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Full Length Research Paper

Accounting practices of SMEs in Zimbabwe: An investigative study of record keeping for performance measurement (A case study of Bindura)

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Contemporary research is emphasizing the development of sound accounting systems in SMEs in order to improve financial management in these entities. This research investigated accounting record keeping practices for performance measurement employed by SMEs in Zimbabwe, using Bindura as a case. The survey research design was used. The target population comprised of 100 SMEs operating retail shops, manufacturing firms and suppliers of various services in Bindura. A structured questionnaire was used to collect primary data from the respondents which was analysed to generate frequencies and percentages. The study revealed that the majority of SMEs do not keep complete accounting records because of lack of accounting knowledge and as a result there is inefficient use of accounting information in financial performance measurement. The study recommended that national regulators must develop specific accounting guidelines for SMEs and develop accounting training programmes for entrepreneurs in small businesses. The study also recommended mandatory record keeping, to improve accounting practices of SMEs in Zimbabwe.

Key words: Small- and medium-sized entities (SMEs), record keeping, accounting practices, accounting concepts, profit measurement, international financial reporting standard for small- and medium-sized entities (IFRS for SMEs).

INTRODUCTION

Small and medium-sized entities (SMEs) play important roles in the economic growth and sustainable development of every nation, (Moore et al., 2008). The government of Zimbabwe has identified entrepreneurship development as a major policy thrust to achieve economic development. This is evidenced by a number of institutions established by the government to provide funding and improve operational efficiency in the SMEs sector, (Reserve Bank of Zimbabwe, 2009). The major advantages to any economy of developing SMEs have been identified as sources of innovation and business evolution (Wynarczyk et al., 1993). The development and growth of SMEs in Zimbabwe can provide solutions to the problem of high unemployment facing the country because these entities have low start-up costs, low risk and can exploit untapped knowledge bases of creativity in the population for new product development. Zindiye et al. (2008) approximated that there are 40 000 manufacturing entities in Zimbabwe, most of which are SMEs, and further postulated that SMEs account for the employment of at least 57% of the Zimbabwe population. Ncube and Greenan (2004) estimated that there are about 609 SMEs in the manufacturing sector of Harare. SMEs dominate all service sectors of the economy excluding banking.

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. The importance of financial performance measurement to any business entity, big or small, cannot be over-emphasized. In any sense, profit can analogously be viewed as the life-blood of a business and hence the accounting bases,

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Abbreviations: GAAP, Generally accepted accounting practices; **IASB,** international accounting standard board; **IAS,** international accounting standard; **IFRS,** international financial reporting standard; **SME,** small- and medium-sized entity; **ZIMRA,** Zimbabwe revenue authority; **VAT,** value added tax.

concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement. Reported profits reflect changes in wealth of owners and this can explain why major economic decisions in business are centred on financial performance as measured by profitability, (Cooley and Edwards, 1983). It has been recognised that appropriate accounting information is important for a successful management of any business entity, whether large or small (European Commission (EC), 2008).

It is crucial therefore that the accounting practices of SMEs supply complete and relevant financial information needed to improve economic decisions made by entrepreneurs. This research therefore focuses on investigating the types of accounting records being kept and maintained by SMEs, their completeness and the availability of accounting skills and knowledge to capture and process accounting information which can be used to measure performance in SMEs. The study is aimed at achieving the following objectives:

1. To investigate the types of accounting records being kept and maintained by SMEs.
2. To investigate the extent to which accounting information is being used in measuring financial performance by SMEs.
3. To analyze the completeness of accounting records being kept by SMEs as a source of information for economic decision making.
4. To assess the need for specific regulation of accounting and financial reporting practices of SMEs in Zimbabwe.

LITERATURE REVIEW

Definitions of a small- and medium-sized entity

Evidence from literature reveals that there is no universally agreed definition of an SME across all academic disciplines. This is so because no single definition can capture all the dimensions of a small and medium-sized entity, nor can be expected to reflect the differences between entities in different industrial sectors or countries at different levels of development. Most definitions are however based on size and they use fundamental bases such as number of employees, financial position or annual turnover (Beck et al., 2005; Ghafoor and Iqbal, 2007; Zindiye et al., 2008). However, none of these bases are pegged at the same level across disciplines and national boundaries (Holt, 2008).

In virtually every jurisdiction, from the largest economies to the smallest, over 99% of companies have fewer than 50 employees (Pacter, 2009) quoted in South Africa Institute of Chartered Accountants (SAICA), (2010). 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. The Small Enterprises Development Corporation (SEDCO) (2010) does not differentiate between small and medium entities but defines a small and medium enterprise as a firm that has not more than 100 employees with maximum annual sales of up to US$830 000.

According to the Hong Kong Institute of Certified Public Accountants (2005) an entity is considered to be an SME in Hong Kong if it does not exceed any two of the three criteria pegged as total annual revenue of HK$50 million, total assets of HK$50 million, at the reporting date, and 50 employees.

The International Accounting Standards Committee Foundation (IASCF) (2007) defines an SME as an entity that does not have public accountability and thus publishes general purpose financial statements for external users.

SMEs are entities which do not have the onerous requirement of filing their financial statements with any regulatory body for the purpose of issuing financial instruments. These entities do not hold assets in any fiduciary capacity for a group of outside investors (banks, insurance entities, security brokers, funds, etc) but the owners, who usually are also managers. However, Sian and Roberts (2006) went further to differentiate a micro-entity from an SME. They defined micro-entities as the smallest entities within the SME spectrum and that these entities have less than 10 employees (including those that do not have any employees).

It can be seen from the foregoing definitions that there is no one universally agreed definition of an SME. However, for the purpose of this research, an SME is considered as an entity that employs less than 100 people, generating less than US$800 000 in annual turnover and holding assets only for the owner-managers. The majority of the entities that participated in this study can well be described as micro-entities, according to Sian and Roberts (2006) as they employ less than 10 employees including the owner.

Accounting practices and financial reporting of SMEs

In most jurisdictions, the law requires all or many of the SMEs to prepare financial statements and, often, to have them audited. Normally, the financial statements are filed with the government, posted on a website or are made available on request (EC, 2008). In Zimbabwe, all companies are required to keep proper books of accounts in compliance with Section 140 of the Companies Act (Chapter 24:03) and to prepare and submit tax returns based on these financial statements to the tax authority, Zimbabwe revenue authority (ZIMRA), in compliance with various pieces of tax legislation. A study by Lalin and Sabir (2010) concludes that regulations are the main drivers why SMEs prepare financial statements.

Holmes and Nicholls (1998) conclude that the volume of accounting practices in SMEs is dependent on a number of operating environmental factors that include size of the business, business age and industrial grouping. They further argue that most owners and managers of SMEs engage public accountants to prepare required information and that owners and managers search for additional information, but only to a limited extent. Ismail and King (2007) conclude that the development of a sound accounting information system (AIS) in SMEs depends on the owners' level of accounting knowledge. Keasy and Short (1990) and Bohman and Boter (1984) report that small firms use professional accounting firms for preparation of annual reports and for other accounting needs. Marriot and Marriot (2000) argue that the professional accountants should develop their services to also include graphic presentations and comments and interpretation of the amounts in financial statements. Evaraert et al. (2006) and Jayabalan and Dorasamy (2009) however argue that the high cost of hiring professional accountants leaves SME owner-managers with no option but to relegate accounting information management. Zhou (2010) proposes the use of accounting software by owner-managers in SMEs to improve accounting practices but laments that developers of accounting software are yet to produce the medium-sized software for SMEs.

An early study of users of financial statements in SMEs (Page, 1984) revealed that owners, managers, tax authorities and lenders are the main users. According to Olson et al. (2004), contemporary studies are discovering that the number of users of accounting information in SMEs is increasing to include venture capitalists and customers in supply-chains. Wichman (1983) concludes that accounting and marketing pose major challenges to management of SMEs and recommends that managers or owners in SMEs must learn about accounting or hire experts. Walhlstedt (1996) believes that conventional accounting reports play a significant role in SMEs but argues that the reports must be adjusted in order for them to be understood, proposing the use of the cash basis rather than the accruals basis.

McMahon (1999) argues that financial reporting practices in SMEs seem to fall short of what is dictated by various external financial reporting imperatives that exist for them, further arguing that owner-managers appear particularly reluctant to produce financial reports which might become accessible to outside parties either directly or through the offices of regulatory authorities.

Profit measurement and the accounting concept of capital maintenance

Different entities adopt different concepts of capital in reporting their financial performance and position. They can choose between financial and physical concepts of capital. Under the financial concept of capital maintenance, a profit is earned only if the financial (or monetary) amount of the net assets at the end of the period exceeds the financial (or monetary) amount of net assets at the beginning of the period, excluding any distributions to and contributions from equity owners during the period, (Framework, para.104a). On the other hand, profit, under the physical capital maintenance concept, is earned only if the physical productive capacity (or operating capability) of the entity at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to and contributions from equity owners during the period, (Framework, para.104b).

According to the Framework (para. 109) all price changes affecting the assets and liabilities of an entity are viewed as changes in the measurement of physical productive capacity. Such price changes are treated as capital maintenance adjustments, making part of equity not profit. The concept of capital chosen indicates the goal to be attained in determining profit even though there may be some measurement difficulties in making the concept operational (Von and Wingard, 2009).

According to a study by Tanwongsval and Pinvanichkul (2008), SMEs ranked 'assessing profitability' second on the continuum of reasons for preparing financial statements well after 'sole purpose of tax preparation' which was ranked first. Cooley and Edwards (1983) report that SMEs considered maximization of net income (profit) to be the most important financial objective. Page (1984) also argues that owners in SMEs focus on profitability and the measures of net profit and net current assets when they are evaluating their firms.

Measurement issues

'Measurement' is defined as the process of determining the monetary amounts at which the elements of the financial statements are recognised and reflected in the financial statements, (Framework, para.99). There are a number of measurement bases which are employed to different degrees and in varying combinations by entities when preparing their financial statements (von and Wingard, 2009). The four common bases of measurement employed in financial statements include the historical cost basis, current cost basis, realisable value basis and present value basis.

Historical cost

Under the historical cost basis of accounting, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business, (Framework, para.100a). Historical cost is the most commonly adopted basis by entities in preparing their financial statements and it is used in combination with other measurement bases, (para.101). Von and Wingard (2009) argue that a major disadvantage of the historic cost concept is that it follows the financial capital maintenance concept (in nominal monetary units only) and as such overstates profit in a period of rising prices, which could lead to an erosion of capital.

Current cost

Under the current cost basis of accounting, assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently (Framework, para.100b). The physical capital maintenance concept requires the adoption of the current cost basis of measurement (Von and Wingard, 2009).

Realisable value

Under the realisable (or settlement) value basis of accounting, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal. Liabilities are carried at their settlement values; that is, the undiscounted amount of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business (Framework, para.100c).

Present value

Under the present value basis of accounting, assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liability in the normal course of business (Framework, para.100d).

The selection of the measurement basis and concept of capital maintenance will determine the accounting model used in the preparation of financial statements.

Accounting bases

Cash basis accounting

In cases when an entity is a micro or even a very small entity, it might be more appropriate to use cash basis accounting (EC, 2008). Cash basis means that cost or income is accounted for at the equivalent amount of cash paid or received for it. This means that an entity recognises a transaction only when cash is received or paid. The cash book or the receipts and payment accounts is the main book in this system. In modern businesses, especially in retail shops, a point-of-sale or cash register machine is used.

Accrual basis accounting

It is based on the accruals concept of accounting which states that revenue and costs are accrued (that is, recognized as they are earned or incurred, not as money is received or paid), matched with one another so far as their relationship can be established or justifiably assumed, and dealt with in the statement of comprehensive income for the period to which they relate (Framework, para. 22). Profit under this type of accounting, is the difference between realized revenues (‘realized’ in the sense that invoices have been issued) and associated costs, measured either by historic costs or by current costs.

This involves accruing any receipts which have been earned in the financial year and accruing any payments which relate to purchases made in the financial year. The corollary of this is that any receipts received or payments made in the current financial year which relate to accruals made in the last financial year, will not affect the current year’s profit.

An entity may make a choice between the two bases of cash or accruals or apply both depending on the nature of its business transactions. However, in some jurisdictions, entities may be required to adopt one prescribed basis. For example, in Zimbabwe, Section 14 of the Value added tax (VAT) act (Chapter 23:12) requires that all registered operators account for both cash and credit supplies (sales and purchases) using the accruals (invoice) basis of accounting. The cash (payment) basis is only available to registered operators who apply to Zimbabwe revenue authority (ZIMRA) for exemption from using the accruals (invoice) basis.

Financial record keeping

Financial records, for example the sales day book (sales journal), purchases day book (purchases journal), cash receipt book, cheque payments book, petty cash book, general journal, nominal ledger, debtors’ ledger and creditors' ledger must be kept and maintained in a sound accounting system (McMahon, 1999).

However, not all SMEs may need to keep and maintain all the previous mentioned financial records but an entity has to decide this on the basis of its needs. When the entity makes the judgement of what financial records to maintain, it also needs to take into account whether some financial records are compulsory to be kept by regulatory authorities like ZIMRA.

Tax accounting in SMEs

Income tax systems in most OECD countries are accrual based (EC. 2008). Under cash accounting, income tax is paid on revenues only when cash is received, and input costs are claimed only when cash is paid out. Cash accounting systems targeted at SMEs to compute taxable income based on entries of revenues actually received and costs actually incurred. Cash basis can significantly reduce compliance costs depending on the additional supporting documentation that SMEs as taxpayers are required to keep and maintain. Other simplification measures may include simplified book-keeping requirements (McMahon, 1999).

In Zimbabwe the tax authority, ZIMRA, introduced a presumptive tax system which covers all SMEs and informal traders not registered for tax. The Zimbabwe VAT system requires businesses to keep and maintain proper books of accounts including the filing of tax invoices. Most SMEs qualify to compulsorily register for VAT under Section 23 of the VAT act (Chapter 23:12). However, the number of SMEs operating in the economy cannot be verified but it is estimated that 90% of all registered tax payers in Zimbabwe are SMEs (Ngorima, 2009)

Current issues in small and medium-sized entities (SMEs) financial reporting: International financial reporting standard (IFRS) for SMEs

On 9 July 2009, the IASB published an international financial reporting standard (IFRS) designed for use by small and medium-sized entities (IFRS for SMEs). This is the first set of international financial reporting requirements developed specifically for SMEs. SMEs are estimated to represent more than 95 per cent of all entities, according to the IFRS foundation (2010). Since the early 1970s, IFRSs have been designed to meet the needs of entities whose securities trade in public capital markets. This has affected the scope of issues covered in IFRSs, the amount of implementation guidance and the volume of disclosures (Institute of Chartered Accounting of Zimbabwe (ICAZ, 2010). SMEs generally have fewer resources, limited access to capital markets, less business complexity and fewer external users of its financial statements, compared to larger listed entities.

Users of financial statements of SMEs will be more interested in current liquidity and short-term cash flows than long-term forecasts of cash flows and earnings (Sian and Roberts, 2006). The complexities posed by full IFRSs in financial reporting by SMEs led countries like the UK to develop a standard of its own that was used by SMEs in financial reporting; the financial reporting standard for smaller entities (FRSSE), with extant local accounting standards applicable to all non-listed entities. Kenya, by contrast, is a country that adopted IFRSs in full and these have been applicable to all listed and non-listed entities since 1999 (Sian and Roberts, 2006). In Hong Kong the small and medium-sized entity financial reporting framework and financial reporting standard (SME-FRF and SME-FRS) was issued in August 2005 (HKICPA, 2008).

The introduction of an IFRS specifically for SMEs was necessitated by many challenges faced by these entities in adopting full IFRSs in financial reporting, the main of which was the excessive disclosure requirements, based on a cost-benefit analysis for SMEs (Nazri, 2010).

One major interest of SMEs that adopted full IFRSs was to reduce the cost of preparing financial statements according to the Instite of Chartered Accountant in England and Wales (ICAEW, 2008). Full IFRSs were designed for financial reporting that meets the needs of equity investors in large entities with shares trading on public capital markets. The full IFRSs cover a wide range of issues, including a sizeable amount of disclosures for easy understanding by a wide range of users in these large public companies. Users of the financial statements of SMEs do not usually have similar needs, but, rather are more interested in assessing shorter-term cash flows, liquidity and solvency (McMahon, 1999).

Also, many SMEs complained that full IFRSs impose a burden on them - a burden that has been growing as IFRSs have become more detailed and more countries have begun to use them (IFRS foundation, 2010). Concerns have been raised about the burden to financial statement preparers and the relevancy of the resulting information to lenders, vendors, credit rating agencies, family investors, development agencies and others who use SME financial statements (ICAZ, 2010). A fundamental change in the way companies, and SMEs in particular, report financial information to their lenders and insurers is also critical to minimise credit risk and business failure (ICAEW, 2008).

For small businesses, the cost of complying with IFRSs could be greater than the benefit received. A full set of accounts that comply with IFRSs are less relevant for the small business user who is most likely to be the owner-manager (Stern and Barbour, 2005), quoted in Stainbank (2008).

The introduction of an IFRS for SMEs in July 2009 by the IASB was a welcome development in many countries, especially in developing countries (Juping, 2010;

Table 1. Size of entity.

Industrial sector	Annual revenue base (US$)			
	Below 50 000 (micro)	50 000-100 000 (small)	Above 100 000 (medium)	Total
Retail (shops)	2	21	3	26
Manufacturing	4	10	5	19
Other service	8	7	1	16
Total	14	38	9	61
Percentage (%) frequency	23	62	15	100

Table 2. Legal ownership of SMEs.

Industrial sector	Family business	Sole proprietor	Partnership	Limited company	Total
Retail (shops)	13	8	2	3	26
Manufacturing	4	4	2	9	19
Other services	2	5	7	2	16
Total	19	17	11	14	61
Percentage (%) frequency	31	28	18	23	100

Nazri, 2010; Sheridan, 2009) but its impact on improving financial reporting by SMEs is yet to be verified. The South Africa Institute of Chartered Accountants (SAICA, 2002:4), in Stainbank (2008), acknowledged that it is neither reasonable nor practicable to require small entities to comply with reporting standards that are based on general purpose international financial reporting standards. In response to this expert call, the South African Department of Trade and Industry had to address the issue of differential reporting by SMEs through corporate law reforms which commenced in 2004 (Stainbank, 2008).

In Zimbabwe, the IFRS for SMEs was adopted in 2009 when it was first published by the IASB, (ICAZ, 2010). The new IFRS for SMEs is expected to improve the information content and format of financial statements presented by SMEs. Chimanikire (2011) advocates for change in the local law to permit the smooth adoption of the new standard. The researchers believe that the new standard came to address only financial reporting issues in SMEs but record keeping practices will remain a challenge. Poor record keeping practices will hamper performance measurement and the subsequent reporting which the new standard seeks to improve. In this light, it is envisaged that efforts to improve record keeping practices will eventually increase the chance of some SMEs adopting the IFRS for SMEs at some future point.

MATERIALS AND METHODS

The researchers used the survey method. As widely accepted, the survey method is a fact-finding study that involves adequate and accurate interpretation of findings (Cooper and Schindler, 2003). The study was carried out by gathering data from primary sources in order to achieve the research objectives. The target population comprised of 100 registered SMEs in Bindura. Based on the research objectives, a survey questionnaire was developed. The questionnaire was divided into three sections: Profile of the entity, accounting practices and perceptions about performance measurement. The questionnaire was pre-tested using 5 owner-managers of retail shops, 5 owner-managers of manufacturing entities and 3 operators of entities supplying other services.

A total of 100 questionnaires were distributed through networks of friends and colleagues to retail shops (selling groceries, clothing, hardware, pharmaceuticals and farming implements), manufacturing entities (including metal fabricators, panel beaters, carpentry workers in cottage industry, building contractors, textiles, bakeries and other food processors) and a variety of other service providers (including hairdressers, law firms, insurance agents, business consultants and those offering secretarial services). A total of 68 of the distributed questionnaires were returned and of these 61 were accepted as complete for the purpose of data analysis. With relevant collected data, analysis was then conducted based on the research objectives and conclusions drawn.

RESULTS

The results obtained from the survey through questionnaires are presented in this section. Table 1 shows that the majority of SMEs (62%) generate annual revenue of between US$50 000 and US$100 000 and that most of the SMEs are in the retail sector operating shops. Entities offering other services are mainly generating below US$50 000 in annual revenue. Table 2 shows that the largest number of SMEs (31%) is family businesses, followed by sole traders (28%) and limited companies (23%) respectively, with partnerships com-prising the smallest number (18%) of SME businesses.

Table 3 shows that in 40 of the 61 SMEs that participated in the study, owner-managers were

Table 3. Preparers of accounts and financial statements in SMEs.

Industrial sector	Full-time Accounting officer	Consultant	Owner-manager	Total
Retail (shops)	3	5	18	26
Manufacturing	4	4	11	19
Other services	2	3	11	16
Total	9	12	40	61
Percentage (%) frequency	15	20	65	100

Table 4. Accounting records kept by SMEs.

Industrial sector	Purchases day (order) book	Sales day (receipt) book	Expenditure (bills) book	Payroll records	Asset register
Retail (shops)	22	26	7	18	8
Manufacturing	6	9	11	7	12
Other services	7	2	8	2	4
Total	35	37	26	27	24
Percentage (%) frequency	58	62	43	45	40
Ranking	2	1	4	3	5

Table 5. Financial statements (or accounts) prepared by SMEs.

Industrial sector	Statement of income	Statement of financial position	Statement of cash flows	Statement of changes in equity	None
Retail (shops)	8	3	3	7	5
Manufacturing	6	3	3	4	0
Other services	4	1	1	3	6
Total	18	7	7	14	11
Percentage (%) frequency	30	12	12	23	18
Ranking	1	4	4	2	3

preparers of accounts and financial statements, 12 used hired consultants to prepare financial statements and only 9 employed full-time accounting officers. Respondents were asked to choose accounting records they kept in SMEs from a given list. Table 4 shows that the sales day (receipt) book ranked highest with 62% and the purchases day (order) book ranked second with 58%. The payroll records book ranked third with 45%, the expenditure (bills) book ranked fourth and the asset register book ranking last (fifth) with 40%. All of the SMEs in the retail shops business kept sales day (receipts) books and most of the SMEs in the manufacturing sector (12 out of 18) kept asset registers.

Respondents were also asked to select from a given list of financial statements those that they prepared for SMEs. Table 5 shows that the statement of income ranked highest with thirty percent and the statement of changes in equity ranked second with 23%. Eighteen percent of the SMEs did not prepare any financial statement or account. The statement of financial Position and the statement of cash flows both ranked forth with 12%.

Over and above accounting records kept, respondents were also asked to select from a given list, ledgers or books of accounts they kept and maintained for SMEs. Table 6 shows that the cash book ranked highest with 53% and the receivables account second with 32%. The payables account ranked third with 28% the non-current assets account ranked fourth with 22 and 13% of the SMEs responded not to have kept any book of accounts or ledger.

Incidence of calculating profit

Table 7 shows that 78% of the SMEs did not calculate profit while only 22% responded to have calculated profit.

Table 6. Books of accounts/ledgers kept and maintained by SMEs.

Industrial sector	Receivables accounts	Payables accounts	Cash book	Non-current assets accounts	None
Retail (shops)	2	5	19	3	4
Manufacturing	13	9	7	8	3
Other services	4	3	6	2	1
Total	19	17	32	13	8
Percentage (%) frequency	32	28	53	22	13
Ranking	2	3	1	4	5

Table 7. Responses to calculation of profits.

Respondents	Responses		Total
	Yes	No	
SMEs (%)	78	22	100

Table 8. Reasons given for calculating profit.

Reasons	Percentage responses
Tax purposes	13
Profit sharing	27
Financial reporting	28
Other	32
Total	100

Table 9. Accounting bases adopted.

Accounting basis	Responses (%)
Cash basis accounting	72
Accrual basis accounting	28
Total	100

Respondents' perceptions about reasons for calculating profit

Table 8 shows that 13% of the SMEs indicated that they calculated profit for tax purposes, 27% for profit sharing reasons, 28% for financial reporting while 32% gave other reasons for calculating profit. For the purpose of this research, only financial reporting is construed for performance measurement.

Accounting basis adopted

Table 9 shows that 72% of the SMEs adopted the cash basis of accounting with 28% adopting the accruals basis of accounting.

Challenges faced in keeping proper accounting records

Table 10 shows that the majority of SMEs (62%) attributed the challenges they faced in keeping proper accounting records to lack of accounting knowledge, 18% of SMEs indicated cost and time constraints as challenges while 12% cited lack of guidelines or specific accounting regulations for SMEs as contributing to

Table 10. Challenges faced by SMEs.

Challenges	Percentage responses
Lack of accounting knowledge	62
Cost and time constraints	18
Lack of guiding accounting rules	12
Other	8
Total	100

Table 11. Suggestions to improve accounting practices of SMEs.

Suggestions	Percentage responses
Bookkeeping training	36
Hire consultant	25
SME accounting guidelines	12
Mandatory record keeping	7
Other	20
Total	100

challenges they faced in keeping proper accounting records. Eight percent of the SMEs cited other challenges.

Respondents' suggestions given to improve accounting practices of SMEs

Table 11 shows that most of the SMEs (36%) suggested book-keeping training as a way to improve their accounting practices. Twenty five percent of the SMEs suggested they would hire consultants and twelve percent suggested having guidelines or specific accounting regulations in place to improve their accounting practices. Twenty percent gave other suggestions.

DISCUSSION

The results confirm that SMEs do keep subsidiary books of accounts, especially to capture sales and cost of sales. There is however little accounting information captured on operating expenses as evidenced by a few number of SMEs keeping books to record expenses. SMEs in the retail shops business are keeping sales day books for controlling inventory and those in the manufacturing sector keep records for non-current assets as owners try to safeguard their assets. Record keeping in SMEs is therefore not being done for the purpose of capturing accounting information for performance measurement but for security and control. This is supported by only 27% of SMEs preparing financial statements to report financial performance.

The results also reveal that the accounting basis adopted by an entity has a bearing on the accounting records kept. The study reveals that SMEs are more comfortable with the cash basis, supporting the propositions of Walhlstedt (1996) for the adoption of cash basis accounting in SMEs. Cash accounting is easy and straight forward as compared to the accruals accounting, which is complex, as it requires understanding of double-entry bookkeeping and accounting processes. Accruals basis accounting requires the recording of revenue and expenses for all transactions regardless of whether cash is received or not. Estimation and apportionment of revenue and expenses is also needed under the accruals basis in order to apply the matching concept in reporting period performance and this requires accounting skills which are lacking in SMEs.

The results also confirm the findings of McMahon (1999) that most SMEs do not prepare a complete set of financial statements with some not preparing any financial statement at all. An entity may fail to prepare financial statements even with well-maintained books of accounts because the preparation of financial statements requires accounting kills and this, as revealed by the results, is lacking in 62% of SMEs. The need to prepare a complete set of financial statements increases as an entity grows, especially into medium size. It is at the medium size that entity financial performance reporting will not only be limited to internal users but also to external users like lenders. Owner-managers dominate preparers of financial statements in SMEs and according to Wichman (1983), most of the owner-managers are not financially literate and they may be resorting to this practice to avoid the cost of hiring accountants, confirming the findings of Everaert et al. (2006). This means that, in the absence of statutory requirements to prepare financial statements, for example from tax authorities, SMEs could do without financial reporting because the chief users (owners) do not value financial reporting, basing on their perspectives of performance measurement.

Owner-managers in SMEs do not value the use of profitability in measuring performance but are compelled to calculate profits for tax purposes. Any entity should calculate profit as a measure to protect its capital from being depleted. Cash should not be mistaken for profit as an entity may have huge cash balances but having its asset base or productive capacity depleted by losses.

CONCLUSION AND RECOMMENDATIONS

The study revealed that SMEs do not keep complete accounting records because of lack of accounting knowledge and the cost of hiring professional accountants. As a result, there is inefficient use of accounting information to support financial performance measurement by SMEs in Zimbabwe. This study recommends that the regulators should come up with some SME-specific accounting guidelines and provide template forms for capturing accounting information by SMEs. The ministry responsible for SMEs should initiate accounting training programmes for entrepreneurs running small businesses. Further, this study recommends that record keeping in SMEs must be made mandatory to improve their accounting practices and increase chances of them formalizing their business operations.

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