

What Has Accounting Information Got to Do with SMEs in Zimbabwe?

(A Zimbabwe's Rural SMEs Focus)

Edmore Munjezi*¹ Stephen Maponga¹ Morvyn Nyakudya² Samson Mutasa¹

1.Department of Accounting and Finance, BAISAGO University, Bag 149, Suite 268, Kgale View, PostNet Gaborone, Botswana

2.Department of Risk Management Insurance and Acturial Science, BAISAGO University, Bag 149, Suite 268, Kgale View, PostNet Gaborone, Botswana

Abstract

In this paper we sought to analyse the importance of accounting information and rural SMEs performance. This study used both primary and secondary data and twenty SMEs owners were interviewed and seventy questionnaires were distributed in Gutu rural areas, Masvingo Province. The evidence suggests that the SMEs are vital to sustainable development and employment creation however most SMEs die instantly few years after their formation. The main reason why rural SMEs fail or close down is due to poor accounting information. The owners do not consider accounting information as a performance measure but inventory in the warehouse, number of shops/stores and years in the business. The study recommends that the Ministry responsible for SMEs in Zimbabwe must craft and impose SMEs laws which are simple and make it obligatory that all (rural and urban SMEs) produce a set of final accounts and supporting documents.

Keywords: Accounting Information, Performance Measurement, Rural, SMEs, Zimbabwe

1. Introduction

In both developing and developed countries small and medium-sized entities (SMEs) prove to be engine of growth. Nkwe (2012) identifies the importance SMEs as a source of employment, economic growth, poverty, generation of potential entrepreneurs and wealth creation. The proliferation of SMEs in rural areas provides income generating activities this in turn contributes to GDP, source of breeding ground for entrepreneurs in world over, equilibrium income distribution and economic stability (Nkwe 2012, Mwobobia 2012, Ntim *et al* 2014). The coming in and growth of SMEs in Zimbabwe brought solutions to the problem of high unemployment being faced by the country (Maseko & Manyani 2011).

Despite low start-up costs and more incentives, many SMEs are failing in their first years (Mwobobia 201, Ntim *et al* 2014). However the major reason why SMEs fail is due to poor financial management and reporting (Ntim *et al* 2014). They mention that accounting information is important for a successful management of a business regardless its size and location. Proper accounting systems provide a source of information to owners and managers of SMEs operating in any industry for use in the measurement of financial performance. In any sense, profit can be viewed as the life-blood of a business (Ntim *et al* 2014, Olatunji 2013, Ibrahim n.d) and thus the accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement. It is crucial therefore that the accounting practices of SMEs supply complete and relevant financial information needed to improve economic decisions made by entrepreneurs (Mazhindu & Grazyna 2013, Ankrah Mensa & Ofori-Atta 2015).

2. Problem statement

It is evidence that most rural SMEs in Zimbabwe have not been expanding and performing rather below expectation despite the incentives, policies and programmes meant to encourage and support the SMEs (Maseko & Manyani 2011). But rather most of them are naturally goes into extinction few years later (Mutua 2015). There is no indication that the SMEs are growing. Various factors have been attributed to the poor performance and high failure rate of SMEs and include poor financing, insufficient capital, irregular power supply, poor infrastructural inadequacies, lack of focus, inadequate market research, stiff competition, lack of succession plan, inexperience, lack of proper book keeping, lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, lack of resources (see Allah *et al* 2013, Ankrah *et al* 2015, Ntim *et al* 2014, Amoako *et al* 2014) Nathan *et al* 2015). Waweru & Ngugi (2014) concludes that the poor performance of SMEs has remains a pressing issue in most developing countries. This study aims at establishing the importance of accounting information in rural SMEs in Zimbabwe.

3. Small and Medium Enterprises (SMEs)

Evidence suggests that there is no universally agreed definition of an SME across all academic circles. ACCA

(2013) describes SMEs as a business with fewer than 250 employees. SMEs are described as an entity that does not have public accountability and publishes general purpose financial statements to external users (The International Accounting Standards Board (IASB) 2016, Enerst and Young 2010). In European Commission defines SMEs as enterprises which employ fewer than 250 persons and or have an annual turnover not exceeding EUR50 million and or/ or annual statement of Financial Position total not exceeding EUR43 million (Amoako 2014). In Zimbabwe, the Ministry of SMEs (2000) defines a small enterprise as a business that employs not more than 50 people while operating as a registered entity and a medium enterprise as one employing up to 75 and 100 people (Maseko & Manyani 2011).

4. Accounting and Small and Medium Enterprises (SMEs)

The analysis, classification and recording of the business transactions in the books of accounts is referred to bookkeeping (Mazhindu & Grazyin 2013). Accounting on the other hand is the recording of financial transactions and events in a systematic way, summarising, and communicate to the intended users (Mabonga & Daniel 2015). Literature asserts that the objective of accounting information is record keeping (recording all business activities of economic value), ascertain the profit realised and loss incurred, ascertain the financial position (financial statements are barometers of sound business entity), portrays the liquidity position (information about the financing requirements and utilisation), protect business properties, facilitate rational decision making and comply with the legislation and regulation (Atunji 2013, Wood & Sangster 2005, Maseko & Manyani 2011, Mazhindu & Grazyin 2013).

Mutua (2015) adds that a business cannot go anywhere without proper books of accounts. In other words the business cannot function without proper record keeping (Ibid). Accounting information plays fundamental roles in the following areas: record keeping function (avail operating performance and financial position), Managerial function (decision making is facilitated by accounting), legal requirement function (compulsory to comply with legal requirements), and language of Business (various business activities are communicated through accounting) (Mabonga & Danniell 2015, Olatunji 2013, Wood & Sangster 2005, Mutua 2015).

Literature reveals that most SMEs and large businesses failures is greatly caused by inadequate accounting or lack of accounting (Mutua 2015). The accounting information plays a vital roles as it assists in record keeping track of the business economic activities, supply information on the profitability or loss of the entity, provide useful information to stakeholders about the financial activities of the business,(Maseko & Manyani 2011, Wood & Sangster 2005). Further to that accounting information is a yardstick in which management can be appraised on in terms of resource utilisation, and it gives stakeholders factual and interpretive information about economic activities of a business (Olatunji 2013, Mukonyi 2013, ACCA 2013, Amoako, 2014, IASB 2016, Enerst & Young 2010).

Mutua (2015) asserts that failure to capture business transactions correctly will lead to closure of the business. He also maintains that sound record keeping will lead to successful business enterprise. This means that SMEs will graduate from their present status if accounting principles is to be adhered to (Mutua 2015). Wood and Sangster (2011), state that accounts are prepared on cash or accounting on an accrual basis. Ankra *et al* 2015) reveal the approaches to basic SMEs accounting as predominately cash-basis accounting not accruals. Wood and Sangster (2011), further outline basic assumptions or concepts of accounting upon which the edifice of accounting super structure is based these are the matching principles, the materiality concept, the true and fair value principle, and the historical concepts, money measurements concepts, going concern concepts, separate legal entity concept / business entity concept, consistency concepts, prudence concept and realisation concepts among others.

Literature suggests that there are two methods that can be adopted by the business transactions: single entry or double entry (Wood & Sangster 2005). Wood and Sangster (2005) explain that under single entry method the business will only keep a cashbook and some personal accounts, and that double entry system is an accounting system that ensure that transactions are recorded twice and involves several steps (i.e. journalising, posting to the ledger, preparing a Trial Balance and then to final accounts). Research suggests that most SMEs commonly use single entry bookkeeping and big companies use double entry bookkeeping system (Mutua 2015, IASB 2016, ACCA 2013). Small and Large business keep several day books to record day to day transaction (Sentsho *et al* 2009). Wood, and Sangster (2005) outline some of the books of prime entry which is used to record business transaction before being posted to the ledger and include sales day book (record all credit sales); purchases day book (record all credit purchases); cash books (all cash transactions are recorded), bills receivables book (record the details of all the bills received), Bills payable (record the details of all bills accepted) (Olatunji 2013, Mkonyi 2013, Saar 2015, Mazhindu & Grazyina 2013). Basically there are three bases of accounting in usage these are cash basis (entries are recorded only when cash is received, accrual basis (entries are made on the basis of amounts having become due for payment or receipt are credited) and mixed method (revenue and expenditure are recorded in books of accounts on cash basis or accrual basis)(ACCA 2013, Wood & Sangster 2005).

Sentsho *et al* (2009) show that SMEs must keep Accounts receivable, Accounts payable, Accruals

Inventory records, Bank records,, Sales records, Payroll records, Personnel records, Cash records and Purchase records. Thus in the words of Fatoki (2014) record must be kept to ascertain the viability of the venture but without records the trader will find it difficult to submit the true position to the court in case of bankruptcy. If the accounting records are in order then it would be easy access the assets of the business, liabilities, profit or loss made and financial requirements of the business (Okwena, et al., 2011 Maseko&Manyan 2011, Ntim *et al* 2014)).

Extant literature suggests that SME the proprietor's role is record keeping (Maseko & Manyani 2011). In this regards it is important for managers and owners to be involved in the whole accounting process (Mkonyi 2013). Record keeping requires certain level of knowledge and a great appreciation of accounting (Maseko&Manyan 2011) of which accounting knowledge is however not found in most of SMEs. Despite the importance of keeping accounting information, SMEs are failing to keep records due to the following reasons: poor business knowledge (Maseko&Manyan 2011), lack of resources and mechanisms, no commitment in keeping accounts as they (SMEs) say it a waste of time and resource (Fatoki 2014). He further on says the failure by SMEs to keep records is to ensure that that there is no track record of what the proprietor would have done, in the event that tax authority visits and they do not keep bank accounts for the same reasons (Maseko & Manyani 2011, Waweru *et al* 2014).

Finally, Williams et al., (2008) conclude that accounting records are important to assess the profitability of the business activities, measure performance, evaluate the position of the business in terms of profitability, liquidity activity and leverage (Mkonyi 2013). Mazhindu and Grazyina (2013) attribute the low level of record keeping to poor level of awareness, lack of accounting skills and training resources not adequately available. Further evidence from literature reveals that perception of the proprietor on accounting information is a major contributing factor in the use of accounting information (Saar 2015). Ntim *et al* (2014) opine that some accounting records were kept by SMEs for security purposes not for performance measurement. Empirical evidence suggest that SMEs has a great potential to transform the economy of most developing countries but there appear to be no coherent performance model that would guide profitability improvement (Saar 2015).

Mabonga and Daniel (2015) recommend that if SMEs businesses are to grow and succeed they should embrace seriously record keeping. Several researchers reveal that there is only one important reason why many SMEs fail, poor record keeping is the answer (see Saar 2015, Mkonyi 2013, Maseko & Manyani 2011, ACCA 2013). Because of misuse and inconsistency in accounting information SMEs will blindly assess their financial position and in turn make poor financial estimates and decisions, with the resultant effect being natural extinction from the system (Mkonyi 2013, Mabonga & Daniel 2015). Empirical evidence points out that appropriate accounting information is key for a successful business of any size (see Mazhindu & Grazyina 2013, Mkonyi 2013, Maseko & Manyani 2011, Wood & Sangster 2005, IASB 2016). Saar (2015) concludes that the success of any business, big or small is measured by financial performance. It is important to note that effective performance measure enable a firm to know whether the business goal is met, and whether customers are satisfied. Effective performance measures are always tie to a goal or an objective (IASB 2016, Mkonyi 2013, Saar 2015). ACCA (2013) maintains that profitability is important measure for business performance.

5. Methodology

This study used both primary and secondary data. The instrument used to gather data were questionnaires, interviews and observations. Twenty SMEs owners were interviewed and seventy questionnaires were distributed in Gutu rural areas, Masvingo Province.

6. Conclusions Findings and Recommendations

The study concludes that rural SMEs do not see the value of keeping accounting records at all and they (SMEs) and many are failing unknowingly. The study found out that:

- Financial reporting practices in rural SMEs be lacking,
- Most SMEs do not keep accounting record at all and most of the economic information is captured in a small exercise book,
- A complete set of final accounts may not be prepared due to the fact that owners or managers lack basic business skills,
- Most rural SMEs will continue opening doors even if they are operating at a loss this is due to fear of humiliation by the community,
- They measure success of a business by many stocks in the warehouse or store room, and also by the number of years in business,
- There is generally low adoption of International Accounting Reporting Standards by SMEs,
- SMEs do not keep record as they try to avoid tax authorities (i.e. concealing important information for tax evasion purposes),
- Most transactions are on cash basis hence a cash book is maintained,

- There was a misconception between profit and gross income (SMEs perceived what they receive after sale as profit that is (Sales minus cost of sale)
 - IFRS should make it a mandatory that all SMEs should adhered to reporting framework
 - SMEs owners do not have confidence in the government following a recent ban in the importation of second hand clothes, so anything from SEDCO or any government wing is not considered with due respect
 - there is inefficient use of accounting information to measure performance of rural SMEs in Zimbabwe,
 - There must be regular follow up visits to the trained rural SMEs
- The study recommends that:
- There is need to sensitise the SMEs about the need to keep records, this will be done through workshops, free business forum, campaigns.
 - The government through SEDCO or Ministry of Small and Medium Enterprises must initiate or roll out free accounting lessons to both young business owners and old ones. The objective being to instil confidence in the accounting fraternity. The government must explain the importance of bookkeeping to entrepreneurs.
 - The Ministry of SMEs should promulgate and enforce SMEs laws which are simple and make it mandatory that all must keep accounting records
 - The owners of SMEs must recruit accounting experts and this will eventually lead to the growth and profitability of the business
- The study recommends for further study on the same topic but focus on the Urban areas, a comparative study of Zimbabwe SMEs and those in the region, it will be of great help for policymakers

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