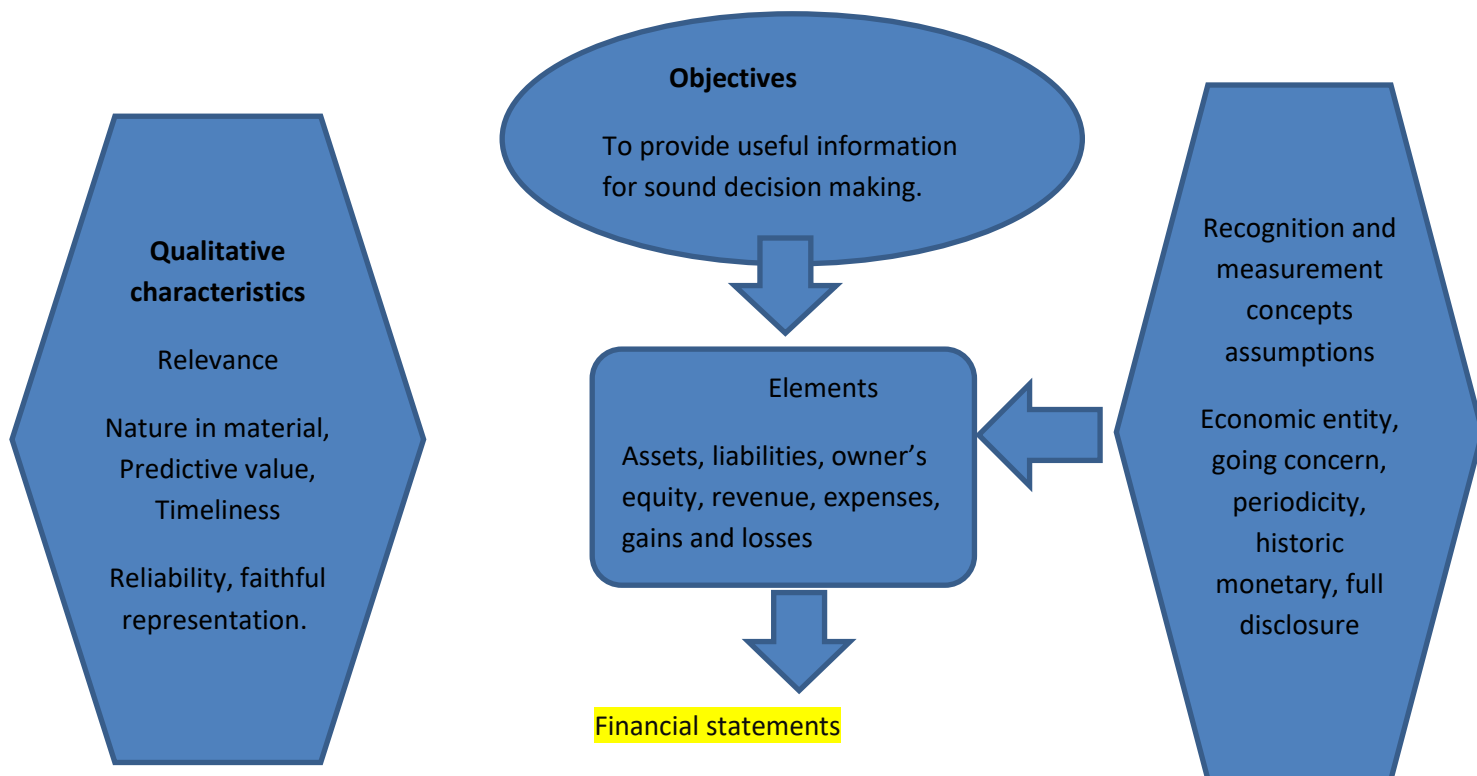
**Fig 2.1 Financial Accounting and Decision-Making Model**

## 2.2 CONCEPTUAL PERSPECTIVE

After formulating the theoretical framework, the researcher has to develop the conceptual framework of the study. Chinn and Kramer (1999) define a concept as a “complex mental formulation of experience”. While the theoretical framework is the theory on which the study is based, the conceptual framework is the operationalization of the theory. It may be an adoption of a model used in a previous study, with modifications to suit the inquiry. Aside from showing the direction of the study, through the conceptual framework, the researcher can be able to show the relationship of the different constructs that she wants to investigate.

Independent variables of this study were identified as business ownership, inventory management, financial reporting, investment decision and Funding decision. Financial reporting practices are measured by relevance, accuracy and timeliness. The financial management practices are measured by financial planning, Uses and acquisition of funds, financial decision, improving profitability. Financial record keeping is

measured by Accounting record, Accounting knowledge and awareness, Qualified Accountants, Bookkeeping and Accounting procedures. Inventory management are measured by Physical safeguards of inventory against theft, determine the level of inventory, Inventory count, Periodic summery of inventory usage. Dependent variables for this study were financial performance of SMEs.



**Fig 2.2: Financial Accounting Framework**

The field of financial accounting can be summarized through a conceptual framework as put forward by Mazhindu and Mafuba (2013) in Fig 2.2 above.

### **2.2.0 Adoption level of financial accounting practices by SMEs in Masvingo**

According to SEDCO (2010), 80% of the economic activities in Zimbabwe are being performed by SMEs, while large firms only handle the remaining 20%. This means that the SMEs sector is contributing immediately in developing entrepreneur and management skill. However, this contribution is dented by the fact that 75% of them remain struggling in the SMEs category and don't graduate into large firms as noted by Wadesango (2015).

Zivanai et al (2014) carried a study on "Assessment of record keeping as an aid to risk management of SMEs in Bindura from 2009-2013".56 SMEs were chosen from retailing, transport, steel fabrication, tailoring, food processing and saloons. A retrieval rate of 77%

was obtained from the questionnaires distributed .The study used the Pearson correlation coefficient to the relationship between the accounting records and risk management practices by SMEs .The study reviewed that most SMEs owners and managers lacked sound knowledge in accounting and financial management ,neither do they employ or consult accounting officers in making operational decisions, hence their vulnerability to failure within the establishment phase as they are not phase as they are not covered against start-up risks. This notion was supported was by the study finding were only 8% of SMEs operated at a period of more than 10 years as the rest were in the infancy stage. Covered against start-up risks. supported by the study findings were only 8% of SMEs operated at a period of more than 10 years as the rest were in the infancy stage.

The study further measured the completeness and adequacy of accounting records among SMEs and noted that completeness and adequacy of the accounting record is very poor as shown by 60% and 72% of the respondent respectively who cited the two factors as the most in affecting the accounting records. Though the study noted that most respondents had the purchases day book, sales day book, expenditure book, payroll records and asset register, sub-standard bookkeeping practices such as not referring to double entry principals, business entity concept, matching or accrual concept and materiality concept are the major challenges faced by SMEs.

The study interrogated the usefulness of accounting records in making risk management decisions by SMEs, and noted that the majority (65%) of the respondent do not subscribe to the use of accounting respondent whenever they make risk management decisions. The failure to use accounting records mainly resulted from the fact most of those people who prepared the accounting records are the owners whose major level of education is the secondary level.

The study further measured the relationship between accounting records and risk management decisions and noted that 74% of the respondent agreed that there is a relationship between the accounting records kept and maintained and risk management decisions. The strength of co-efficiency and the results showed that at 10% level of significance there is a positive 66% correlation between accounting records and risk management decisions. The relationship proved that financial accounting is the backbone of sound business practices, decision making and maintainability of most business operations.



### **2.2.1 Identify the benefits SMEs are set to enjoy by adopting financial accounting practices in their decision making.**

The study further interrogated the benefits SMEs are set to enjoy by adopting IFRS for SMEs and found out that accounting facilities protection and safe guarding of business assets, there is better comparability of financial statements, built investors' confidence, foster tax compliance and allows SMEs growth through accountability.

According to literature ,financial reporting standards for SMEs have the characteristics of enhancing comparability of information and transparency which is of greater use to the users of financial statements Kilic,et al,(2014).It is important to note that high quality financial information produced by issued IFRS for SMEs will give small business a chance to access international finance .(Hussain,et al ,2012) is of the view that adoption of financial accounting standards for SMEs have the advantage of having an 'internationally recognised financial reporting framework for local SMEs, upgrade the profession's competency levels in the country through education and training ,reduce audit inefficiencies and ease the burden of financial reporting on small and medium entities in countries where full IFRS is now in operation. The researcher seeks to establish whether the sentiments made by Hussain, et al do hold water.

### **2.2.3 Investigate the challenges faced by SMEs in the uptake of financial accounting practices in Masvingo**

In countries where financial accounting for SMEs has been implemented, there has been some negative responses Ignorance about the existence of IFRS for SMEs, lack of separation between ownership and management of SMEs, lack of capacity and ignorance about the importance of accounting records are some of the challenges SMEs faced in maintaining proper accounting record that can foster sound decision making and business competitiveness. This part of literature review will provide with evidence of the challenges of adopting financial accounting for SMEs.

In Zimbabwe SMEs are lacking awareness and capacity in adopting the financial accounting for SMEs, Mazhindu and Mafuba (2013). the authors highlighted that the

challenge SMEs were facing from adopting the financial accounting was the failure to apply the standards. A similar study done in South Africa by Lekhanya (2013) showed that in Kwazulu-Natal rural area, SMEs owners lacked financial management skills and could not apply financial accounting well due to scarcity of training and skilled resources. Albu et al (2011) cited that an inadequate resource for implementation financial accounting was major setback for SMEs. Richardson and Eberlein (2011) pointed out that the operating language for the standard was English hence in countries where English is a secondary language, the standard gave problems for SMEs to apply it. An example was in Turkey where SMEs found it difficult to translate into local language. In Asian countries, Samujh and Devi (2015) concluded that the standard for SMEs was not yielding any benefit rather it posed a burden to growth and reduced entrepreneurship activities. The researcher tries to establish whether the sentiments advanced by Mazhindu and Mafuba do hold water.

### **2.3 EMPIRICAL FRAMEWORK**

In today's world, the word empirical refers to collection of data using evidence that is collected through observation or experience or by using calibrated scientific instruments. A study on the, "Evaluation of factors influencing adoption of accounting information system by SMEs in Chinhoyi" was done by Gwangwava et al (2012). The objective of the study was to identify benefits to SMEs of adopting AISs, establish factors influencing non-adoption of AISs by SMEs and to determine the effects on SMEs of non-adoption of AISs. To mention, 72 SMEs constituted the sample size. Questionnaires and interviews were used to gather information.

The study findings indicated that only 28% of the used accounting AISs in decision making, the high percentage of non-users (72%) are a result of the cost benefit perception, whereby the respondents believe that the cost associated with AISs outweigh the usefulness to their operations. Hence, they find it difficult to commit a lot of their resources in the implementation of AISs.

The study went further to analyse the efforts of non-adoption of Accounting Information Systems and noted the following consequences;

- Record keeping tend to be haphazard and chaotic
- SMEs produce poor accounting reports

- Failure to process customer orders in time
- Duplication of efforts
- Non-adoption of AISs affects the audit trail of SMEs transactions
- Reduced competitive advantage of SMEs
- Poor decision making from poor management reports
- Failure or collapse of SMEs

The same study interrogated respondents on the benefits of SMEs by adopting AISs. Results showed that 54% and 20% strongly agree that adoption reduces cost, improve quality of reports, enhance decision making and enhances flexibility in information generation.

An empirical research was also done by Kilonzo and Ouma (2015) on financial management practices on growth of Small and Medium Enterprises in Nairobi, Kenya”. The objectives of the study were;

- To scrutinize the effect of financing reporting and analysis practice on growth of SMEs in Kenya
- To determine the influence of AISs in the growth of SMEs in Kenya
- To examine how accounting planning practices, influence the growth of SMEs in Kenya
- To determine the effect of working capital management and investment practices on growth of SMEs in Kenya.

Primary data was collected from 41 SMEs, and questionnaires were used to gather data.

The findings of the study showed that most of SMEs in Nairobi adopted cash management practices as indicated by 75% of respondents who had accounts in commercial banks, while 12%, 9%, 4% held accounts in micro finance institutes and mobile phones respectively. In addition, the study established that most SMEs sold goods by cash as indicated by 75% respondents, and majority of them give receipts to customers, make cash flow projections, had a full-time cashier.

On accounts receivables management and inventory management, the study findings established that 85% of the SMEs do not sell goods on credit, and the few who sold on credit, gave the customers a period of 30 days. 95% of the respondent had an inventory register and periodically conduct stock take. In addition, the study findings revealed that

the majority (65%) of SMEs did not invest in long term assets but short-term assets. This implies that non-current assets are not efficiently utilized, and this affects the profitability of business. The study further revealed that most SMEs use internally generated funds than borrowing funds due to lack of collateral security and higher interest rates. The study noted that this is one of the factors that led to business failure of most SMEs.

The study findings further revealed that the majority of SMEs (55%) do not have formal accounting system, an accounting department, and 62% of the respondents did not employ accounts personnel responsible for the recording of the transactions. Also 72% of the SMEs did not use computer assisted software in recording transactions. This shows that the accounts departments in SMEs are not efficiently operated.

This study further tested the association between independent variable (working capital management practices, investment practices, financial planning practices, AISs, financial reporting and analysis practices) and dependent variable (growth of SMEs) using the Pearson product movement correlation co-efficient. The study findings established that financial management practices are major determinants of the growth of SMEs in Kenya as shown by the highest practice correlation co-efficient of 0.812 for working capital management, 0.638 for financial reporting, 0.655 for investment practices, 0.621 for financial planning and lastly 0.513 for accounting systems.

Perera& Chand,(2015);issues in the adoption of international financial reporting standards (IFRS)for SMEs.The study was aimed at going over the IFRS for SMEs including the implementation process of the standards .The researcher made use of secondary research by applying the framework of decision usefulness theory and the pecking order theory to evaluates matters concerning to development and implementation. The research result gave evidence that IFRS for SMEs have been a challenge for small entities to adopt and there are many theoretical and practical issues with the standard for smaller businesses. The researcher highlighted that the examinations and views that are provided by the paper will have implications when revising IFRS for SMEs and will help in addressing future complications in the SME convergence process. This study will seek to add to the Literature of the challenges facing SMEs by means of providing with empirical evidence.

## **2.4 RESEARCH GAP**

The key question remains; is there a specific accounting guideline for capturing accounting information by SMEs in our country? The study proposed that regulatory bodies should come up with some SMEs specific accounting guidelines and provide template forms for capturing accounting information in our own country. It further recommends that the Ministry responsible for SMEs should initiate accounting training programmes for entrepreneurs running small businesses. Mbroh&Attom (2011) in their study also reported that majority of SMEs in Ghana did not practice formal accounting at all due to low levels of education and inadequate knowledge in accounting on the part of the owner –mangers which made it difficult for them to appreciate the need to practice proper accounting in their business. The research suggested that the results they found when they conducted this study will be helpful in understanding the diffusion of financial accounting for SMEs.

As has been said by many authors above researches have been done in 2011 to 2017 on the effects of financial accounting on decision making and its competitiveness, the researcher in carrying out this research want to bring about current status about SMEs in our country.

The researcher recommended that in depth research should be undertaken in each dominion. How SMEs are coping up after the adoption of financial accounting and how they are making use of the information on the challenges that are likely to be faced when using these financial accounts in their day to day business.

## **2.5 CHAPTER SUMMARY**

This chapter provided an overview of the literature about financial accounting and its adoption by SMEs in Masvingo. The literature discussed the historical background of financial accounting, decision making, business competitiveness and SMEs characteristics. However, there seem to be no substantiated empirical tests of the potential impact of financial accounting in decision making and competitiveness of SMEs in Masvingo. It is therefore the aim of this study to carry an investigation in this area. The next chapter describes and justifies the methodology used to test main propositions of this research.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

#### **3.0 INTRODUCTION**

This chapter gives an outline on how the researcher gathered data on the impact of financial accounting in the decision making and competitiveness of SMEs in Masvingo. It further justifies the research methodology applied covering research design, methods used to gather data, research parameters, data presentation analysis techniques applied to meet research goals.

#### **3.1 RESEARCH PHILOSOPHY**

A research philosophy is the researcher's world belief about the way data about a phenomenon under study should be gathered, analyzed and used. According to Cohen et al (2000), there are two major research philosophies, that is, positivism and interpretivism. Positivism believes that reality is stable and can be observed and described from an objective viewpoint without the researcher interfering with the phenomena under study. The positivist philosophy, according to Saunders et al (1997) believes that the characteristic product of a successful scientific study is knowledge, which is possible and actual, as the study would have been developed in the natural sciences. It is the objective of this study to contribute to the existing body of knowledge of the importance of financial accounting to decision-making and competitiveness of SMEs in Masvingo.

On the contrary, interpretivism philosophy believes that reality cause be fully understood through the subjective interpretation and intervention in the natural environment by the researcher .Those who believe in this paradigm agree to the notion that there are so many interpretations of reality and those variations form the body of knowledge resultant from the study of the phenomena.

Taking into account the facts highlighted above, this study follows the positivist stance, because the researcher was an independent observer in collecting data from the SMEs staff. At the same time, objectivity attained by the use of scientific methods of data.

As indicate above, positivist philosophy involves statistical computations and analysis in generating findings and testing statements of propositions. This study used quantitative

techniques to measure the impact of financial accounting in decision-making and competitiveness. Because of these, positivist philosophy imaged the best approach.

### **3.2 RESEARCH DESIGN**

Research design can be defined as a framework of the research plan of action which guides a research project towards its objectives. Nachamias and Nachamias (1987) defines it as a programme that guides the investigation in the process of collecting, analyzing and interpreting observations and data collected. Trochin (2003) defined it as the glue that holds all the elements in a research project together. In other words, it is the strategy for answering the questions or testing the hypothesis that stimulated the research in the first place. All the definitions given by the authors cited above centered on the orderly arrangement of the procedures taken by the researcher in a study to get findings that confirms or disputes an opinion. The nature of data required and required and the research problem determine the selection of a research design to employ in the study.

The descriptive research design, according to Kilonzo and Ouma (2015) is concerned with describing the characteristics of a particular group or individual by creating profiles of problems, people or events through the collection of data and tabulation of the frequencies of research variables. Kraemer (1992) has said that descriptive survey research design is appropriate when:

- The central questions of interest in the research are, what is happening, how and why is it happening?
- Control of the dependent and independent variables is not required or not desirable.
- The phenomenon of interest had to be studied in its natural settings.
- The phenomenon of interest occurs in the current time or the recent past.

#### **3.2.1 Descriptive Research Design**

To solve the problem of the study, the researcher used a descriptive survey design to gather both qualitative and quantitative information. According to Kengler (2009) the aim is to acquire factual, accurate and systematic data that can be used in useful statistical

calculations Descriptive studies usually involve experimentation. This is because they are mainly focused on naturally occurring phenomena than with observation of controlled situations. With this method, variables are only described rather than tested to predict relationship between them.

### **3.2.2. Justification of Descriptive Research design**

The researcher used this method because of its ability to necessitate gathering and collection of more accurate data and providing a clear picture of the present conditions of a phenomenon through the use of questionnaires, interviews and observations. It minimizes the barrier of strict academic approaches and it is flexible since it allows the researcher to select a method depending on expected outcome. The design also allows chapter way of collecting data to be used. Lancaster, (2015) is of the view that most commonly used data collection method is the survey research of which he defined the survey as a data collecting method of collecting data which was used in this study since it gives room for collection of information makes it possible for the information to be used for other purposes. However, a descriptive study needs more skills for the researcher to construct all the necessary questions and not to ignore data which might be essential in reaching and relevant conclusion.

### **3.3 TARGET POPULATION**

Population of the study can be explained as the group of interest to the researcher. Results of the study can be generalized using this group (Zikmund 2000). For the purpose of this study the target population was 30 SMEs in Masvingo. The population included Wholesalers, Transport service providers Retailers, Tailoring, Micro Finance Providers and saloon. In determining the size of the sampling procedure also took into account, the issue related to gender, the researcher tried to have a gender balance sample. In addition, firm's age variation was also important. The target population was broken down according to the sections within the firms, that is, cashiers, supervisors, Accounts sections, merchandisers, and owners. The selected target was deemed appropriate because of its experience and relevance to the subject under study.



### **3.4 SAMPLING TECHNIQUES**

Miles and Huberman (1984) look at sampling as taking a smaller proportion, from a large universe. In addition, Pinsonnault et al (1992) view sampling as that part of statistical practice concerned with the selection of individual observations intended to yield some knowledge about a population of concern, especially for the purposes of statistical inference. Sampling method, the researcher utilized both probability and non-probability sampling techniques. The researcher used convenience sampling, a non-probability method of sampling on the selection of location to carry out the research. A stratified sampling, which is a modification of random sampling in which the researcher divides the population into two or more relevant and significant strata, based one or a number of attributes as defined by (Saunders.at al .2009) was used to select SMEs for survey. Stratified sampling involves each SME having equal probability of being selected from a particular stratum of the population.

### **3.5 DATA COLLECTION METHODS**

The researcher used triangulation in data collection .Triangulation entails collecting data in many ways and from diverse sources, data collection procedures or methods in one study of a single phenomenon ( Reasmin and Rahman,2012).The approach was regarded appropriate as measurement of finance and decision making are broad subjects which required detailed information to achieve researcher's objectives. To gather primary data, questionnaires and interviews were employed. Secondary data on financial accounting, decision making and competitiveness measurement constructs were collected through journals and visiting websites. Choice of data collection method was influenced by reliability, validity, time and costs constraints.

#### **3.5.1 Questionnaire**

A survey questionnaire was used in this study. Leedy (1993) described a questionnaire as a formal approach to measuring characteristics, attitudes, motivations and opinions, as well as the past, current and possible future behaviors. The information produced from questionnaires can be used to describe, compare and predict these facts. With the foregoing in mind, the survey questionnaire was deemed the most applicable data collection instrument in this study.

White (200) define a questionnaire as a series of questions, each providing a number of alternative answers from which research respondents can choose .The questions that made

on the questionnaires were designed on the basis of the knowledge the researcher obtained from the literature review on the impact of financial accounting on the decision making and competitiveness of SMEs in Masvingo .In order to remain objective in the questionnaire design, the researcher was guided on the questions to posed by the objectives and specific areas rose in the literature review.

The questionnaire was considered favorable because Saunders (2009) explains that the construction of questionnaires in terms of what questions to ask, wording and sequence determines how useful the resulting data will be. The researcher used questionnaires because respondents are more comfortable with questionnaire than a researcher asking questions. (Saunders, 2009) This is because SMEs often have busy schedules and will fill in the questionnaire at their spare time. The researcher delivered the questionnaires by hand to the SMEs.Popper (2004) says questionnaires had the advantage of collecting more information from a large number of people in a short period of time and they are cost effective. This was achieved as the researcher delivered the questionnaire by hand and got time to explain to the respondents the purpose of the study.

A questionnaire was used because it quickly and easily quantifies data through the use of a SPSS software package. The information collected from questionnaires was analyzed more objectively than any other form of instrument. Abawi (2013) explains that questionnaires protect the privacy of participants. Anonymity was emphasized and the questionnaire had a statement which clearly assures them the information collected was to be treated with confidentiality, and only for the purpose of the study.

The major challenge in questionnaire design was indicated by Abawi (2013), who said it was difficult to make all questions clear to all respondents. To solve the challenge, the researcher pretested the questionnaire to check for clarity and consistency of questions. The comments of the respondents were taken into consideration in the final questionnaire.

Popper (2004) argued that some respondents may not understand some of the information on questionnaires and the respondents may read differently into each question and therefore reply based on their own understanding of the question. Further Hughes and Berry (2000) argued that a questionnaire lacked validity; people could read

differently into each question and therefore reply based on their own interpretation of the question. To avoid all these limitations the researcher avoided ambiguous questions and used simple language and straight forward questions.

However, to lessen some of the problems of questionnaires, the researcher went around the problem by not asking too many questions. The researcher also used the interview method to reduce the effect of these disadvantages.

### **3.5.2 Interviews**

An interview can best be described as a structured communication for the purpose of exchanging views or information between individuals or a panel of people, Mawonera, E and Lee.D (2002). The interview was used in this research because it has advantage of verifying and supplementing information obtained from the questionnaire .Wimmer and Domonic (1997) says interviews are mostly useful to test out what people's responses would be to a particular case .They could throw a completely different light on an issue that the interviewer had never considered.

An interview was also used because it gave freedom to the respondents, to answer what they think is important, gave them the feeling of control in the interview situation. Further Kajornboon (2005) says interviews also gave the researcher the opportunity of giving a detailed explanation of the purpose of the study. Also, the researcher used the interviews as they helped to observe how the respondents behaved in interview situation, which was important for the purpose of this research.

However, interviews have limitations also, in terms of the amount of time needed to collect and analyses the responses. To avoid these challenges the researcher used the structured interview guide which helped her to control the interviewees.

The researcher had some challenges in conducting interviews as some SMEs has busy time schedules to fit the researcher for interviews. However, the researcher was patient enough and finally managed to conduct interviews to the selected SMEs. The researcher made the interview questions short and precise so as to accommodate SMEs busy schedules.

### **3.6 DATA COLLECTION PROCEDURES**

Questionnaires and interviews were used to collect data. All the questionnaires were administered through hand delivery and no research assistants were engaged to do the collection of the instruments. This enabled closer follow up and further discussion on matters that warranted such discussion, for example, other respondents emphasized the issue of confidentiality while other needed clarity on the purpose of study. The Questionnaire used is appendix A.

On interviews the researcher first wrote letters of appointment with the participants. That was necessary as the letters highlighted the purpose of the findings as results were generalized. Thereafter, the researcher conducted face to face interviews with some of the participants. Where participants were found to be busy for face to face interviews, interviews schedules were left behind for them to fill in and later collected and analyzed, interview schedule used is Appendix B.

### **3.7 DATA SOURCES**

The research consisted of theoretical and practical variables. On theoretical variables, the researcher relied on the scientific studies and theories that are related to the research problem. On the practical side of the study, the researcher depended on descriptive and analytical methods to collect data, analyse and test hypothesis. Data collection and variable analysis used in this study were based on two sources which are primary and secondary source.

Primary data refers to data collected directly from first-hand experience aimed at a specific study (Sounders et al,2009) Primary data can be collected for instance through interviews, observations, experiments and surveys. For this study, primary data is of paramount importance as the research has to do with behavioural and attitudinal measurement.

Data that has been collected, processed, published and available for use by other people is regarded as secondary data. Secondary can be collected from a number of sources which can be broadly be classified into two categories; Published Sources and Unpublished

sources. In this research, both sources were considered important in gathering data. The researcher collected secondary data from the following sources:

- Online journals were retrieved to assist the researcher with the literature review in the impact of financial accounting on decision making and competitiveness of SMEs in Zimbabwe and beyond.
- Presentations made by senior management of SMEs and accounting firms at various business forums were also used as sources of secondary data.

### **3.8 DATA PRESENTATION ANALYSIS**

The data collected was coded using numerical symbols. In this study, data analysis was done in two forms, which are descriptive and inferential statistics. Data from returned responses was collected and coded in Statistical Package for Social Science (SPSS) software to analyse the data.

Descriptive statistics such as frequencies, percentages and means were investigated and results shown in frequency tables and diagrams. This helped the researcher to get a better understanding of the demographics of the sample population.

### **3.9 SUMMARY**

This chapter played a pivotal role in setting out plan of action which guided the whole research with special attention to research instruments, population and sample size as well as data sources. Data collected using methodology discussed above was presented and analyzed in the next chapter. Chapter 4 analyses the data collected, graphs and tables are used to give a pictorial view of findings.

## **CHAPTER IV**

### **DATA PRESENTATION, ANALYSIS AND DISCUSSION**

#### **4.0 INTRODUCTION**

The previous chapter highlighted on various ways in which the researcher intends to carry out his field research. This chapter focuses on presentation, analysis and discussion of relating to response rate, questionnaire and interviews. Data analysis was done in two parts by descriptive and inferential statistics done using Statistical Package for Social Sciences (SPSS) version 16.0 and Microsoft Excel. Statistics on bio-data, business profile, financial accounting and decision-making measurement constructs were investigated and results shown on frequency tables and diagrams so that data is displayed in a more understandable way.

#### **4.1 DATA PRESENTATION PROCESS**

After the collection of all questionnaire and conducted all the 20 interviews which were as per plan, the researcher reviewed all the instrument to determine the level of response from questionnaire she had collected and examine the interview response synchronising with response from questionnaire. Analysis of data in this research was done using Microsoft excel as it was the only analysing tool which was at the researcher's disposal. The majority of data was processed into clear picture for easy interpretation through the use of graphs, pie charts and explanations to give a full insight of all objectives and be able to deduce finding on the impact of financial accounting being faced by SMEs in Masvingo

#### **4.2 RESPONSE RATE**

The researcher had targeted to collect data from a sample of thirty SMEs in Masvingo. However, data was collected from 27 respondents from questionnaires, interviews were conducted. Several follow ups were made in order to minimise non-response rate and the response rate obtained is tabulated below:

**Table 4.1 Questionnaire Response Rate**

Details	Total	Percentage
Questionnaires Sent	30	100%
Questionnaires Returned	27	90%
Non-Response Rate	3	10%

**Source: Primary Data**

As tabulated above 30 questionnaires distributed, 27 of the respondents returned their questionnaires giving a response rate of 90% and a non-response rate of 10% respectively. However, when the researcher cleaned and inspected the data for missing information one questionnaire for was spoiled as Section C was not filled, on all the constructs measured, and this reduced the response rate to 86.6%.

#### Interviews

Form the interview ,it showed that many people were engaging in the partnership business because of easiness in setting up by putting resources together, feedback from interviews also indicated that most of the small business because lenders did not have confidence in their accounting records

### **4.3 DESCRIPTIVE STATISTICS OF DEMOGRAPHICS**

The variables, age, educational level, gender and work experiences were deemed important in this research as they have a bearing in the understanding of SMEs sector operation and the retail industry.

### 4.3.1 Gender and Age of Respondents

*Table 4.2 Gender and Age of the Respondents*

What is your gender? * Age of Respondents Cross tabulation							
		Age of Respondents				Total	
		18-25 years	26- 35years	36- 45years	46 and above years		
<b>What is your gender?</b>	male	Count	2	6	3	1	12
		% of Total	7.4%	22.2%	11.1%	3.7%	44.4%
	Female	Count	3	5	7	0	15
		% of Total	11.12%	18.5%	25.94%	.0%	55.6%
<b>Total</b>	Count	5	11	10	1	27	
	% of Total	18.52%	40.74%	37.04%	3.7%	100.0%	

**Source: Primary Data Using SPSS**

Table 4.2 above shows that 55.6% of the respondents were female, while 44.4% were male. The majority (40.74%) of the respondents were of the age range of 26-35 years followed by 37.04% who were of the age range of 36-45 years. Respondents in the age range of 18-25 years represented 18.52% of the total respondents, while the last age group of 46 and above years were represented by 3.7%. The statistics could mean that most of the workers working for SMEs are made up of female.



### 4.3.2 Educational Level and Work Experience

*Table 4.3 Educational Level and Work Experience of Respondents*

Educational Level of Respondents * Working Experience of Respondents Cross tabulation							
			Working Experience of Respondents				Total
			5years and less	6-10years	11-15years	More than 15years	
<b>Educational Level of Respondents</b>	Secondary Level	Count	5	0	0	1	6
		% of Total	18.5%	.0%	.0%	3.7%	22.2%
	Diploma Level	Count	8	3	3	0	14
		% of Total	29.7%	11.1%	11.1%	.0%	51.9%
	Graduate	Count	3	2	0	2	7
		% of Total	11.1%	7.4%	.0%	7.4%	25.9%
<b>Total</b>	Count	16	5	3	3	27	
	% of Total	59.3%	18.5%	11.1%	11.1%	100.0%	

**Source: Primary Data Using SPSS**

Information tabulated above shows that 51.9% of the respondents had Diplomas, 22.2% had secondary education while 25.9% had Degrees from universities. Of these respondents, 59.3% representing the majority had been in the organization for a period of 5 years and less, followed by 18.5% who had been in the retail sector for 6-10years. On the same note, 11.1% of the respondents had been in the sector for the period 11-15years, while the last portion of respondents had been in the sector for more than 15 years. Statistics on educational qualifications of the respondents obtained in this study showed that the conclusion made by Mazhindu and Mafuba (2013) that SMEs are mostly made up of secondary school leavers now varies with what is on the ground were graduates from polytechnics and universities are now employed in SMEs because of high level of unemployment in the country. The fact that 59.3% of the respondents had been in the firm for 5years and less may be an indicator of high labour turnover in the sector.

## 4.4 DESCRIPTIVE ANALYSIS OF BUSINESS PROFILE

### 4.4.1 Firm Age

Table 4.4 below indicated that 85.2% of the respondents are in the range of 3-5years, while 11.1% indicated that they have been in the market for a period of 1-3 years. Only 3.7% of the respondents indicated a period of 5-10years. However, the interview that were held with the Owners of most SMEs showed that though the SMEs had been in the retail industry for a period of more than 5years, a number of them are affected by the market forces in which they operate in. The SMEs first opened its doors in 2008 but operated for only a year and closed due to financial challenges some are affected by the COVID pandemic. The shop then reopened in 2015. This trend tends to support the findings made by Zivanai et al (2014) were only 8% of the SMEs studied were found to have operated for a period of more than 10years as the rest remained at their infancy stage.

*Table 4.4 Descriptive Statistics of Firm Age*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-3years	3	11.1	11.1	11.1
3-5years	23	85.2	85.2	96.3
5-10years	1	3.7	3.7	100.0
Total	27	100.0	100.0	

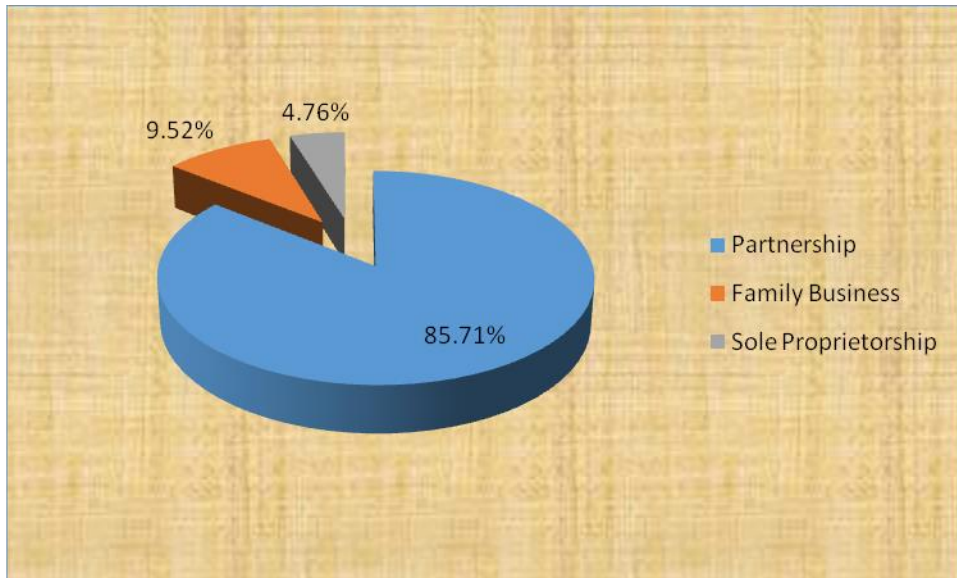
**Source: Primary Data using SPSS**

### 4.4.2 Business Ownership

Fig 4.1 below indicated that of the 27 respondents 85.71% revealed that most of the SMEs are partnership form of business, while 9.52% are run by families therefore family business, and 4.76% indicated that a few are sole proprietorship form of business. Since the majority of the respondents who gave their opinions on the subject were employees, they displayed varying knowledge on the ownership structure of their firms. The interview held by the researcher with the owners clarified that majority of the SMEs are partnerships of two brothers/sisters at times friends; hence some respondents regarded it as a family business. This confusion among respondents

about the ownership structure of the SMEs supports the findings made by Mazhindu and Mafuba (2013) cited earlier in chapter 2, that there is lack of separation between ownership and management in SMEs and that most SMEs are more of family businesses.

**Source: Primary Data**



**Fig 4.1 Business Ownership**

## **4.5 DESCRIPTIVE STATISTICS FOR FINANCIAL ACCOUNTING MEASUREMENT CONSTRUCTS**

### **4.5.1 Up to date Accounting records**

The information gathered by the researcher in Figure 4.9 clearly indicates that 16% of respondents strongly agree that they keep up to date records, and 24% agree to have up to date records. 13% of SMEs are neutral as to whether they keep up to date records or not do not keep accounting records. A total of 48% of SMEs do not keep up to date records.

A proper accounting record is a requirement in business. Without proper accounting records traders may feel paying tax is a waste of money that could have been used in

business. Although there are some SMEs that keep up to date records most of them need education of the importance of having up to date records.

On the issue of keeping up to date record, Yong (2011) says tax compliance requires some accounting and financial management knowledge. He went on to say accounting information enables SME operators to make informed decisions based on objective information rather than relying on their intuition.

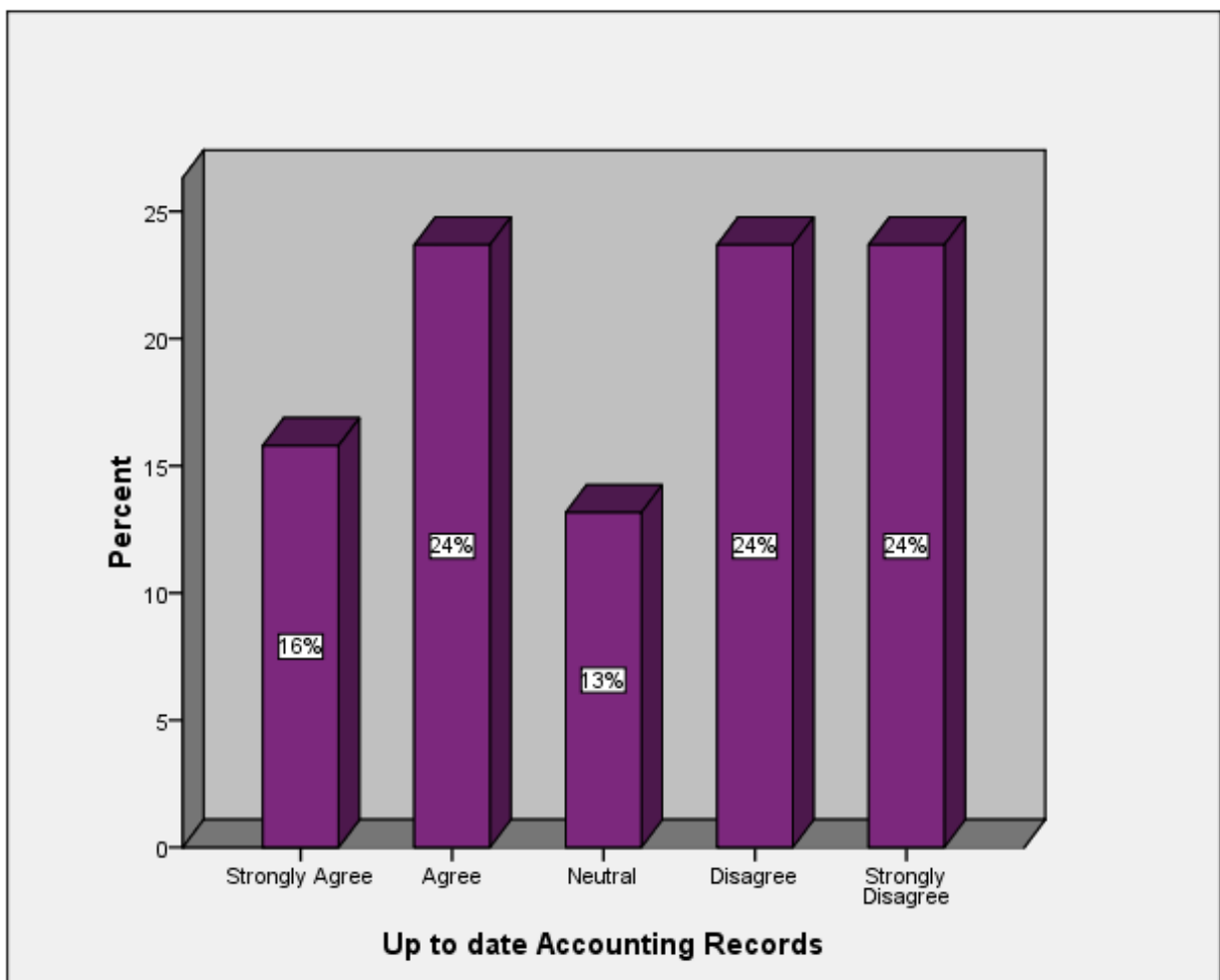


Figure 4.2: Up to Date accounting records

Source: Survey

#### 4.5.2 Accounting records prepared and kept

Table 4.5: Accounting records prepared and kept

<b>SMEs response</b>	5	10	7	3
<b>Percentage%</b>	20	40	28	12

Source: Primary Data (2016)

The data collected by the researcher showed that a few of SMEs are preparing financial statements therefore might result in the low adoption of IFRS. The level of financial statement preparation was 20% percentage with books of original entry being 40% and ledgers 80%. 12% of SMEs surveyed did not kept any book of account beside Schedule daily sales. From the interview conducted it was discovered that most SMEs did not have the personnel with expertise to prepare financial statement. Literature supports that small business are finding it hard to prepare financial statement because of lack of knowledge and funds to higher qualified experienced personnel's (Maseko&Manyani, 2011). The semi-structured interview which was conducted by the researcher, reviewed that many of the SMEs which sampled did not keep a full set of accounting records the reasons being low awareness of the benefits of keeping them and the cost of employing a full-time accountant or hiring some professional services. A research carried out by (Mazhindu&Mafuba, 2013) also showed that 50 % percent of the

SMEs were not maintaining a complete set of accounting record because of lack of expertise and cost of hiring professional accountant.

#### **4.5.3 Financial Reporting and Analysis**

The construct was measured using four statements and the results are tabulated in Table 4.6 below. The research findings noted 90.5% of the respondents agreed that the SMEs prepare financial statements, though 9.5% of them refuted the notion. The majority of the respondents represented by 67.7% argued that the SMEs does not employ the services of a qualified Accountant in the preparation of financial statements, while 33.3% of the respondents support the notion that qualified Accountants is engaged to prepare final accounts and help with tax computations. On the same note, 38.1% of the respondents supported the statement that the owner is involved in preparing the financial statements, though 61.9% of them disagreed with that assertion. The majority represented by 52.4% of the respondents further asserted that the financial statements of the SMEs are not subjected to external audit by external auditors. The lack of definitive responses from respondents regarding financial reporting and analysis validates the assertion made on the same subject by Amoako et al (2014) that most (63%) SMEs with retail shops do not prepare formal accounts and those who prepare normally use consultants as the prime source of accounts preparation.

**Table 4.6 Descriptive Statistics for Financial Reporting and Analysis**

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Does the SMEs prepare financial statements?	27	1.00	2.00	1.9048	.30079	-2.975	.501
The owner is involved in preparing the financial statement	27	1.00	2.00	1.3810	.49761	.529	.501
Does the SMEs employ the services of qualified accountant?	27	1.00	2.00	1.3333	.48305	.763	.501
Does the SMEs engage the services of external auditors?	27	1.00	2.00	1.4762	.51177	.103	.501
Valid N (list wise)	27						

Source: Primary Data Using SPSS

#### **4.6 DESCRIPTIVE STATISTICS OF DECISION-MAKING CONSTRUCTS**

The variable decision making was measured using investments decisions and financial decisions.

##### **4.6.1 Investment Decisions**

Investment decisions were measured using three statements, and results showed that only 42.9% of the respondents claimed that the SMEs had long the notion that the hardware term investments such as non-current assets. However, this point was contest by 57.1% of the respondents and this could mean that if there are any investments made by the SMEs could be mainly in short term assets. In support of the above refute, a further 57.1% of the respondents rejected does investment appraisal frequently on their new and old investments. On the contrary only 42.9% supported the statement. On the third statement used to measure investment decisions, the majority (66.7%) of the respondents supported the view that the hardware use financial information when evaluating investment options. On a 2 point Likert scale the frequency scores discussed above are supported by the mean and standard deviations of responses tabulated in Table 4.7. The responses score high mean of

1.6667 with standard deviation high of 0.48305 to low mean of 1.4286 and standard deviation of 0.50709 respectively.

**Table 4.7 Descriptive Statistics on Investment Decisions**

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
The supermarket has invested in long term assets	27	1.00	2.00	1.4286	.50709	.311	.501
The supermarket does investment appraisal frequently	27	1.00	2.00	1.4286	.50709	.311	.501
The supermarket use financial information in choosing Investment options	27	1.00	2.00	1.6667	.48305	-.763	.501
Valid N (list wise)	27						

**Source: Primary Data Using SPSS**

#### 4.6.2 Funding Decisions

Three statements were used to measure the construct and the responses obtained indicated that 90.5% of the respondents agreed that the SMEs mostly use internally generated cash resources to finance its operations. However, 9.5% of them refuted the notion. Their opinion was supported by 14.3% who advanced that the hardware often fund its operations from loans obtained from banks and other financial institutions. 85.7% disagreed with the view of funding from borrowed resources only. However, 76.2% of the respondents indicated that the hardware use both internally generated cash and borrowed funds to finance operations. This view was substantiated by the interview the researcher carried with the Owners, who indicated that they normally get loans from the Small and Medium Enterprises Development Corporation (SMEDCO), a micro finance institution under the Ministry of Small and Medium Enterprises whose mandate is to finance small and medium firms. However, they stressed that a big portion of their funding needs is catered for using internally generated funds. These results support the findings made by Salazar et al (2012) and Kilonzo et al (2015) who indicated that the common source of financing for SMEs is



friends and relatives as only a small portion (8.9%) of SMEs borrow from banks because of stringent credit rating. The frequency figures discussed above are supported by statistics shown on Table 4.9 below where the mean statistic of 1.9048 and standard deviation of 0.30079 shows that cash resources generated from internal sources are the major source of funding.

**Table 4.8 Descriptive Statistics for Financing Decisions.**

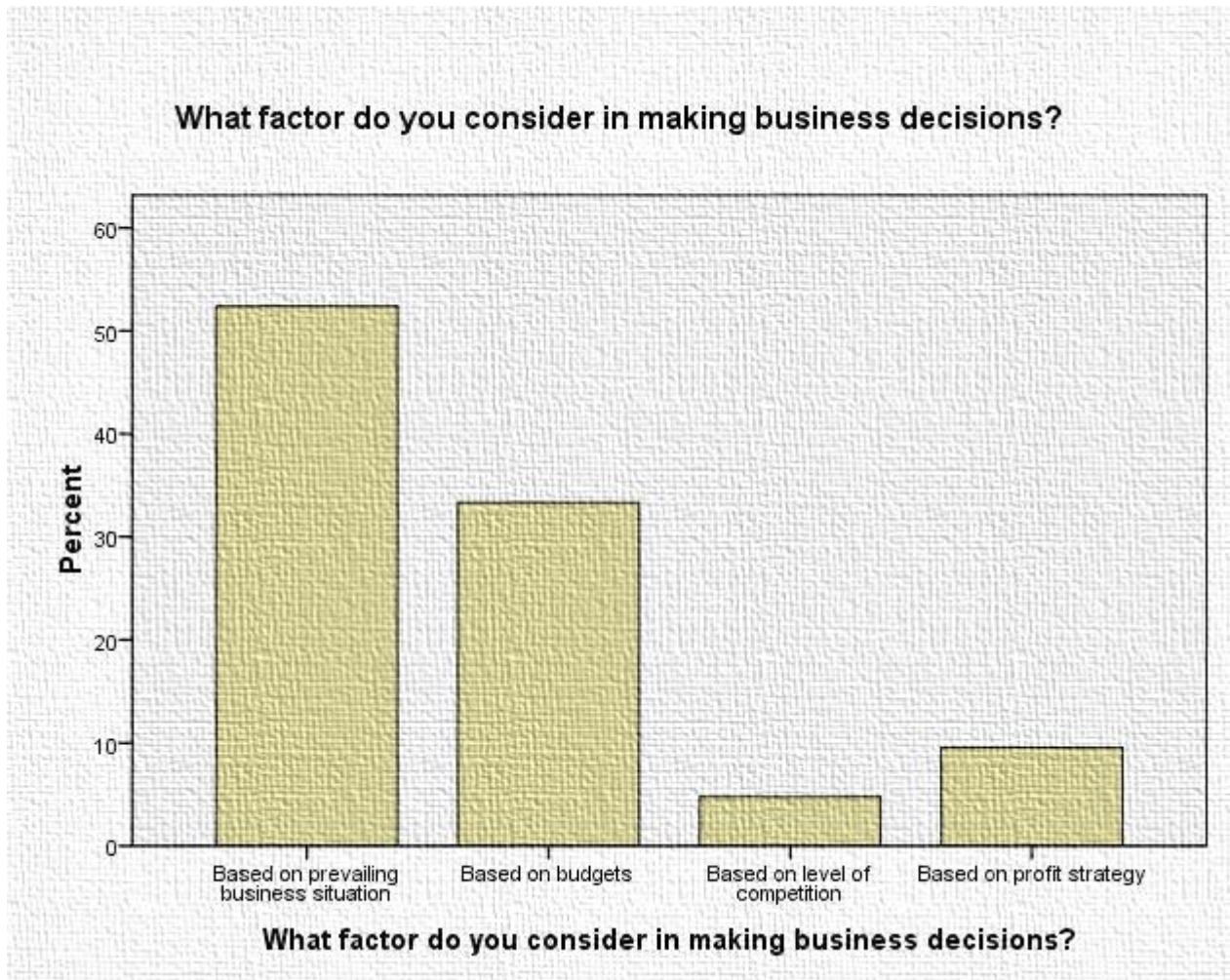
Descriptive Statistics							
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
The SMEs finance operations from internally generated cash resources	21	1.00	2.00	1.9048	.30079	-2.975	.501
The SMEs finance operations from borrowed funds only	21	1.00	2.00	1.1429	.35857	2.202	.501
The SMEs use both internally generated cash and borrowed funds to finance operations	21	1.00	2.00	1.8095	.40237	-1.700	.501
Valid N (list wise)	21						

**Source: Primary Data Using SPSS**

#### 4.6.3 Business Decision Factors

Fig 4.3 below shows that 52.4% of the respondents consider the prevailing business situation as the most factors, they consider when making business decisions, while 33.3% of the respondents regard budgetary position as the best basis for making business decisions. However, another section of the respondents constituted by 9.5% based their decision on profit level which can be ploughed back into business projects. Lastly, 4.8% of the responses regarded the level of competition as an important factor when making business decisions.

**Fig 4.6 what factor do you consider in making business decisions**



Source: Primary Data

#### **4.7 RELATIONSHIP BETWEEN FINANCIAL ACCOUNTING AND DECISION MAKING**

The most common measure of correlation is Pearson's correlation which its value ranges between -1 and +1. It measures the relationship between two variables. A positive value of the correlation implies a positive relationship between variables while a negative shows an inverse relationship. A zero shows that there is no relationship. A correlation value of above 0.5 indicated great correlation between dependent variable (decision making) and independent variable (Financial accounting) according to Kilonzo and Ouma (2015). As highlighted in the previous discussions, financial accounting was measured using four variables, cash management, inventory management, financial reporting analysis and accounting information system. On the same note, decision making was measured using investment and funding decisions. Results on Table 4.9 below indicated there is a

negative correlation of -0.5 between cash management and investment, while there is a positive relationship of 0.596 between cash management and funding decisions. This means the way the business manages its cash resources has a bearing on both the investment and funding decisions taken.

Results on the table further indicated that inventory management and investment decisions are positively correlated with a score of 0.327 while inventory management and funding decisions are highly negatively correlated as shown by a score of -0.737. Inventory by nature is a current asset, which can be turned into hard cash or debtors, so the way the business manages this asset has a bearing on its investment and funding decisions.

The computations further showed that financial reporting and analysis and investment decisions are negatively correlated while financial reporting and funding decisions are positively correlated with scores of -0.564 and 0.534 respectively. This means the quality and accuracy of information from financial reporting and analysis positively or negatively impacts on the decisions reached by the business.

Accounting information system and investment are negatively correlated as shown by a score of -0.918 in the table. However, there is no relationship between accounting information system and funding as depicted by a score of 0. Overall, the results indicated that financial accounting has a great bearing on the decisions SMEs formulate, hence they should embrace financial accounting practices. The findings are in agreement with the findings made by Kilonzo and Ouma (2015); Salazar et al (2012) and Olatunji (2013).

**Table 4.9 Relationship between Financial Accounting and Decision Making**

		Cash Management	Stock Management	Fin Reporting	Acc Info System	Investment Decisions	Funding Decisions
Cash Management	Pearson Correlation	1	.397	.822	.803	-.500	.596
	Sig. (2-tailed)		.603	.178	.407	.667	.593
	N	5	4	4	3	3	3
Stock Management	Pearson Correlation	.397	1	-.187	-.675	.327	-.737
	Sig. (2-tailed)	.603		.813	.528	.788	.472
	N	4	4	4	3	3	3
Financial Reporting	Pearson Correlation	.822	-.187	1	.845	-.564	.534
	Sig. (2-tailed)	.178	.813		.359	.619	.641
	N	4	4	4	3	3	3
Accounting information System	Pearson Correlation	.803	-.675	.845	1	-.918	.000
	Sig. (2-tailed)	.407	.528	.359		.260	1.000
	N	3	3	3	3	3	3
Investment Decisions	Pearson Correlation	-.500	.327	-.564	-.918	1	.397
	Sig. (2-tailed)	.667	.788	.619	.260		.740
	N	3	3	3	3	3	3
Funding Decisions	Pearson Correlation	.596	-.737	.534	.000	.397	1
	Sig. (2-tailed)	.593	.472	.641	1.000	.740	
	N	3	3	3	3	3	3

**Source: Own Computation Using SPSS**

## **4.8 CHAPTER SUMMARY**

This chapter was used to present and analyses the data collected from the field. Data was done in two parts by descriptive and inferential statistics and results were shown in frequency tables and diagrams. The results of the findings showed that some relationship exists among variables in the model as it was shown that financial accounting have an effect on decision making. The next chapter discussed summary of findings, conclusions and recommendations to this research.

## **CHAPTER V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 INTRODUCTIONS**

This chapter provides an outline of the study as a whole; it examined the impact of financial accounting on decision making and competitiveness of SMEs in Masvingo for the period 2015 to 2020. The chapter focuses on the summary of the findings, conclusions and recommendations in line with the research questions and objectives highlighted in this study. The primary objective of the study was addressed through data obtained by means of questionnaires and interviews while secondary data was obtained from websites and journals. SPSS v 16.0 was used to analyze data and the conclusions below were observed.

#### **5.1 SUMMARY**

The study analyzed the Impact of Financial Accounting on decision making and competitiveness of SMEs in Zimbabwe with special emphasis on SMEs in Masvingo for the period 2015-2020. The focus was to determine the impact of the adoption of financial accounting practices by SMEs in Masvingo; determine the benefits SMEs are set to enjoy by adopting financial accounting practices in their decisions, and to investigate the challenges SMEs in the retail sector face in the uptake of financial accounting practices. In conducting the study, a positivist research philosophy and deductive thinking was the backbone of the research. To gather data, census research design was used; questionnaires and interviews were employed to collect data. Data gathered was analyzed using a statistical package SPSS.

## 5.2 SUMMARY FINDINGS

From the data collected, the researcher found out the following:

- Most of the SMEs are not even aware or rather are ignorant of the laws that govern their businesses, thus the IFRS for SMEs.
- Most SMEs do not keep up to date records, and lack of proper accounting records affect their management decision.
- The quality and accuracy of information from financial reporting and analysis positively or negatively impacts on the decisions reached by the business.
- There is lack of separation between ownership and management in SMEs and that most SMEs are more of family businesses.
- Statistics on educational qualifications of the respondents obtained in this study showed that graduates from polytechnics and universities are now employed in SMEs because of high level of unemployment in the country.

## 5.3 CONCLUSIONS

It can now be drawn out from the findings presented in the previous chapter that:

- While the IFRS for SMEs was adopted in Zimbabwe by SMEs, the level of awareness of the standard was still very low in Masvingo.
- The SMEs need to be educated of the benefit associated with use of financial accounting (IFRS for SMEs).
- SMEs lack the Knowledge of the IFRS for SMEs, only a few who had adopted it were finding the standard important in producing quality information for decision making.
- Credit policies of most financial institutions such as banks in Zimbabwe segregate small and medium enterprises because of stringent requirements such as collateral security, as evidenced by high usage of internally sourced funds than borrowings.

## **5.4 RECOMMENDATIONS**

To enhance the impact of financial accounting on decision making and competitiveness of SMEs, the researcher recommends the following basing on the findings and comments of the participants.

- Ministry of Small and Medium Enterprises should enhance the level of awareness on the importance of financial accounting in their day to day business operations. This could be achieved by involving accounting boards such as ICAZ, CIS and SAAA in the capacity building of SMEs.
- The government should put in place regulations which controls and ensure that SMEs are preparing proper financial records so that the implementation and adoption process would be easier.
- One of the challenges for SMEs is business progression because of inadequate funding, the government can foster growth of SMEs by creating a stock market just like the Zimbabwe Stock Exchange for small and medium enterprises where these SMEs can be listed and supervised. In the same vein, the government can make it mandatory for them to submit tax returns, for example, VAT returns by qualified accountants. This would push firms to have formal accounting systems.
- The Ministry of Finance and Economic Development and Ministry of Small and Medium Enterprises should create a favorable platform for SMEs to get funding from commercial banks without much hassle and at reasonable cost of finance.

## **5.5 SUGGESTED AREA OF FURTHER RESEARCH**

The researcher recommend further research should perform this research on a greater scale in different areas in Zimbabwe do as to capture the current the state in terms of the adoption of IFRS and corporate governance in SME's.

## **5.6 CHAPTER SUMMARY**

This is the last chapter in this research and it focused on the summarization of the research summary and conclusion, and recommendations and suggestions for future studies.



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## Appendix A: Questionnaire

My name is Jean Chipuriro, I am a postgraduate student at Great Zimbabwe University pursuing a Master of Commerce Degree in Professional Accounting and Corporate Governance am required to carry out a research project in partial fulfilment of the requirement for the degree .As such the student is carrying out a research on ‘The impact of Financial Accounting in the decision making and competitiveness of SMEs in Masvingo,’ The researcher is kindly asking for your assistance as respondents to the research understudy by filling in the questionnaire .The responses you will provide will be used sorely for academic purposes.

Instructions on responding to questions

- I. Do not write your name on the questionnaire
- II. Show response by ticking [√] the respective answer box or fill out in the respective answer box or fill out in the respective space.

### SECTION A: GENERAL INFORMATION

1. Gender: Male  Female

2. Age of respondents

18-28yrs  29-39yrs  40-49yrs  49yrs and above

3. Highest Academic qualification attained.

O' level  A' level  Certificate  Diploma  Degree

Other (specify).....

4. Work category within the entity:

Both Owner and Manager  Manager  Owner  Accountant

Clerk

**SECTION B**

5. What type of business do you operate?

Wholesaling	
Transport services	
Retailing	
Micro finance	
Tailoring	
Hair dressing	

Other (Specify).....

6. Nature of the Business:

Sole proprietor                       Partnership                       Company

7. Which books of accounting does your firm prepare and maintain?

Financial statements	
Income and Expenditure	
All books of original entry	
All Ledgers	
Assets registers	

Any

other(specify).....

8. Who prepares books of accounts in your firm?

Owner	
Clerk	
Accountant	
Consultancy Firm	

Other specify .....

9. Have you adopted IFRS for SMEs the new framework for small business?.....

10. Which accounting framework are you using?.....

11. What is your assessment of the Ministry's involvement in encouraging SMEs to adopt the introduced IFRS for SMEs

.....  
.....

12. What factors do you consider in making business decisions?.....

.....

*The End*

*Thank you for your cooperation*

## **Appendix A: Interview Guide**

- (1) What is the nature of your business?
- (2) Which books of accounts does your firm prepare and maintain?
- (3) Who prepares the books of accounts?
- (4) What is the importance of Financial Accounting in SMEs?
- (5) Have you adopted IFRS for SMEs the new framework for small business?
- (6) Which accounting framework are you using?
- (7) Are you aware of the benefits of implementing the standard?
- (8) What is your assessment of the Ministry's involvement in encouraging SMEs to adopt the introduced IFRS for SMEs?
- (9) What do you suggest should be done to improve the adoption and implementation?
- (10) What factors do you consider in making business decisions?





