APPROVAL FORM

The undersigned certify that they have read and recommended to the Midlands State University for acceptance a dissertation entitled, "Analysis of the effects of Accounting practices on Small and Medium Enterprise at Meikles Park in Mutare". Case of Meikles Park in Mutare submitted by Norah Kutsaru (R113148Y) in partial fulfilment of the requirements of the Bachelor of Commerce Honours Degree in Accounting at Midlands State University in 2014

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DEDICATION

The research project is dedicated to my late father Mr B. Kutsaru and my dear mother Mrs R.C. Kutsaru for their effort through their hard earnings from the field to sent me to school despite being a girl child. In those days it was very rare for a girl child to be given those opportunities, support and resources to further in education. I would like to thank God Almighty for giving these parents with a vision in life of their girl child.

Secondly I would like to express my gratitude to my Husband and children who has been a pillar of strength during good and bad times and their continued support and encouragement they gave me through the entire period.

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ABSTRACT

The accounting practices of SMEs do not supply complete and relevant financial information needed to improve economic decisions made by entrepreneurs. It has been noted that the majority of SMEs do not keep complete accounting records because of lack of accounting knowledge. Most SMEs do not prepare financial reports at all. Financial analysis is not done as a result. Therefore, the purpose of this study was to evaluate the accounting practices of SMEs at Meikles Park in Mutare, so that recommendations can be made to entrepreneurs on effective strategies that can be adopted to improve their financial accounting practices. The research was guided by the following objectives, examine the types of accounting records maintained by informal traders, examine the types of financial reports being generated by informal traders and evaluate the extent to which by informal traders are engaged in financial performance measurement. The researcher used survey method making use of questionnaires supplemented by follow-up face to face interview. The study used descriptive statistics tables. A population of 127 and a sample of 57 respondents were used in this research. The findings on how books are kept revealed most of the informal traders use single entry bookkeeping systems and most of it is paper work as few of them have no computers, most of them don't have qualified bookkeepers. Most informal traders do not produce any financial reports neither do they measure their financial performance. Findings on the growth of SMEs reveals that there is still slow and stunted growth, most of these enterprises have existed between 1-2 years and few of them go above 5years. The researcher recommends that present informal business owners/employees to use the accruals basis of accounting to make sure that they produce the complete picture of the firm's activities. SMEs are also recommended to use the double entry system to enable them to maintain adequate records for the preparation of financial statements. Lastly, the government should provide training programs in financial accounting skills for the owners of SMEs. The government should organize free seminars that will teach entrepreneurs on how to keep proper written records. Findings on accounting practices could be used as the basis for specific and detailed research into every separate aspect of accounting practices in Zimbabwe such as financial reporting and analysis, usefulness of cash flows and ratio analysis, outsourcing accounting services and the role of professional bodies in enhancing accounting practice in the country.

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CHAPTER I

1.1 Introduction

This chapter discusses the background of the study, statement of the problem, aim of the study, research objectives, research questions, significance of the study, assumptions of the study, delimitations and scope, limitations of the study and definition of terms.

1.2 Background to the Study

Historically, the SME sector has been referred to as the "informal sector" in Zimbabwe because most of these are not registered. Most informal businesses in Zimbabwe has aim of fulfilling narrow goals or objectives. A number of informal businesses in Zimbabwe arose during the hyper-inflationary era (2007 – 2008), and were aimed at ensuring survival, or pursuing maximum wealth within the shortest possible time. Informal businesses are key players in the Zimbabwean economy. According to Kachembere (2011)"the informal businesses sector in Zimbabwe now accounts for about 90% of the country's employable population. Official statistics show that the SME sector in Zimbabwe contributes over 60 percent to the Gross Domestic Product (GDP)". According to Gwarisa.(2012). Zimbabwe is a country which is has small entities with a significant influence on the economy, yet little is known about the financial reporting practices of informal businesses.

Over the past yearstoo much attention has been put in tackling problems faced by informal businesses concerning finance, marketing, business development services, capacity building, infrastructure and institutional support framework. This has caused an increase in the number of informal businesses. There is a growing recognition in Zimbabwe that informal businesses have an important role to play in the present circumstance. For this reason the government is taking various measures and initiatives in facilitating a secure and conducive business environment for informal businesses. The importance of the informal businesses for future economic development has been lately mentioned at different levels and reinforced in each budget speech.

Rather than work towards becoming part of the formal economy, it is viewed as an advantage to informal businesses to remain part of the unregulated market because of perceived advantages like not having to comply with regulations that apply to them, not paying taxes and other statutory dues, being able to take short-cuts and not being accountable. Not being formally registered creates barriers against themselves because it is difficult to do business with registered operators and also restricts the informal businesses operations to Zimbabwe, when exporting as a non-registered entity. This scenario also means that not only does government not know what is out there, but they also cannot quantify its contribution to the national economy.

A critical weakness with the "informal" setup is the fact that the informal businesses do not keep proper accounting records of their activities. Keeping books of accounts is seen as a waste of time, money and effort. This is done to ensure that there is no track record of what the proprietor would have done, if any government agency comes to visit them. Bank accounts are also shunned for the same reason, with transactions occurring on a cash basis. With no banking history to talk about, and no accounting records kept by informal operators and they also find it difficult to get funding from banks. Issues of collateral would not arise, or would not be so prominent if the informal business was able to prove their past performance, or provide future plans that are grounded on past experience. A banking history would also come in handy, in terms of proving that the informal businesses did in fact achieve past glory, and is capable of repeating the same if they are supported.

The lack of formal accounting records means that the proprietor is unable to recognise when sales start slowing down, or costs start to rise unacceptably. Corrective measures cannot be taken in time if there is no timely recognition of problems, and this leads to poor performance, poor decision-making and lastly bankruptcy. Future planning is also not feasible where current performance is unknown.

In Mutare, the informal sector is a fluid one. An informal enterprise may be here today and gone tomorrow. Okwena, Okioma and Osongo, (2011:12) agree by noting that, "recent studies show that 60% of the small businesses fail within the first few months of operation". At Meikles Park, the businesses included among others flea market operators and foodvendors. Generally, the informal traders at Meikles Park tend to be

organised as sole proprietors, with a heavy concentration of family members. This in itself negates the need to maintain proper accounting records. The lack of accounting skills, which is often attributed to the owner-managers' characteristics (education level, experience and managerial preferences), is viewed as a major constraint in having proper accounting systems and control. At Meikles Park, informal businesses performance is influenced by a number of factors which include poor management and administrative skills, lack of demand for product or service, lack of experience in the particular industry by the owner, poor record-keeping by the owner, insufficient capital invested by the owner, an over-reliance on external borrowings. This implies that, a poor accounting record-keeping and inefficient use of accounting information causes poor financing decision of informal businesses and high failure rate.

Ademola, et al., (2012) note that record keeping is not only inevitable for individuals; it is the organizations life wire. To owners of SMEs who operating in any industry use accounting information to measure it financial performance this is according to Maseko and Manyani, (2011). According to Mwangi, (2011) not much or no attention has been paid to the informal sector of the economy involving small and medium enterprises in terms of research. The result therefore is that little is known about their operations and especially the nature of the accounting systems that exist in these enterprises. As a result it is difficult to determine the monetary value of their contribution to the economy.

Originating from recognition of the increasingly important role and contribution of informal businesses as well as the recent promotion and supporting policy on developing informal businesses, this research study is considered a contribution to improvement of accounting practices by informal businesses in Zimbabwe. As previously mentioned, there is a lack of empirical evidence concerning the use of accounting information in financial performance measurement for use in raising external funds and making long-term investments of informal businesses in Zimbabwe. Therefore, this study will examine informal businesses in Zimbabwe to provide empirical evidence of this gap. This research investigates accounting practices of informal businesses, and then, examines the resultant effect on the performance.

1.3 Statement of the Problem

The accounting practices of informal businesses does not supply complete and relevant financial information needed to improve economic decisions made by entrepreneurs. It has been noted that the majority of informal businesses do not keep complete accounting records because of lack of accounting knowledge. Most informal businesses do not prepare financial reports at all. Financial analysis is not done as a result. Therefore, the purpose of this study is to analysis the effects of accounting practices in informal businesses, so that recommendations can be made to entrepreneurs on effective strategies that can be adopted to improve their accounting practices.

1.4 Research objectives

The research objectives of this study are, to:

- Examine the types of accounting records maintained by informal traders.
- Examine the types of financial reports being generated by informal traders.
- Evaluate the extent to which by informal traders are engaged in financial performance measurement.
- Formulate recommendations to small business owners regarding appropriate financial accounting practices that improve business performance.

1.5 Research questions

To answer the main problem, the following sub-problems have to be answered first:

- What are the types of accounting records that are maintained by informal traders?
- What are the types of financial reports that are being generated by informal traders?
- To what extent are informal traders engaged in financial performance measurement?
- What recommendations can be made to informal traders regarding appropriate accounting practices that improve business performance?

1.6 Justification of the research

Completing this study brings together aspects of theory and practice. For theory, this study is an expansion of previous studies on financial accounting practices of SMEs by

focussing on financial accounting practices on informal businesses. In addition, utilizing data from Zimbabwe, one of the emerging economies, contributes to the literature ofSME accounting practices, which traditionally concentrates on SMEs of developed

Using data from Zimbabwe to test theories of accounting helps to confirm and expand the scope of theoretical applications. The findings of this research paper are therefore significant because the analysis of these findings will reveal whether the systems of book keeping by small traders in their current form reflect accounting principles and practices as required by the new IFRS for SMEs.

The study may also benefit the subject field by raising awareness of the importance of studying financial accounting practices (as a whole) with regard to informal traders and also ring the bell for researchers to shift the balance from obstacles of access to finance to financial accounting practice as a whole. Overall, the study may contribute to filling the gap in the literature pertaining to accounting practices of informal businesses.

In practice, this study is significant for accounting practices in Zimbabwe. Results will indicate relationships between accounting practices, accounting information and financial performance measurement and will assist informal traders to improve performance and profitability of their businesses by managing accounting matters efficiently and effectively.

The results of this study are expected to contribute in empowering small businesses, by putting a strategic point to encourage the use of accounting information for small businesses. Furthermore, the effect that is expected will be the awareness of small entrepreneurs to organize the accounting records properly, in order to encourage the success of their business and they can meet the obligation of providing information for the government, lenders of finance and creditors. The results will also make a case for inclusion of the informal traders in the business sector data for use in economic statistics.

The findings will explain how small traders define business success in monetary terms and how relevant accounting is to traders in small and medium enterprises in Zimbabwe. This study, if taken seriously by informal traders may serve to preserve many of them from failure in the sense that it could raise awareness for the need for training and the use of the available tools described in the study to measure financial performance. Informal

traders might then be able to foresee failure and change of their actions and attitude in time to prevent it.

1.7 Assumptions

During the course of the study the researcher assumed that:

- The sample used in this study represented the whole population of informal businesses in Zimbabwe;
- The poor performance by informal businesses was as a result of an inefficient and ineffective accounting system;
- Informal businesses in Zimbabwe had some form of accounting system which they use.
- Most of the informal business owners did not keep proper accounts and also did not use accounting information in financial performance measurement;
- There are solutions to the problems that prevented entrepreneurs from using proper accounting practices.

1.8 Delimitations of the study

This research was carried out in Mutare and in particular, focus was on informal traders operating at Meikles Park. For this project it is important to note that the researcher has covered periods from 2009 to 2013 when these traders started operating at the Park. Mutare town was chosen because it was where the researcher resided and therefore involved businesses personally known to the researcher. The study focused on accounting practices in informal businesses, as it was seen as a major challenge in generating adequate accounting information for use indecision making.

In considering significant aspects of the accounting practices, this study concentrated on internal factors of informal businesses but did not capture much external environment factors. The internal business functions of the greatest concern in this study was accounting management while other functions such as marketing management, and personnel management wereomitted because it was felt that they were less relevant to the problems pertaining to small and medium enterprises at the moment.

In this study, a population of about 127 owners of 127 informal businesses at Meikles Park were studied.

1.9 Limitations of the study

As with any study, this study had its limitations.

- There was no complete list of informal businesses operating at Meikles Park and for this reason the researcher moved around the tables of the traders and requested for participation in the research.

- Regardless of its high ambitions, undergraduate research is constrained by resource limitations, both financial and non-financial resources. Limitations of time, funding and scope of the study required the research study to focus on a limited number of objectives. Moreover the research problem and questions often directly or indirectly involve multiple areas of accounting systems while limits of time and funds did not make all areas that can be investigated.

- Because of limited access to scare resources, this study did not research informal businesses in all areas of Mutare city but only selected informal businesses located at Meikles Park as the target population and considered the target informal businesses representative for all informal businesses in Zimbabwe.

- Similarly, due to limited resources this study used only those traders willing to participate in the study. Given more time and funds, the sample could have been broadened.

- There is little research on the accounting practices of SMEs in Zimbabwe or even in developing countries generally. Prior research on accounting practices concentrated on larger listed firms, and financial companies. Therefore, most of references in this study were based on research undertaken in developed countries. Comparability was a problem in this study because of the differences between informal businesses in developed and developing countries, in term of organizational, structural, environmental, and management variables.

1.10   Definition of terms

Enterprise: According to Mawadza,(2006)An enterprise is any entity that is engaged in an economic activity, irrespective of its legal form. Which includes self-employed persons and family businesses engaged in craft or other activities and partnerships or associations regularly engaged in an economic activity.

Financial statements: Mbroh and Attom, (2012) cited that financial statements are concerned with classifying, measuring and recording the transactions of a business. At the end of an accounting period it is useful to prepare the following financial statements to show the performance and position of the business: a profit and loss account, a balance sheet, cash flow statements and notes to the accounts.

Informal businesses refer to businesses that are unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated Mutambanengwe, (2012).

SME In Zimbabwe, an SMEs Policy and Strategy Framework has defined small and medium enterprises as those who are 'registered in terms of their legal status' and employing anywhere between 6 to 100 workers' Zimbabwe, (2008: 20).

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 this is according to 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.

Financial performance measurement is a tool to help managers control the finance of their organizations this is according to Mosalakae, (2007). It generally looks at firms' financial ratios (derived from their financial statements) such as liquidity ratios, activity ratios, profitability ratios and debt ratios

Bookkeeping: Okwena, et al., (2011)refers to bookkeeping as the analysis, classification and recording of financial transactions in books of account in a systematic manner, while transactions include sales, purchases, income, and payments by an individual or organization.

Accounting: According to Wood and Sangster, (2005) state that accounting is the process of systematically recording, measuring, and communicating information about financial transactions. Accounting can be done on a cashbasis (cash accounting) or on an accrual basis (accrual accounting). **Cash accounting** records cash inflows and outflows in the period in which they occur as stated by Maseko and Manyani, (2011). **Accrual accounting** records income and expenses in the period to which they are attributable rather than when cash payments come and go. For example, a cheque written in April for March's utilities would appear as a March expense under the accrual method and as an April expense under the cash method.

Accounting Information System: Prihatni,R., Zulaihati, D,R., Noviarini,D. (2012) defined accounting information system as human and capital resources of an organization that is responsible for the preparation of financial information and also information obtained from the collection and processing of transaction data.

1.11   Summary

This chapter discussed the background to the study, statement of the problem, aim of the study, research objectives, research questions, significance of the study, assumptions of the study, delimitations and scope, limitations of the study and definition of terms.

Chapter two focuses on literature review.

CHAPTER II

LITERATURE REVIEW

2.0   Introduction

This chapter discusses theoretical framework as well as empirical literature on financial accounting practices in informal businesses. It covers the following themes; the concepts and principles of accounting, record keeping practices and financial reporting practices among informal businesses. The chapter will end with a summary.

2.1   Theoretical Literature Review

2.1.1 Definition of informal businesses

Generally speaking, there is no consensus on the definition or nature of small-scale business worldwide. Aruwa,S.A. (2009) defines a small business as one that has only a share of its market, is managed in a personalized way by its owners or part-owners and not enough medium of an elaborate management structure and which is not sufficiently large to have access to the capital market for the public issue or placing of severity. Recently, the concept of the Public Interest Score (PIS) has been used to determine the size of the company as follows Wilder Lockitch, (2011)**:**

.500 points and more - "Large Company"

.100 to 499 - "Medium Company"

.Less than 100 - "Small Company"

The public interest score is a function of staffing, debt, turnover and ownership. Thus for small businesses PIS of 3 is the absolute minimum:

who is the sole employee (1 point).

No debt, no accounts at end of financial year - pay off everything on morning of 28 February.

Some turnover (1 point).

Kurniawati & Hermawan, (2010:4) defines the informal sector as "the market traders, the hawkers on the street, the road side mechanic, the roadside barber, and the village farmer are examples of businesses in the informal sector". Accordingly this study focuses on market traders at Meikles Park, Mutare.

There is no conventional approach to accounting practice by the informal business operators. There is therefore a need for standardised accounting practice in the informal sector. Effort also should be made to convince the participants of the utility and cost effectiveness of the system. That is the focus of this study.

The next section will focus the accounting concepts, principles and bases which should be adopted by informal businesses their accounting practices if they are to contribute immensely to the economy.

2.1.2 Accounting concepts, principles and bases

Accounting systems

In small enterprises there can be different kinds of accounting systems such as internal, external and tax accounting EU, (2008).

(a) **Internal accounting**, according to EU,(2008) is also called management accounting. It is based on the enterprise's internal accounting procedures and recorded accounting information. Internal accounting is intended for managers within organizations, to provide them with the economic basis to make informed business decisions that would allow them to be better equipped in the management and control functions. For example, managers may want to be able to assess the contribution or the profitability of different products or services that they supply by comparing the revenues and costs that they generate.

(b) **External accounting**, also called financial accounting is concerned with the preparation of financial statements for decision makers, such as the owners,

suppliers, banks, governments and its agencies, customers and other stakeholders outside the enterpriseEU, (2008). External accounting makes use of the accounting information from the internal accounting system. In the preparation of the external accounting, the small enterprise may be governed by IFRS and local GAAP. Some countries in the EU have introduced external accounting rules for small enterprises, while others have no accounting rules in place and leave it to the enterprises themselves to decide which accounting systems they consider to be appropriate for their particular circumstances and business environment EU, (2008). This lack of regulation could be the reason for informal accounting systems most prevalent in informal businesses in Zimbabwe.

(c) **Tax accounting** is normally based on the financial accounting system EU, (2008).There may be a differences between the profits for tax purposes and the profits per the accounts. Tax authorities often ask for additional adjustments to be made to the profits per the accounts and these are captured in a "tax computation". Some examples of adjustments which are quite common between profits per accounts and tax profits are: depreciation differences, accruals, expenses which are disallowed for tax purposes and non-taxable income.

Accounting framework

Maseko & Manyani (2011:172) cited that "profit can analogously be viewed as the life-blood of a business and hence the accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement". The IFRS for SMEs (2009) lays down the concepts and principles that are the basis for preparing and presenting the external financial statements of a small enterprise. This is espoused in IAS1 – presentation of financial statements/statement of GAAP for SMEs. The EU,(2008) stresses that; "each enterprise needs to decide which principles it considers most important and applicable to its particular circumstances and business environment". Accordingly, this study examines the accounting principles, bases and conventions that informal businesses in

Zimbabwe could adopt so that they can produce adequate information for use in decision making.

(a) Cash basis accounting

According to Mwangi (2011: 92) says that "the accounting in small and medium enterprises is on cash basis and most proprietors have no bank accounts. A cash basis means that a cost or an income is accounted at the equivalent amount of cash paid or received for it". Mwangi (2011: 92) further argues that, "perhaps this is due to stringent requirements to open bank accounts and besides they need every coin to plan and meet all the business and family expenses at the early stages of business operations. Accounting on a cash basis means the impact of transactions on the financial statements are recognized when cash is received or disbursed"European Commission, (2008:16). It further states that, "in cases when an enterprise is a micro or even a very small enterprise, it might be more appropriate to use cash basis accounting". Mwangi (2011: 92) state that " very small businesses often use the cash basis because it can be simpler and easier to manage". This could be the reason why most informal businesses in Zimbabwe have an incomplete recording system.

(b) Accrual basis accounting

According to Wood, F. and Sangster, A. (2011:111), accounting on an accrual basis means recognizing the impact of transactions on financial statements in the period of time when expenses and revenues occur, not necessarily when cash exchanges hands.The European Commission (2008:16) states that, "financial statements are often prepared on an accrual basis. Under the accrual basis accounting, income and expenses are recognized as follows:

- Income is recognized when income is earned (when products are delivered or services are provided) and when income is realised or realisable (when cash is received or when it is reasonable to expect that cash will be received in the future).
- Expense is recognized in the period in which the related product or service has been obtained".

The European Commission (2008:16) states that, "there seems to be a general consensus that while cash is important, focusing on it creates a narrow and incomplete picture. Accrual basis accounting is a better measure for relating company efforts to its accomplishments. It produces a more complete picture of the company's value-producing efforts". Present informal business owners/managers therefore need to consider using the accruals basis of accounting and make sure that they produce the complete picture of the firm's activities.

(c) The matching principle

Under this principle, the expenses are matched with revenues Wood, F and Sangster, A.(2011:111).state that "when expenses are matched with income, they are not recognized until theassociated income is also recognised thus allowing greater evaluation of actual profitability and performance shows how much was spent to earn revenue)" The European Commission (2008:16) gives the following examples:

- "Depreciation: the cost of purchasing a fixed asset is spread over the period in which it is expected to generate revenue.
- Office salaries and other administrative expenses are charged as expenses to the current period".

(d) Materiality concept

In accounting, the concept of materiality is a characteristic of information which helps to optimize the information presented in the financial statements. According to The European Commission (2008:16).states that "if information is of such magnitude that it has no influence on the user's judgment and decision-making, it can be left out".

(e) The true and fair view principle

The financial statements provide a true and fair view of the enterprise's assets, liabilities, financial position and income and expenses. To support the application of the true and fair view, accounting has adopted certain concepts and principles which help to ensure that accounting information is presented accurately and consistently The European Commission (2008:17)

(f) The prudence principle

According to Wood, F.& Sangster, A. (2011:111) the principle of prudence requires that:

- "Only profits made (realised) at the balance sheet date are included.
- All liabilities of the financial year are included; even if the liabilities become apparent after the financial year but before the date the balance sheet is drawn up".

(g) The consistency principle

The methods of valuation and presentation are applied consistently from one financial year to another Wood, F.& Sangster, A.(2011:111). The principle can also be defined as conformity to enforced rules and laws.

(h) The separate valuation principle

According to Wood, F. and Sangster, A. (2011:111) states that "asset and liability components are valued separately; i.e. netting is generally prohibited. One should show the full details of the financial information and not seek to net off a liability with an asset, an income with an expense".

It is therefore imperative that all informal businesses adopt all these accounting conventions so that they capture and report all the relevant accounting information to ensure reliability in its financial performance measurement.

2.1.3 Record keeping in SMEs

This section highlights meaning and purpose of book keeping. It also discusses the different types of book keeping available for informal businesses to use in their businesses.

Meaning of record keeping

Book keeping is the analysis, classification and recording of the business transactions in the books of accounts Saleemi, (2008:103).This implies that, "it is a mechanical process that records the routine economic activities of a business either manually or electronically". Aruwa, (2009) and Reed (2009) cited in Ademola, et al., (2012:60)

that "described book or record keeping as the art of keeping record of figures of all transactions in a regular and systematic manner, such that the records kept will provide various books of account which would be in permanent form or for the purpose of providing means by which an enterprise can be conducted in an orderly manner". The accountant creates reports from the recorded financial transactions recorded by the bookkeeper cited by Okwena, et al., (2011:5). The prime purpose of record keeping is therefore to provide accounting information for decision making. This implies that record keeping is a must among any form of business.

Common methods of bookkeeping

Two common bookkeeping systems used by organisation and other businesses are the single entry and double entry systems.

(a) Single-entry bookkeeping system

Mwangi, (2011:92) states that "under single entry book keeping system, no formal accounting records are maintained and records are kept mainly through memory and the records kept are those of debtors with dates indicating the date of borrowing and due date for likely payment".This implies that, incomplete records are kept and the bookkeeping systems do not use full double entry system. Ademola, et al., (2012:58) add that "the primary book keeping record in single entry book keeping is the cash book which then allocates the income and expenses to various income and expense accounts. Separate account records are maintained for petty cash, accounts payable and receivable, and other relevant transactions such as inventory and travel expenses".

According to Kuriawati and Hermawan, (2010:3) says that "small scale businesses use a single book arrangement where only important notes have full records in logbooks and subsidiary book. They further say that, "the transactions are recorded in logbooks which contain cash receipts, cash disbursements, sales ledger, buying ledger, and memorial ledger and those recorded in the subsidiary books pertain to receivables, payables and inventory". Wood, F. and Sangster, A. (2011:423) concur and state that"many informal businesses can have all the information they

want by merely keeping a cash book and having some form of record, not necessarily in double entry form, of their debtors and creditors".

As a result, in an incomplete record system Wood, F and Sangster, A.(2011) says that :-

- "the figures must be calculated, extrapolated, or extracted in the case of creditors and debtors.
- to arrive at the year-end profit and loss account and balance sheet will rely heavily on application of the concept of the accounting equation which is;

Assets = Proprietors capital + liabilities.

Thus the value of capital can be determined at any point in time".

Kurniawati & Hermawan, (2010:4) conclude that, "using incomplete records cannot givean accurate picture end of period financial statements as they do not tell the whole story. There is no record of outstanding debtors or creditors, or of stock, or, without analysis, of for what receipts and payments have been received and paid, or, in some cases, of the split between revenue and capital items". However, the European Commission, (2008) argues that" in some cases a single-entry bookkeeping is justified when the enterprise is a micro and the transactions are not that many or complex".

(a) Double-entry bookkeeping system

Wood, F. and Sangster, A.(2011) says "in a double-entry bookkeeping, there are always two entries required for every transaction recorded". They further says that"this is because any change in one account automatically results in a change in another account. Both changes must be recorded. The means by which these are recorded is byway of debit and credit entries". European Commission, (2008) states that " in double-entry bookkeeping, accounting for each transaction means that the total debit amount must equal the total credit amount i.e. they must balance and at any time be equal".

Reed, (2009) and Aruwa, (2009) also emphasized that small scale businesses must keep proper books and adequate records not only for the ordinary conduct of the

business but also because it helps entrepreneurs reduce the possibilities of early failure, increase chance of business survival, increase the chance of profitability, serve as a basis for planning and controlling business operations and also helps to keep business in a sound and healthy state to face competition. They emphasized that small scale entrepreneurs need to keep the following source documents, if they want to succeed; (invoice, receipt and bank statements,) which are recorded in subsidiary books (purchases and sales day books) and posted to different ledgers (debtors, creditors and the general ledgers), and is checked by trial balance and subsequently, the final financial reports (statement of comprehensive income and statement of financial position).

According to Ademol, et al., (2012) says that "a business must keep several daybooks. A daybook is a descriptive and chronological (diary-like) record of day-to-day accounting transactions also called a book of original entry.The daybook's details must be entered formally into journals to enable posting to ledgers". Daybooks include Wood, F. and Sangster, A. (2011) says daybooks include the following:

- Sales daybook, for recording all sales invoices.
- Sales credits daybook, for recording all sales credit notes.
- Purchases daybook, for recording all purchase invoices.
- Purchases credits daybook, for recording all purchase credit notes.
- Cash daybook, usually known as the cash book, for recording all money received and money used, and may be split into two daybooks: receipts daybook for money received in, and payments daybook for money paid out.

A business also needs to keep various types of accounting records. According to Ademola et al., (2012:59) states that " the records to be kept by any organization include the following:

a. Accounts receivable

b. Accounts payable

c. Accruals

d. Inventory records

e. Bank records

        f. Sales records

        g. Payroll records

        h. Personnel records

        i. Cash records

        j. Purchase records"

Small and medium enterprises need to keep a record of their activities by using the above records. In Zimbabwe most informal businesses do not keep proper accounting records. This study therefore underscores the need for owners/managers of these informal businesses to keep proper records by employing double entry book keeping.

From properly kept books a person can at any time ascertain: what property the business possesses, what amounts the business owes and to whom, what profit the business has made or what loss has been sustained for any given period and the manner in which the profit and loss has risen, and the amount of his capital or deficiency. Okwena, et al., (2011:2) states that "if no records are kept, it will be difficult to find accurate net profit. Under such circumstances, tax authorities may overestimate the profits and thus a trader will suffer for not having kept the business records". Williams, Susan, Haila, et al., (2008:37) give more importance for record keeping by SMEs. They argue that"in the absence of proper business records, the trader will find it difficult to submit the true position to the court in case he becomes insolvent. Keeping of proper records helps the trader in framing future business plans and policies. Also it will be difficult to ascertain and fix the price of business to be sold or disposed off if no records are kept". Finally, they conclude that, "in spite of the best memory it is beyond the capacity of a trader to remember all the business dealings with back references". This study therefore advocates for the full use of record keeping practices among SMEs.

Many SMEs owners say they would rather focus on making and selling their products and services rather than keeping accounting books and records. However, according to Okpala, (2012) book keeping is just as important as making and doing business. Many great businesses have failed because they did not keep books of accounts. Apart from business owner's desire to stay in business, two reasons why book keeping is important

are; legal requirement and book keeping records are an excellent business management tools as stated by Okpala, (2012).

Ademola, et al., (2012:59) give a summary of the importance of keeping proper accounting record as follows:

1. It helps to avoid business failure.

2. It is useful for accounting management planning and control.

3. It helps to make sound and useful decisions.

4. It gives a good background picture which helps organizational change.

5. It is important to business survival

The benefits of record keeping cannot be over emphasised, so SMEs should engage in sound record keeping practices. This implies that, for every business, be it small, medium or large scale business, bookkeeping records is the lifeblood of business operations. The way accounting records are handled may make or break the company. Therefore, it has to be done in a very orderly and smooth manner in order for the business to thrive.

Ademola, et al., (2012:68) highlight several demerits of informal records. "The lack of formal records means that the proprietor is unable to recognise when sales start slowing down, or costs start to rise unacceptably. Corrective measures cannot be taken in time if there is no timely recognition of problems, and this leads to poor, unguided decision-making and ultimately bankruptcy. Future planning is also not feasible where current performance is unknown". Mwangi, (2011:92) says that "the IFRS for SMEs were published by IASB in July 2009 providing an opportunity for small businesses to formalise their financial reporting processes, facilitate access to finance and loans, and benefit from long term savings in these less stringent IFRS reporting requirements. However, the challenges bedevilling the economy will pose serious challenges in the SME sector to be able to adopt the IFRS as some will not be able to meet the costs of training let alone implementing sound financial management systems for their businesses".

2.1.4 Financial reporting in SMEs

Karunananda & Jayamaha, (2011:2) write that "the financial reporting system is necessary to ensure that the SMEs' resources are used effectively and efficiently in pursuit of its goals, hence the new standard for SMEs". They further write that "in July 2009 the International Accounting Standards Board (IASB) published the International Finance Reporting Standard for Small and Medium sized Entities (IFRS for SMEs). For uniformity in practice and reporting financial information, the Standard sets out clearly, the content of financial statements in this order, that, a complete set of financial statements comprises:

- a statement financial position;
- a statement of comprehensive income;
- a statement of changes in equity showing either: all changes in equity, or changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;
- a statement of cash position; and
- notes, comprising a summary of significant accounting policies and other explanatory notes".

In concurrence, Kurniawati & Hermawan, (2010:3) note that, "small and medium enterprises use three financial measurements which include income statement, balance sheet and statement of cash flow. Statement of cash flow describes the inflow and the outflows of cash. The income statement reports revenue and expenses during a certain period of time. The balance sheet report the total assets, liabilities and owner's equity during a certain period of time". Accordingly, this study considers the use of a complete set of financial statements by Zimbabwean SMEs and goes a step further by examining the extent to which these statements are utilised in financial performance measurement.

The objective of IFRS for SMEs was to enable similar SMEs across the world to produce comparable accounting information by taking into account the needs of SMEs in terms of costs involved in presentation of financial statements and the benefits provided to the users of these statements. According to Mwangi, (2011:88) says that "the development of the IFRS for SMEs by the International Accounting Standards Board is welcome move to

standardize financial reporting in this sector, the threshold for SMEs remains high thus excluding a significant majority of small and micro enterprises which when combined represent a high volume in financial and/or monetary terms". Bruce, (2011) says that "While it is a good starting point for a move towards accounting standard that include most business entities that contribute economic development, the impact and results of the implementation of this IFRS for SMEs in countries in sub-Saharan Africa might take the next couple of years"

Mwangi, (2011:89) conclude that, "the SME standard under the IFRS is a great step in incorporating all business players in all economies but a lot needs to be done by lawmaking institutions relating to businesses that are important, yet excluded from statistics used indecision-making in areas directly affecting the small and micro enterprise sector".Mbroh and Attom, (2012:31) noted that"a good accounting system is not only judged by how well records are kept but by how well it is able to meet the information needs of both internal and external decision-makers. In their view, they maintained that it is common for qualified accountants to do a good job of keeping records up to date but they fail to provide information needed by decision-makers". Mbroh and Attom, content that"an accounting system should be capable of providing the following information for a micro enterprise:

- Interim statements, quarterly or six-monthly that can provide information about the progress of the business. Such statements need not be detailed, but capable of addressing the special needs of the business. Such documents can also be circulated, if necessary, among external users such as lenders.
- An annual cash flow forecast, reviewed periodically, could indicate overall financial requirements. Such a statement can be prepared only with the help of a well-designated accounting system.
- An accounting system, in addition to providing financial statements, must be capable of generating other useful information in the form of reports, such as, aged accounts receivable, aged accounts payable, stock and bank balances.

The objective of financial statements is to help develop the business by providing useful information to users. Therefore the financial statements should be designed to reflect

users' needs". European Commission, (2008:13) describes that "the most likely needs of management are:

- To evaluate how the enterprise is performing
- To manage cash flow, collect money due from debtors etc.
- To find out possible financing needs
- To use the financial information for planning, forecasts etc.
- To propose to the owners the portion of profits to retain and distribute
- To propose to the owner a change in the range of products or business activities

According to Karunananda and Jayamaha, (2011:42) says that "for SMEs, accounting information is important as it can help firms manage their short-term problems in critical areas like costing, expenditure and cash flow by providing information to support monitoring and control. Maseko and Manyani, (2011:171)says that "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". Sarapaivanich, (2003:4) add that "the misuse and inaccuracy of accounting information causes SMEs to inaccurately assess their financial situation, and make poor financial decisions, as well as leads them to face with the high failure rate".

However, according to Senik, et al. (2012) states that"the usefulness of the accounting information has been jeopardised with the view that the information is prepared to meet a series of legal and bureaucratic demands only, such as for tax filing purposes, and not as a decision-making and control support tool for managers. They are only focusing on the sales and net income figures".Prihatni, et al., (2012) stated that "the lack of accounting information in corporate management can harm small companies". Despite this fact, Sarapaivanich, (2003) laments that "generally, the financial reports for SMEs are rarely prepared for control and decision making purposes but just for meeting the statutory and legal requirements".

2.1.5 Challenges in use of accounting information by SMEs

SME owner or manager is a crucial player in keeping information of the business. As such, it is important for them to understand and get involved in the accounting figures

produced Senik, et al., (2012:721). In concurrence, Maseko & Manyani, (2011) add that "the better use of accounting information obviously takes place in situations where the SMEs have a certain level of accounting knowledge and technical qualifications, which does not tend to prevail in small companies. Lack of business knowledge could be the reason why most micro entities are not using accounting information to the maximum".

Mutambanengwe, (2012) says that, "a critical weakness with the "informal" setup of SMEs is the fact that they do not keep proper accounting records of their activities". He adds that"keeping accounts is seen as a waste of time, money and effort, and is also avoided as a means of ensuring that there is no track record of what the proprietor would have done, in the event that any government agency comes to visit. Bank accounts are also shunned for the same reason; with transactions occurring on a cash basis".

According to Mutambanengwe, (2012) "the perception of owners/managers of small entities seem to be a major limiting factor in the use of accounting information. Accounting skills are the totality of skills ranging from record keeping, attention directing, financial management and reporting skills that are expected to promote effective decision, performance evaluation and business reporting of any business enterprise. Although studies could not find record keeping skill as positive factor, financial management skill has been found to be contributory to business development" Akande,(2011:374) says that "Attention directing skill enables the owner- manager to make vitaldecision on production and pricing issues while reporting skill describes the method andtechnique by which business information are reported to the stakeholders of the business.Therefore small business should start small but while starting small the aim of becoming big should not be jettison. Those important procedures that would be duly followed when the activities of such becomes big must be imbibed when the enterprise is operating as small enterprise". For instance, Oladejo, (2008:371) argued that "accounting skill and procedure are necessary for successful entrepreneurial and small business development in Nigeria. This is because the in ability to install a proper accounting system would disallow business monitoring, reporting, and performance evaluation that are germane to the business survival. Small business has failed in the past for ignoring this vital measurement apparatus".

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2.1.6 Financial performance measurement in SMEs

The European Commission,(2008) says that "It has been recognised that appropriate accounting information is important for a successful management of any business entity, whether large or small.It is crucial therefore that the accounting practices of informal businesses supply complete and relevant financial information needed to improve economic decisions made by entrepreneurs. The discussion in this subsection is on the financial performance of the informal businesses and as such, focuses on financial measures and their usage. The success of enterprises is judged by their financial performance, hence the choice to study how informal businesses measure financial performance".

According to Sahl, (2007:57) says that "performance measures quantitatively tell us something important about our products, services, and the processes that produce them. They are a tool to help us understand, manage, and improve what our organizations do. Effective performance measures can let us know that
• How well we are doing,
• If we are meeting our goals,
• If our customers are satisfied,
• If our processes are in statistical control,
• If and where improvements are necessary.

They provide us with the information necessary to make intelligent decisions about what we do. Performance measures are always tied to a goal or an objective (the target)".

Taticchi, et al., (2008:59) notes that "the significant majority of SMEs are family-run and they are characterized by lack of financial stability and face difficulty in resolving costly mistakes. They lack the resources to exploit advanced technology resulting in low efficiency, not following best practices, not collecting sufficient relevant data for analysis and face legal constraints on their operations. For these reasons, they conclude that it is important for SMEs to measure and understand their own performances".

However, according to Padachi, (2012:123) "micro firms tend to focus their efforts to satisfying the requirements of external parties and little, if any focus is on using key performance indicators as a diagnosis tool to monitor business".

According to Manville, (2007). It is not surprising to find that studies on the use of performance measurement typically state that operational measures in informal businesses are difficult and informal, with no real understanding of key performance drivers. Taticchi, et al., and (2008:58) state that"This evidence highlights the need to better understand informal business characteristics, in order to point out their financial performance measurement needs and develop tailored solutions".

Akande,(2011:375) stresses that, "the concept of performance is used to determine the success of a business entity whether small or big". The International Accounting Standard Board (IASB) conceptual framework specifies that "frequently, profit is used as a measure of performance". Akande,(2011:375) further notes that, "this is confirmed by a study conducted by Cormie, et al., (2000) on companies' financial performance. Five representative measures are pointed out as Net Income, Operating Income, Operating Cash flow, Residual Income and Added value. These elements are directly related to the measurement of profit for investors. Financial performance measurement generally looks at firms' financial ratios(derived from their financial statements) such as liquidity ratios, activity ratios, profitability ratios, and debt ratios" Ismaila, (2011:14) says that "Non-financial performance measurement is more subjective and may look at customer service, employee satisfaction, perceived growth in market share, perceived change in cash flow, and sales growth".

Financial ratio analysis is defined by Lasher, (2010:80)as "a general technique based on some relatively standard methods used to analyse information, and developed by people who make judgments about businesses by reading their financial statement. Enterprises measure their financial performance differently, but financial ratio analysis is the traditional approach to analysing and interpreting the financial position of an enterprise". Jacobs, (2001:208) says"Ratios are derived from the financial statements of an enterprise and enable analysts to develop a picture of the financial position of an enterprise.While ratio analysis is an effective tool for assessing a

business' financial condition, the following limitations must also be recognised" Ismaila, (2011:48) state that

• "Accounting policies vary among companies and can inhibit useful comparisons. For example, the use of different depreciation methods (straight-line vs. double declining balance) will affect profitability and return ratios.

• A ratio is static and does not reveal future flows. For example, it will not answer questions such as "How much cash do you have in your pocket now?" or "Is that sufficient, considering your expenses and income over the next month?"

• A ratio does not indicate the quality of its components. For example, a high quick ratio may contain receivables that might never be collected.

• Reported liabilities may be undervalued. An example is a lawsuit on which the company is contingently liable.

• The company may have multiple lines of businesses, making it difficult to identify the industry group the company is a part of.

• Industry averages cited by financial advisory services are only approximations. Hence, one may have to compare a company's ratios to those of competing companies in the industry".

The literature review has shown that ratios can be a valuable and effective tool for assessing a company's financial condition, and even for predicting failure of small businesses, but their limitations must also be recognised. Therefore they should be used cautiously.

The present research used financial performance measurement through the use of financial ratios. In this thesis the relationship between accounting practices and financial performance measurement was based on the nature of records, reports and ratio analysis practiced by informal businesses.

2.2 Empirical Literature

Arkoh, et al., (2012) carried out a study to examine the bookkeeping practices among small business in the Kumasi metropolis. Both primary and secondary data were used.

The instrument used to gather datawere questionnaires, interview and observation. The questionnaires were administered to the various small business owners in the metropolis. Interview was used to obtain from the respondent on how their accounting records are kept. The findings revealed that, due to lack of knowledge in keeping books of account, improper records were kept by most small and medium enterprises in the metropolis. Again, many business owners showed reluctance to be trained or attend further studies due to the cost involved in training and education. The study recommended that financial statements of small enterprises should be requested for approval of loans by banks. In addition, laws should be enacted in order to improve the record keeping practices of micro entities so that they have access to credit facilities from any financial institutions.

In a Kenyan survey, Okwena, et al., (2011:22) assessed "the effect of proper bookkeeping practices on financial performance of SMEs in Kisii municipality to ascertain the cause of such failures. The study employed a cross-sectional survey research design. Both stratified and simple random sampling techniques were used in the study. The respondents were 97 owner-managers/managers of the sampled SMEs. Structured questionnaire was used to collect quantitative data from primary sources. Descriptive statistics and Pearson correlation coefficient and simple linear regression was used to analyze quantitative data. The study showed that book keeping practice was a challenge among SMEs in Kisii Municipality, the greatest challenge being little knowledge in book keeping. They concluded that records prepared are therefore inaccurate and therefore the decisions made would not be appropriate for effective operations of the SMEs. The study recommended the government in conjunction with national accountancy bodies to carry out sensitization programmes so as to equip the owners and managers of the SMEs with proper knowledge in book keeping. This could be done through the means of exposure drafts, discussion papers, symposiums, conferences, and open forum.

Yström, (2010:96) "carried out a study to sort out areas of financial reporting information that are likely to be of significance to managers of entrepreneurial SMEs in their provision of information to users.

In order to fulfil this purpose data was collected through interviews with accounting experts. The major findings were that, financial reports make up an important tool mainly for informing external capital providers, among which bankers hold a prominent position. Managers were found to make use of financial reporting information not only in informing external users but in the internal management of their businesses as well. In addition to cash flow and intangible assets, financial ratios in general, and financial ratios measuring various aspects of growth in specific, i.e. growth ratios, has been sorted out as likely to be of specific importance to include in the financial reports of entrepreneurial SMEs".

Yström's, (2010:96) "study focused on interviews with accounting experts. However, accounting experts were not a true representative of the population, since they were not involved in the preparation of micro entities' accounting information and were also not the ultimate decision makers. The present research proposes to go beyond Yström's work through focusing on questionnaires in addition to the interview and use owners/managers who do the actual recording and use of accounting information rather than accounting experts".

Ismaila, (2011:79) "explored the financial measures that manufacturing SMEs in Pretoria use to measure their financial performance. Semi-structured interviews were conducted at the participant SMEs' premises in order to gather the information. The study found that most manufacturing SMEs used financial ratios to measure their financial performance, but to a very limited extent. Very few ratios were used by individual SMEs and most of the ratios used were not the best indicators mentioned in the literature. Though, some of the interviewees acknowledged that they need to use more ratios. The use of bankruptcy prediction models was totally absent among the participants". Ismaila, (2011:79) "conclude by reinforcing that, it must be noted though that financial measures alone are not enough to measure companies' performance since a number of non-financial performance measures also play an important role intheir overall performance. It has been recommended that SMEs use the six ratios that have worked well for some of the participants in the study (cash flow to debt, current ratio, working capital to assets, cash flow to average total current liabilities, gross profit margin ratio and inventory turnover). It is also recommended

that SME owners enrol their financial staff for training in bankruptcy prediction models, and use financial software packages if they can afford them".

Similarly, Mosalakae, (2007:232) "made an exploratory investigation on financial performance measurement of South Africa's top companies. The researcher concluded that, top South African companies do not use the available tools (financial ratio analyses and bankruptcy prediction models) to measure their financial performance".

Using the procedures stipulated by the grounded theory, Chong's, (2008:6) "study reports the findings of in depth semi-structured interviews with five owners-managers of small and medium enterprises who hire twenty or less employees in Texas, USA. The findings reveal that the owners-managers place equal attentions on both the financial measures (profits before tax, turnover, profits per employees and revenue growth) and non-financial measures (customers' satisfactions, referral rates, and growth in customers' bases and revenues). Even though this study intended to focus on in-depth understanding of the behaviour and nature of the SMEs, the five selected respondents may not necessarily reflect the culture and approaches adopted by the owners-managers as a whole, or in other parts of the country and other industries. More empirical tests could help firm up the understanding and reasons for selecting or neglecting certain categories of measures. Repeated surveys help provide comparative observations of measures in a variety of settings on an industrial, national and international context. Hence this study focuses on the international context aspect".

Mwangi, (2011:96) "carried out a study on accounting systems in small and micro enterprises in Kenya. The results revealed that small and micro enterprises that extensively populate the informal sector are profitable operations just like the enterprises in the formal business sector. However, unlike in the formal business sector, the absence of accounting data makes it difficult to carry out financial ratio analysis".

Mwangi, (2011:96) "therefore recommended the calculation of various financial ratios among SMEs. This would provide a basis for gauging empirically the profitability level of the enterprises in the small and informal business sector". It would therefore be worthwhile to include this sector in economic statistical calculations in developing countries such as Zimbabwe.

Senik, et al., (2012:731) "carried out a study on the accounting information needs, management and usage among Malaysian SMEs restaurants. The findings of this study revealed that small medium sized restaurants managers did not possess enough skill and qualifications to better utilize the accounting information. The small firm owner who is normally the one that manage the firms' account or hired account personnel, had limited skills and proficiency in managing and using accounting information. Besides, they were unaware of the advantages of outsourcing their accounting work to the professionals. They recommended the need of training for the restaurant's owner/manager on the importance of handling and using accounting information. The research employed qualitative research method of face-to-face interview using purposive sampling. The present research will use quantitative method using random sampling technique".

Researching on the impact of accounting information on management's decision-making process, Lengauer, et al., (2006:54) "used a case study of Wexiödisk AB, Scandinavian's leading supplier of dishwashing machines. They concluded that accounting information has an important role in decision making and is not only used for the planning but also for controlling phase. Profitability (gross and operating profit)was regarded as the most important accounting tool for the owners and also for the managers in addition to target and cost-plus pricing, a kind of benchmarking, working capital, and the payback method. The empirical data collection was primarily done by conducting two face to face interviews, one with the financial manager and another one with the managing director. However, the danger of interviews is their risk of being subjective. This present research proposes to go beyond Lengauer et al's work through focusing on 56 entities rather than one and use both quantitative and qualitative methodology rather than qualitative only. By using a research sample of 56 informal businesses, such a research design allow the researcher to speak more authoritatively about the impact of accounting practices on performance of informal businesses".

Akande, (2011:376) "investigated the effect of accounting skill on entrepreneur performance for the success of small businesses in Nigeria. A simple random sampling technique was used to select a total of 140 small business owners in Ogun

State of Nigeria. Chi-square was used to measure the discrepancies existing between the observed and expected frequency and to proof the level of significance in testing stated hypotheses. His findings revealed that most entrepreneurs of small businesses did not see the need to prepare financial statement which was regarded as waste of time since they were not obliged to do so either for tax assessment or as internal control measure being the sole stakeholders. This may be wrong in view of the fact that there are other interest groups that may have stake in the business such as banks, creditors and investors. Accounting skills was found to be highly contributory to entrepreneurial performance".Akande, (2011) "concluded by making the following suggestions:

> Owner entrepreneurs should embark on capacity building in accounting skill in the area of financial management and record keeping for better performance, since they do it alone.
> Government should make it mandatory for small business owners to prepare financial statement for performance monitoring so as to be able to assess their performance regardless of tax assessment motive.

There has been substantial research that examines record keeping, reporting system and performance measurements in small businesses and the impact of each on performance and decision making. The present study takes a holistic approach by examining the accounting practices in informal businesses, and the impact on business performance".

2.3. Appropriate accounting practices for informal businesses

According to Jefferson,(2012) "there have been so many ways of managing bookkeeping records - from manual to online or the use of bookkeeping software. He further says that though many companies prefer to use the manual method, it is still highly recommended that every business today use online bookkeeping to make the processes more accurate, efficient and effective".

On the basis of collected data from Member States, EU, (2008:21-23), "on applied accounting systems in small enterprises, the experts of national administrations and the business organisations came forward with the following good practices for the

accounting systems which may be considered appropriate for small enterprises according to their particular circumstances and needs.

- Keeping the most important financial records such as the sales day book, purchases day book, cash receipt book, cheque payments book, petty cashbook, general journal, nominal ledger, debtors' ledger and creditors' ledger and a payroll system. This improves the accuracy and reliability of the accounting transactions which further provide the input to the financial statements for small enterprises;

- Doing double-entry bookkeeping, because it offers a much better control of the transactions being recorded properly;

- Using simplified formats for financial statements i.e. the balance sheet and the income statement presenting only the main headings;

- Preparing projected cash flow statements on a regular basis;

- Applying accrual basis accounting, because such an accounting method provides a more accurate and complete picture of the enterprise's financial position, performance and changes in its financial position than cash basis accounting;

- Applying the matching principle, because of the importance that revenuesare matched with expenses to provide a truthful view of the enterprise's financial performance;

- Applying the true and fair view principle, because it is very important toensure that accounting information is presented accurately and consistently;

- Using a standardised chart of accounts, because it removes some barriers when changing an accounting software package, but also because it facilitates the introduction of taxonomy to supply financial information, and

- Applying the "only once" principle meaning an administrative simplification in the supplying of financial information to different or the same authorities for different or the same purposes (e.g. taxation, statistics, banks).

It is therefore imperative that informal businesses engage in the above good practices in the accounting systems, in order to generate and use accounting information in financial analysis".

2.4 Summary

As indicated in the introduction, the objectives of this chapter were to review the literature, find gaps and suggest recommendations for best practice. Sections 2.2 and 2.3 respectively reviewed literature on theoretical literature review and empirical literature review. Chapter 3 which follows is designed to discuss aspects of research methodology.

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

In this chapter, the researcher focuses on the methods that will be used in carrying out the research. The research will collect valid and reliable data on accounting practices in the city of Mutare. This chapter describes the research philosophy, research method, target population, sampling methods, research instrument used, data collection procedures, data presentation, data analysis, reliability and validity of the research instrument.

3.1 Research Philosophy

This study will adopt the positivistic research philosophy. This philosophy "holds that the goal of knowledge is simply to describe the phenomena that we experience" Karambwe, (2011). In simple terms, positivism entails "sticking to what we observe and simply measuring". According to Blumbery, Yee, Wong, (2011) says "a research philosophy is a belief about the way in which data about a phenomenon should be gathered, analysed and used. The understanding of research philosophies is profitable to the researcher as it assist in identifying and choosing the appropriate research design for the study.

3.2 Research design

A research design is "a systematic plan for collection of data in order to provide answers to research questions". As stated byFraenkel, Schiffman, and Kanuk, (2009). It is a framework intended to guide the researcher to achieve research objectives.

3.2. Descriptive survey

Gay, (2009) says a "surveys may be used for descriptive, explanatory and exploratory purposes". This study will adopt a descriptive survey. Gay, (2009) further says"Descriptive survey research design involves collecting data in order to test

hypothesis or answer questions concerning to current status of the subject of study The design involves assessing attitudes or opinions towards individuals, organizations, events or procedures. Descriptive data are typically collected through a questionnaire to them. Babbie, (2009) says "survey researchers sample respondents who answer the same questions.

The survey approaches are chiefly used in studies that have individual people as the units of analysis. Some individual persons must serve a respondents or informants. Descriptive survey research is probably the best method available to the management scientist interested in collecting original data for describing a population too large to observe directly. Like other modes of observations in management scientific research, surveys have special strengths and weakness. The researcher feels that the strengths of this method overweigh its weakness and so has every reason to believe that it is appropriate for this particular study".

Vlok, Wilson,and Tett, (2008) provides that "survey is, probably, the best method which is available for collecting original data for purposes of describing a population because of the following advantages.

(i)   Surveys also enable us to measure attitudes and orientations in a large population.

(ii)   Furthermore, there is no danger of varied versions as the behaviour was recorded as it occurred, unlike relying on prospective reports of what people think happened during the occasion. The researcher recorded the events as they took place".

Babbie,(2009) state "the disadvantage of descriptive survey is that some people may not be able to give correct verbal reports; therefore the researcher may not be there at the time of a spontaneous occurrence which may be of interest. This means more valuable information for the conclusion of the research might go unrecorded, seriously compromising the report's conclusion. Further, surveys are limited to the duration of the event and therefore events happened in the past cannot be observed. The past events might contain key information for the positive conclusion and recommendation of the research study".

3.2.2 Target Population

The population includes all individuals whom the researcher is interested in obtaining the information and making inferences on.

According to Fraenkel, et al.,(2009) "The population can be in two categories, the target and the study population. The target population is the actual population to which the researcher would really like to generalise". The study population for the research will be all informal businesses at Meikles Park. Under the target population the study incorporated only the owners and employees.

3.2.3 Sampling Strategy

Best, Podsakoff, MacKenzie and Lee, (2009) views a sample as "a small proportion of a population selected for observations." The sampling method is the plan you set forth to be sure that the sample used in a research study represents the population from which you drew your sample.

Since the focus of this study is at a specific trading market, Meikles Park, a non-probability purposive judgment sampling is considered to be the most appropriate method. The reason of using the judgment sampling will be that this method practically involves the selection of the owners/employees who can provide reliable and fastest information about their accounting practices therefore, they are believed to be able to fulfil the research requirement.

The researcher will then use 57 respondents from a target population of 127. This represents 45.7 % of the target population. Best, et al., (2009) noted that a sample around 50% of the target population is ideal when dealing with a target population with a 100 range. The researcher therefore will therefore see the sample as large enough to represent the entire target population.

3.4 Data collection techniques

Best, et al., (2009) noted that there are many approaches in collecting data which include the use of observations, questionnaires and interviews. The main research instrument to be used in the study is the questionnaire supplemented by the interview.

3.4.1 Questionnaire

Research instruments are tools for collecting data needed to find solutions to the issues under investigation. According to Oppenhein,(2010:87) "The most commonly used research instruments are the questionnaires and the interviews". This study makes use of questionnaire to all study respondents.

Gall, Parasuraman, Grewal and Krishnan, (2008) "defined a questionnaire as a document that asks the same questions to all the participants in the population. The questionnaire will be adopted as the principal research instrument. The use of the questionnaire as a key tool for data collection will be based on the advantages that the instrument has over other instruments that could be used".

The questionnaire method permits wide coverage for example, the study will include 57 respondents, which is not easy with the use of such approaches as the interview given that time will be limited. Since the questionnaire provides written information, there will be less danger of misrepresentation of facts or information. Through questionnaires, the researcher will be assured of getting correct responses since the researcher will be there to clarify some of the issues raised. The other advantage is that the researcher will collect all the completed responses within a short space of time. The researcher will also have the opportunity to introduce the topic and to motivate the respondents to give their honest answers.

The disadvantages of questionnaires is that some people may give false information for fear of victimisation, some respondents may fail to return the questionnaires and questionnaires also have a problem in that participants may fail to interpret question properly.

The researcher will make sure that all the questionnaires are completed through follow ups through the use visits to traders' stalls.

Jerry, Lovelock, Wirts, Keh and Lu,(2009) stresses that "the completed instruments will be collected immediately. More so, the researcher will ensure that all questions are concise and clear to avoid any misinterpretations"

3.4.2 Design of Research questionnaire

Fraenkel, Loo and Loewe, (2004) noted that "the questionnaires are made of two types of questions which are closed ended and open ended. The study will incorporate both types of questions. Closed-ended (or "closed question") is a question for which a researcher provides a suitable list of responses (e.g. Yes / No). This produces mainly quantitative data". Fraenkel, et. Al., (2004) noted that "closed-ended questions are more easily analyzed. Every answer can be given a number or value so that a statistical interpretation can be assessed. Closed-ended questions are also better suited for computer analysis".

Jerry, Harrison and Newman (2009) says "Open-ended (or "open question") is a question where the researcher doesn't provide the respondent with a set answer from which to choose. Open ended questions will allow respondents to include more information, including feelings, attitudes and understanding of the subject". Jerry, et al., (2009) also says "the questionnaire will consist of both open and closed questions".

3.4.3 Interviews

According to Saunders, et al., (2005) "an interview is a purposeful discussion between two or more people. This technique will mainly be used on the discussion with owners/managers. The researcher will use personal interviews to gather information because it will enable her to orally seek clarification on unclear areas. This also enables the researcher to observe non-verbal aspects such as facial expressions. It enables the researcher to accurately interpret responses offered.

The interview will be used because it has several strengths. There will be an opportunity to probe for further details. Non-response rate will be kept to a minimum. Substantially great length of time will be spent on each interview.It will also permit greater flexibility in various aspects such as questioning technique. There will also more freedom for adapting and interpreting questions.

Even with such advantages, the need for using other tools will still be still there. In both the questionnaire and interviews, respondents could bring out some subjective opinions / responses. The researcher will therefore explain the need for objectivity on the interviewee by linking it to the importance of the researcher findings. A disadvantage of the interview would be that, data will not easily be ordered to be analysed. The researcher will therefore use a structured interview, consisting of a series of questions that will be consistently asked to each and every interviewee, in order to increase accuracy and reliability".

3.4.3 Pilot study

Thomas, et al., (2008) says "A pilot study is a preliminary study done to validate the research methodology and instruments". The researcher is a resident of the city; hence, it will be easier for her to administer the instrument. Before the questionnaire is distributed to the respondents, it will be tested for reliability and validity. The researcher will pre-test the questionnaire for reliability and validity to 10 owners/employees from the small and medium enterprise under study. This will be done in order to get the respondents` reactions, attitudes and ability to answer the demand of the instruments. Relevant adjustments will be made such as language used and expressions making the instruments relevant and suitable for the study.

3.3.4 Administration of Questionnaires

Hussen and Hussein, (2009) "defined data collection procedure as steps taken in administering instruments and collection of data from subjects under study. Appointments will be made with research subjects through visits to their stalls. Distribution and administering of instruments (questionnaire) will be done through hand. Retrieval of instruments will be done in an orderly and justified manner". Hussen and Hussen, (2007) argued that "retrieval of instruments has to be a well thought out strategy meant to enhance timely collection of comprehensive data". In this study on retrieving questionnaires the researcher will do follow ups and persuasion.

3.5 Data analysis

Data analysis refers to a procedure of putting together facts and figures in order to present, analyze and interpret the data. According to Woolcott,Douglas and Craig, (2008) "the analysis and presentation of data is useful to the presenter to prove a point. The data will be presented in forms of tables, frequencies and figures such as bar and pie charts. The tables will make it easier for the researcher to make inferences. This will help the researcher in coming up with views on the subject under discussion. Percentages will help the researcher to make sure that, the data is compact and easy to understand and comment upon. The other advantage of using tables and figures such as bar graphs is that, it will make it easier to understand the trends. The data will be presented according to logical themes through the use of Microsoft Excel package to come up with graphs, tables and diagram". For the purpose of analyzing and comparing data, percentages will be used as guidelines for interpreting data during discussion of the meaning of information gathered.

3.6 Validity of instruments

According to Bell,(2007:87)"validity is concerned with ensuring that question measures or describes what it intends to find. Great care will be used in choosing words and phrases which the target population can understand. Questions will be asked in unambiguous way with meanings of all terms clearly defined so as to have the same meaning to all respondents". The study will ensure that major themes from research objectives are presented under the research instrument.

3.7   Reliability of instruments

Jerry, et al (2009) says that "reliability is the replicability of the research undersimilar conditions elsewhere". This is done to ascertain that there is consistence in terms of the measurements used in the study. The researcher will carry out a pilot study which will help to evaluate the effectiveness of the instrument to be used in measuring objects it intends to measure before using them in the main study.

3.8 Ethical considerations

The study will be composed of willing participants. The researcher will not force participants to be part of the study. To encourage participation, the researcher will explain the importance of the study to the business and otherorganisation.

Further, the study will respect views from participants and ensure anonymity. The study will also ensure confidentiality and anonymity of respondents as the questionnaires will not disclose participants' names.

3.9Elimination of bias

The questionnaire will be the main instrument used and this will be pre-tested and refined based on input from others and observed anonymity on the part of the respondents, could be a good indicator of how the questionnaire could have taken a balanced view of the subject matter. By refusing the pilot testing participants in the final responses, it will ensure the elimination of bias too as evidenced by the fact that all owners/employees of the informal businesses were almost represented.

3.10Results of Pilot Test

The results from tested questionnaires showed that, there was need to include questions on the reason why the firms chose either the accrual basis or the cash basis of accounting. The researcher included these questions. Some questions were not clear and vague. The researcher simplified the questions and made them clearer. It was found out that, the questionnaire and interview were too long. The researcher shortened them by combining some questions. All corrections were done on the instruments, to make them valid and reliable.

Table 3.1 Results of pilot Test

number of respondents	10
Number of questions that were added	1
Number of questions that were rephrased to make them clearer	5
Number of questions that were combined to make the questionnaire shorter	8

3.11Conclusion

This chapter looked at various approaches to research, research methods and justification for the choice of descriptive research design. The population under study was also discussed and the ideal sample chosen. Data collection techniques were discussed and how the data was to be interpreted and analysed. The next chapter shall deal with data presentation, analysis and interpretation.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presents descriptive findings on the analysis of the effects of financial accounting practices on the performance of informal traders. The chapter discusses the socio-demographic data, the accounting principles and bases used by informal traders, types of records and financial reports generated by informal traders and financial performance measurement of informal traders. The chapter ends up with a summary.

4.1   Survey results

Response rate

The response rate was very high (100%). All the distributed questionnaires were completed and returned. This is obviously excellent by any standards. The 100% response rate could have been attributed to the artfulness of the researcher in collecting data. The follow-ups were effectively executed leading to all the target respondents filling up and returning all the questionnaires. The other reason of the high response rate could be attributed to the fact that the sample size was small but big enough to provide the required information.

Section A: Socio-demographic Data

Purpose of section

The purpose of this section was to gather socio-demographic information with the aim of establishing the nature of the respondents and what influence their behaviour regarding their business operations.

This was in relationship to gender, age, experience level in business management and also their professional and academic qualifications. Gathering this data helped to determine what segments or subgroups existed in the overall target population. This also assisted to create a clear and broad picture of the characteristics of a typical member of each of the segments.

Gender of respondents

Questionnaires were administered to 57 respondents consisting of owners/employees of informal businesses in Meikles Park Flea market. These owners/employees of informal businesses were chosen because they are involved in the overall management of their businesses including the decisions as to the nature of accounting to adopt.

Figure 4.1: Respondents by Sex N = 57
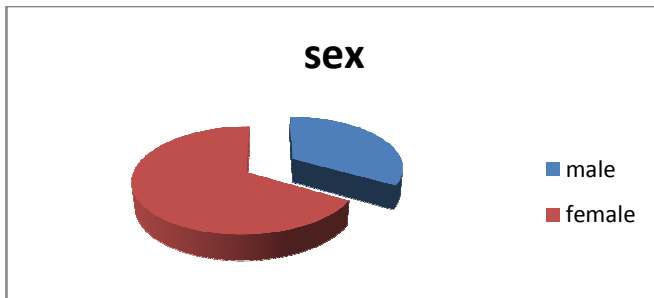
Source: Survey data, 2014

Figure 4.1 shows that 67% (38 out of 57) of the respondents were female and 44% (19 out of 57) were male. This indicates that, most of the respondents were female. The results suggest that, most flea market traders at Meikles Park in Mutare were females.

The results imply that entrepreneurship in Zimbabwe is biased towards females. This contradicts the findings of Nyamuda, (2002) "who notes that the Zimbabwean tradition expects the husband to fend for the family". Nyamuda, (2002) writes that "the workplace in Zimbabwe is still dominated by males".the same does not apply to flea market traders at Meikles Park in Mutare. To date, many females have entered the workplace.

Table 4.2: Position in firm

Position	Number	Percentage
Owner	7	12
Employee	40	70
Owner/Employee	10	18

Source: Survey data, 2013

Table 4.2 shows that, 12% (7 out of 57) of the respondents were owners, 70% (40 out of 57) were employees and 18% (10 out of 57) were owner/employees. This implies that the majority of the respondents were employees. A possible explanation of this could be that most employed people could be supplementing their salaries by employing people to work on their stalls.

Table 4.3: Years of experience in business N = 57

Years in family business	Number	Percentage
Up to 1 year	11	20
1-5 years	31	55
5 – 10 years	10	17

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10 or more years	5	8
Total	**57**	**100**

Source: Survey data, 2014

Table 4.3 summarizes the experience level of the respondents. The summary indicates that, 20% (11 out of 57) of the respondents had up to one year in business, 55% (31 out of 57) had 1 – 5 years, 17% (10 out of 57) had 5 – 10 years, and only 8% (5 out of 57) had more than 10 years in business. In total, 75% of the respondents had less than 5 years' experience in their businesses. This percentage is significant and could imply that most of the owner/employees were still in their infancy stage in business operations, a sign which could indicate a lack of adequate skills and experience to run flea market businesses.

These results support the findings of Nguyen, (2001) which indicates that "most SMEs in Vietnam are very young in term of number of business operating years. Accordingly, the owner/manager may therefore lack experience in business". According to Maseko and Manyani, (2011) "lack of business knowledge could be the reason why most small entities are not practicing proper accounting to the maximum".

Table 4.4: Highest qualifications of respondents N = 57

Qualification	Number	Percentage
GCE O/A Level	46	81
Certificate/Diploma	8	14
Degree	3	5

Source: Survey data, 2014

Table 4.4 shows that, 81% of respondents had an O/A level certificate; 14% had a certificate/Diploma and 5% had a degree qualification. This shows that the majority of the respondents had not attained a university qualification. The lack of graduate level qualifications or upwards shows that most of the flea market business owners/employees were lowly qualified and lacked the expertise in business management which were necessary for the better performance of their businesses.

These findings concur with findings of other previous researchers. Senik, et al., (2012) "carried out a study on the accounting information needs, management and usage among Malaysian SMEs restaurants. The findings of this study revealed that small medium enterprises restaurants managers did not have enough skill and qualifications to better utilize the accounting information.

The small firm owner who is normally the one that manage the firms' account or hired account personnel, had limited skills and proficiency in managing and using accounting information. Maseko and Manyani, (2011) add that "the better use of accounting information obviously takes place in situations where the SMEs have a certain level of accounting knowledge and technical qualifications, which does not tend to prevail in small companies".

Figure 4.5 Line of retail business

Line of business	Number	Percentage
food vending	5	9
clothing and sporting	38	67
hardware and electrical	4	7
DVD and CD vending	7	12
Other	3	5

Source: Survey data, 2014

As indicated in chapter 3, this research study used the stratified sampling technique to select micro entities. Structure of informal businesses by type of line of business in the sample is described in Figure 4.3. The figure shows that, 9% (5 out of 57) were food vending businesses, 67% (38 out of 57) clothing and sporting, 7% (4 out of 57) hardware and

electrical, 12% (7 out of 57), DVD and CD vending, and 5% (3 out of 57) were other businesses. The other businesses were mainly photographers and air time vendors. It would appear that most small entities in the study were in the clothing retail business.

SECTION B: Use of accounting principles and bases by micro entities

Purpose of section

The purpose of this section was to assess the extent to which accounting principles and bases as outlined in IFRS for SMEs are being used by informal businesses under this research.

An investigation of whether business used cash bases or accrual bases was done. The explanation for each response was also evaluated. Use of accounting principles was also appraised in terms of whether the entity applied each of the principles in their accounting system or not at all. This then determined the possible factors for the use of accounting information in financial performance measurement by the target respondents in their business.

Table 4.6 Accounting bases used by micro business

Accounting base	Number	Percentage
Cash	54	95
Accrual	3	5

Source: Survey data, 2014

Table 4.6 shows that 95% of the respondents adopted cash basis of accounting with 5% adopting the accruals basis of accounting. The study reveals that the majority of informal traders are more comfortable with the cash basis, supporting the propositions of the European Commission, (2008) for the adoption of cash basis accounting in cases when an entity is a micro or even a very small entity. Under the cash basis an entity recognises a transaction only when cash is received or paid, meaning that the cash book or the receipts and payment accounts becomes the main book in this system. This could mean that records maintained are limited. The results seem to reveal that the accounting basis adopted by an entity could have a bearing on the accounting records kept.

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Among the reason given for using the cash basis were that 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. Related to this, Maseko and Manyani, (2012:179) concluded that "SMEs are more comfortable with the cash basis, suggesting the need for the adoption of cash basis accounting in SMEs". Mwangi, (2011) sums up by stating that"very small businesses often use the cash basis because it can be simpler and easier to manage". This could be the reason why most small enterprises in Zimbabwe have an incomplete recording system.

Table 4.7 Principles and Concepts used by informal traders

Concepts	Number	Percentage	Rank
Matching	0	0	7
Materiality	23	40	4
True & fair view	0	0	7
Going concern	0	0	7
Prudence	4	7	5
Opening balance principle	57	100	1
Consistency	54	95	2
Separate valuation principle	43	75	3

Source: Survey data, 2014

Table 4.7 shows a summary of the bases used by informal traders under the study. The most popular that received top rankings were opening balance principle (100%), consistency (95%) and separate valuation principle (75%). Table 4.7 also shows that the least ranked concepts were prudence (7%), matching (5%), true and fair view (0%), matching (0%) and going concern (0%). The accounting principles, bases and conventions that informal traders at Meikles Park in Mutare are using, are therefore inadequate and may not produce adequate information for use in decision making. This could be the reason why most informal businesses are using the cash basis because it does not demand the use of principles such as, prudence, matching, going concern and true and fair view, all of which are suited to the accrual method of accounting.

Maseko and Manyani, (2012:179) writes that, "the 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 IFRS for SMEs, (2009) "lays down the concepts and principles that are the basis for preparing and presenting the external financial statements of a small enterprise. It is therefore imperative that all informal businesses adopt all these accounting conventions so that they capture and report all the relevant accounting information to ensure reliability in its financial performance measurement".

SECTION C: Record keeping and reporting practices in micro entities

Purpose of section

The purpose of this section was to examine the types of accounting records and financial reports being generated by SMEs. This was partly achieved through determination of the accounting method and the technology used to prepare accounting information. The nature and amount of records and financial reports prepared was also determined. Finally, the challenges faced by informal businesses at Meikles Park in Mutare in keeping proper accounting records were also explored. All these factors helped to find out how, in general, the nature and amount of records and reports influence performance in informal businesses.

Figure 4.8 Accounting method used
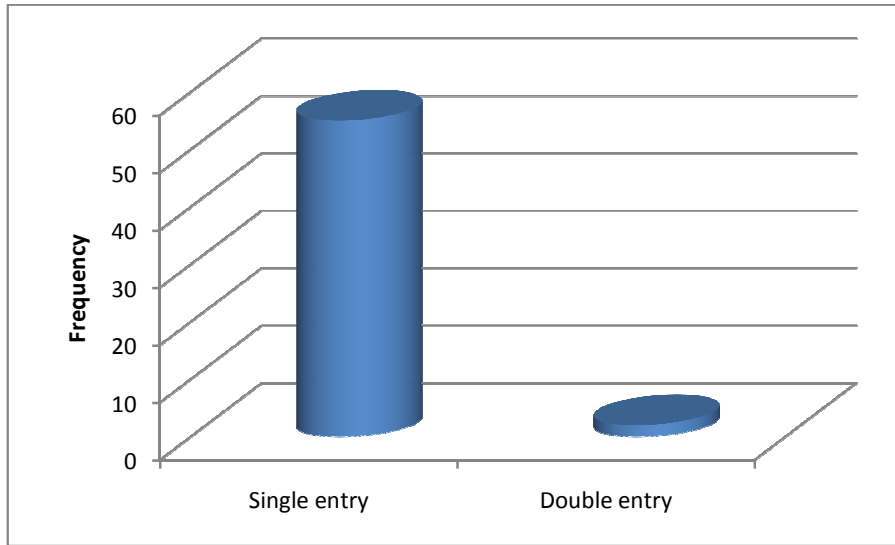
Source: Survey data, 2014

Table 4.8 shows that, 96% of the respondents used single entry whilst only 4% used the more superior double entry system. This implies that the majority of the market traders used the single entry system. Kurniawati and Hermawan, (2010:4) lament that, "using incomplete records cannot give an accurate picture of period end financial statements as they do not tell the whole story. There is no record of outstanding debtors or creditors, or of stock, or, without analysis, of for what receipts and payments have been received and paid, or in some cases, of the split between revenue and capital items".

The European Commission, (2008) add that"in some cases a single-entry bookkeeping is justified when the enterprise is a small and the transactions are not that many or complex".

Table 4.8: N = 57

Technology used	Number	Percentage
Manual	57	100
Computerised	0	0
Both	0	0

Source: Survey data, 2014

Out of the 57 owner/employees surveyed, all (72%) of them used the manual system, and none used computerised system or both systems. The percentage of formal businesses that used manual book keeping is big enough and can be used to explain the effect of proper book keeping on the financial performance since it may not be as accurate as computerized and online book keeping.

Similarly, Okwena, et al., (2011:21) found that "most of the small and medium scale enterprises use manual book keeping method with 63.9%, followed by 24.7% of the small and medium scale enterprises that use all the book keeping methods. Their results seem to imply that a computerised accounting system should be used by SMEs because it generates better information than a manual one".

Table 4.9 Accounting records kept N = 57

Record	Number	Percentage
Daybooks	12	21
Ledger accounts	0	0
Cash book only	46	81
Inventory registers	57	100
Personal jotter/notes	57	100
None	0	0

Source: Survey data 2014

Respondents were asked to choose accounting records they kept in SMEs from a given list. The study highlights that 81% of the respondents used cash book only, all (100%) used inventory registers, and all (100%) used personal jotters or notes. This suggests that the majority of the businesses produced insufficient information to enable the preparation of financial reports that enable the preparation of financial performance measures.

The study findings also show that, 21% of the respondents kept day books and 0% kept ledger accounts. This shows that an insignificant number of informal traders at Meikles Park keep relevant records for the preparation of financial statements.

Efficient financial managers dwell on the past and present in order to predict the future and for proper evaluation and comparison of financial activities. To achieve this aim, proper book-keeping remains integral. It is equally acknowledged that by their nature, the owner/employees' relevant academic and accounting backgrounds are expected to influence the success or otherwise of this critical function. Owner/employees are therefore encouraged to get the relevant business training so as to fully use accounting information in their businesses.

Table 4.10 Financial statements kept N = 57

Financial statement	Number	Percentage
Statement of comprehensive income	6	10
Statement of financial position	0	0
Statement of changes in equity	0	0
Statement of cash position	13	23
None	44	77

Source: Survey data, 2014

Respondents were also asked to select from a given list of financial statements which they prepared for their informal businesses. The findings of the study show that, only a few SMEswere keeping financial statements; statement of comprehensive income (10%), statement of financial position (0%) and statement of cash position (23%). None of the respondents kept the statement of changes in equity. Further, the majority (77%) did not keep any form of financial statement. This could mean that there was inefficient use of accounting information to support financial performance measurement by informal traders at Meikles Park in Mutare.

A study by Maseko&Manyani, (2012:179) established that "record keeping in SMEs was not being done for the purpose of capturing accounting information for performance

measurement but for security and control". This was supported by only 27% of SMEs preparing financial statements to report financial performance.

Karunananda&Jayamaha, (2011:2) write that"the financial reporting system is necessary to ensure that the SMEs' resources are used effectively and efficiently in pursuit of its goals".

Table 4.11 Challenges faced by micro entities N = 57

Challenge	Number	Percentage	Rank
Poor accounting knowledge	50	87	1
Costs and time constraints	32	57	3
Lack of guiding accounting rules	16	28	4
Negative perception towards book keeping	36	64	2
Poor management of business records	13	23	5

Source: Survey data, 2014

Table 4.11 shows that, 87% of the respondents cited poor accounting knowledge as a challenge in establishing an effective accounting system for their enterprises.

This result is supported by a Kenyan survey, in which Okwena, et al., (2011) "assessed the effect of proper bookkeeping practices on financial performance of SMEs in Kisii municipality to ascertain the cause of such failures. The study showed that book keeping practice was a challenge among SMEs in Kisii Municipality, the greatest challenge being little knowledge in book keeping". Related to this Mbroh andAttom, (2012) established that "about 76% of the SMEs owner/managers either lacked basic education or basic working knowledge in accounting".

Table 4.11 further shows that, 57% of the respondents said that cost and time constraints hindered them from adopting a complete accounting system. This concurs with research results on accounting practices of SMEs in Zimbabwe, by Maseko and Manyani, (2012) which revealed that "SMEs do not keep complete accounting records because of lack of accounting knowledge and the cost of hiring professional accountants". Mutambanengwe, (2012)add that "keeping accounts is seen as a waste of time, money and effort, and is also avoided as a means of ensuring that there is no track record of what the proprietor would have done, in the event that any government agency would visit them". Again, the various business owners in Mbroh and Attom, (2012) study "showed reluctance to be trained or attend further studies due to the cost involved in training and education".

Table 4.11 also shows that, 28% choose lack of guiding accounting rules and 23% choose poor management of business records as challenges faced by small entities. Ademola.et al., (2012:64) "conducted a study on the roles of record keeping in the survival and growth of small scale enterprises in Ijumu Local Government area of Kogi State. The researchers concluded that, in Kogi State, most SMEs failed in their first year of establishment majorly from management incompetence. The owners lacked elementary knowledge of bookkeeping and the people employed by them were not better either".

Lastly, Table 4.11 also shows that, 64% of the respondents said that, negative perception towards book keeping was a major problem faced. According to Ademola, et al., (2012) say that "other reasons given for not keeping records were the fact that they can keep the records of their sales in their heads and due also to the fact that they own their businesses".

When ranked, the major challenges faced where, lack of accounting knowledge (rank 1) negative perception towards book keeping (rank 2) and cost and time constraints (rank 3).SME owner or manager is a only player as a searcher and assimilator of information.

As such, Senik, et al., (2012) says "it is important for them to understand and get involved in the accounting figures produced. It is therefore imperative that micro entity owner/managers should be imparted with accounting skills ranging from record keeping, attention directing, financial management and reporting skills that are expected to promote effective decision, performance evaluation and business reporting of any business enterprise".

SECTION D: Performance Measurement in Informal Businesses

Purpose of section

The purpose of this section was to evaluate the extent to which informal businesses are measuring their performance. This was evaluated in terms of financial performance measures currently used. This information helped to explore other possible factors that may play a role in affecting performance measurement in informal businesses. This then determined the possible recommendations to informal business owners regarding appropriate accounting practices that improve financial performance measurement.

Table 4.12 Financial performance measurement N = 57

Do you measure financial performance of the firm?	Number	Percentage
Yes	8	14
No	49	86

Source: Survey data, 2014

It is observed in table 4.12, that 14% of the total respondents measured financial performance, while 86% do not measure financial performance.

Majority of those interviewed therefore do not measure financial performance for their businesses.

Ismaila, (2011:79) "explored the financial measures that manufacturing SMEs in Pretoria use to measure their financial performance. The study found that most manufacturing SMEs used financial ratios to measure their financial performance, but to a very limited extent". Similarly, Mosalakae,(2007:232) "made an exploratory investigation on financial performance measurement of South Africa's top companies. The researcher concluded that, top South African companies do not use the available tools (financial ratio analyses and bankruptcy prediction models) to measure their financial performance". This concurred with interview results of this research in which a respondent said that many ratios are not often

used by informal businesses and that management accounts and cash flow are much better accounting measures for the company's requirements.

Table 4.13 Financial performance measures used N = 8

Performance measure	Number	Percentage
Profitability	8	100
Activity	0	0
Liquidity	1	13
Gearing	0	0

Source: Survey data, 2014

From table 4.13 it is observed, that 100% of the total respondents measured profitability, 0% measured business activity, and 13% measured liquidity of the business. None of the respondents measured the gearing ratio. This indicates that all of the informal businesses that use financial ratios, even though familiar with many ratios found in the literature, make use of just a few of them in common, particularly profitability ratios. Informal businesses at Meikles Park in Mutare are therefore not assessing their financial condition, nor are they predicting failure of their businesses. According to Taticchi, et al., (2008:58) state that "It is not surprising to find that studies on the use of performance measurement typically state that operational measures in SMEs are difficulty and informal, with no real understanding of key performance drivers.Financial performance measurement generally looks at a business' financial ratios (derived from their financial statements) such as liquidity ratios, activity ratios, profitability ratios, and debt ratios". Ismaila, (2011:14). Sarapaivanich, (2003:6) add that"accounting information is used to assess the profitability of alternative courses of action, measure performance, and evaluate the position of enterprises in term of profitability, liquidity, activity and leverage".

How helpful the results from the ratios are to participant informal traders' financial performance is a relevant question to ask, since it would be interesting to know the extent to which ratio analysis contributes to informal business financial performance. The following responses were obtained from interviews held: one interviewee indicated that the results from ratio analysis help to form strategy for the next period, by taking proper corrective measures

of any trouble shown by significant variations in some ratios. Another interviewee at another market stall acknowledges that the results from ratio analysis help get better performance for the company, not only financially but generally, since financial performance is the driver of the rest.

Table 4.14 Recommendations to improve accounting practices of informal traders

Recommendation	Number	Percentages	Rank
Bookkeeping training	32	57	3
Hire consultant	20	35	4
SME accounting guidelines	10	18	5
Mandatory record keeping	41	72	2
Use of accounting packages	45	80	1
Other	8	10	6

Source: Survey data, 2014

Table 4.14 shows that most of the informal traders suggested book-keeping training (57%), mandatory record keeping (72%) and use of accounting packages (80%), as a way to improve their accounting practices. (35%) of the informal traders suggested they would hire consultants and (18%) suggested having guidelines or specific accounting regulations in place to improve their accounting practices. (10%) gave other suggestions.

This concurs with the following good practices for the accounting systems which have been recommended by previous researchers as appropriate for small enterprises according to their particular circumstances and needs:

- Arkoh, et al., (2012) suggested that laws should be put in place order to improve the accounting practices of small entities so that they have access to credit facilities from financial institutions.

- Okwena, et al., (2011) recommended the government in conjunction with national accountancy bodies to carry out sensitization programmes so to equip the owners and managers of the SMEs with proper knowledge in book keeping. This could be done through the means of conferences, symposiums, exposure drafts, discussion papers, and open forums.

- Ismaila, (2011) recommended that SMEs use the six ratios that have worked well for some of the participants in her study (cash flow to debt, current ratio, working capital to assets, cash flow to average total current liabilities, gross profit margin ratio and inventory turnover). She also recommended that SME owners use financial software packages if they can afford them.

- Maseko & Manyani, (2012) and Akande,(2011) suggested that government should make it mandatory for small business owners to prepare financial statement for performance monitoring so as to be able to assess their performance regardless of tax assessment motive.

- Jefferson, (2012) said that it is still highly recommended that every business today use online bookkeeping to make the processes more accurate, efficient and effective.

4.3   Summary

The chapter discussed the socio-demographic data, the accounting principles and bases used by informal traders, types of records and financial reports generated by informal traders and financial performance measurement.

The next chapter summaries of the whole project and major findings of the research, makes the research conclusions and lastly gives recommendations.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0   Introduction

The present study was designed to evaluate the accounting practices in informal businesses, so that recommendations could be made to entrepreneurs on effective strategies that can be adopted to efficiently use accounting information in improving their economic decisions to ensure subsequent survival of the businesses. This was to be achieved through the following objectives as examine the types of accounting records maintained by informal traders, examine the types of financial reports being generated by informal traders, evaluate the extent to which by informal traders are engaged in financial performance measurement and formulate recommendations to small business owners regarding appropriate financial accounting practices that improve business performance.

This research study's objectives were achieved, making a number of contributions to knowledge in the fields of informal businesses financial accounting practices. This study provides details of the relationships between accounting practices and performance of informal traders in developing nations. Previous research provided a large number of descriptive findings of financial accounting practices of SMES and large businesses only. This study supplements the gap by investigating the accounting practices of informal businesses.

This study contributes to the knowledge of financial accounting practices of informal businesses in Zimbabwe which can be considered representative of emerging economies. As indicated in chapter 2, the descriptive findings of financial accounting practices of SMEs around the world are numerous, however most findings involve SMEs in the developed or market economy countries while findings involving SMEs in the developing or emerging countries are few and findings involving SMEs in Zimbabwe are rare. Therefore descriptive findings of financial accounting practices of

micro entities in this study expand the literature of financial accounting in general and especially financial accounting practices of informal businesses in Zimbabwe.

5.1   Conclusions

In the light of the findings of this study, several conclusions could be made.

5.1.1   Informal traders used insufficient accounting principles and bases

Informal businesses often use the cash basis because it can be simpler and easier to manage. However this could lead to micro enterprises to have an incomplete recording system. The study results also suggest that the accounting principles, bases and conventions that informal traders at Meikles Park in Mutare are using are inadequate and may not produce adequate information for use in decision making.

5.1.2   Lack of knowledge was a major factor in keeping inadequate financial records and statements by informal traders

The study revealed that informal traders do not keep complete accounting records because of lack of accounting knowledge and the cost of hiring professional accountants. As a result, there are inadequate records and no financial reports are generated by the informal traders.

5.1.3   Informal traders are not engaged in financial performance measurement.

The results showed that the majority of the informal traders at Meikles Park in Mutare do not measure financial performance for their businesses. Inadequate accounting practice and ignorance of the importance of accounting information for their businesses were major factors why informal traders did not measure their businesses' financial performance.

5.2   Recommendations

This section presents implications of the research study outcomes including the implications for financial accounting practitioners, government, and training

organizations. The findings of this study have implications for practice and future research.

- This research therefore recommends present informal business owners/managers to use the accruals basis of accounting to make sure that they produce the complete picture of the firm's activities.
- Informal businesses are therefore recommended to use the double entry system to enable them to maintain adequate records for the preparation of financial statements.
- This study therefore recommends the informal businesses to engage in the accounting practices identified in this research, in order to generate and use accounting information in financial analysis.
- TheGovernment of Zimbabwe, through the responsible Ministry of Small and Medium Enterprises to make record keeping in SMEs mandatory to improve their accounting practices and increase chances of them formalizing their business operations.

5.3   Suggestions for further work/research

Findings on financial accounting practices could be used as the basis for specific and detailed research into every separate aspect of financial accounting practices in Zimbabwe such as financial reporting and analysis, usefulness of cash flows and ratio analysis, outsourcing accounting services and the role of professional bodies in enhancing accounting practice in the country.

This study's findings on the impact of accounting practices on the performance of informal traders could lead to expanded research to the medium companies, large companies, state and foreign companies in Zimbabwe.

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APPENDIX 1

Letter of authority to carry out research

MIDLANDS STATE UNIVERSITY

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

QUESTIONNAIRE FOR RESPONDENTS

I am a student at Midlands State University. In partial fulfilment of Bachelor of Commerce in Accounting, I am carrying out a research entitled;**"analysis of the effects of accounting practices used by informal traders".**

This information is valuable for owners/managers of informal traders in crafting effective strategies that can be adopted to efficiently use accounting information in improving their economic decisions to ensure subsequent survival of the businesses.

Please answer the questions freely. You can not be identified from the information you provide, and no information about yourself or your business will be given to anyone. All the information you provide will be treated in the strictest confidence.

Thank you for taking your time to help me.

Norah Kutsaru

APPENDIX 2

Instructions

1. Do not write your name on this questionnaire.

2. May you please attempt all the questions?

3. Please place a tick (√) in the box of your preferred answer and or a narrative answer in the space provided below each question.

SECTION A: BACKGROUND INFORMATION FOR RESPONDENTS

1. Gender   Male   ☐

                             Female   ☐

2. What is your position in the firm?   Owner   ☐

                             Manager   ☐

                             Owner/manager   ☐

3. Number of years in business   Up to 1yr   ☐

                              1 – 5 yrs   ☐

                              6 – 10 yrs   ☐

                              11 + years   ☐

4. Level of education   GCE O/A Level   ☐

                             Certificate/Diploma ☐

                             Degree   ☐

5. Line of retail business   Clothing   ☐

                              Grocery   ☐

                              Hardware   ☐

                              Electrical   ☐

                              Pharmacy   ☐

SECTION B: USE OF ACCOUNTING PRINCIPLES AND BASES BY MICRO ENTITIES

1. Which accounting base do you use?　　　　Cash ☐

Accrual ☐

2. Give reasons why the firm uses the chosen basis.

....

....

....

....

3. Which of the following principles are used by your firm?

Matching ☐

Materiality ☐

True and fair view ☐

Going concern ☐

Prudence ☐

Opening balance principle ☐

Consistency ☐

Separate valuation principle ☐

SECTION C: RECORD KEEPING AND REPORTING PRACTICES IN MICRO ENTITIES

1. Which accounting method do you use?　　　Single entry ☐

Double entry ☐

2. Which technology do you use?　　　Manual ☐

Computerised ☐

Both ☐

3. Which accounting records do you keep?

        Day books   ☐

        Ledger accounts   ☐

        Cash book only   ☐

        Asset registers   ☐

        Personal jotter/notes   ☐

        None   ☐

4. Which financial statements do you prepare?

        Statement of comprehensive income   ☐

        Statement of financial position   ☐

        Statement of changes in equity   ☐

        Statement of cash position   ☐

        None   ☐

5. What challenges are faced by micro entities in Mutare CBD in keeping proper accounting records?

Lack of accounting knowledge   ☐

Cost and time constraints   ☐

Lack of guiding accounting rules   ☐

Negative perception towards book keeping   ☐

Poor management of business records   ☐

Other (specify) ....

....

....

....

SECTION D: PERFORMANCE MEASUREMENT IN INFORMAL BUSINESSES

1. Do you measure financial performance of the firm?   Yes   ☐

                                                                             No   ☐

2. If yes, which financial performance measures do you use?

                                                    Profitability   ☐

                                                    Activity   ☐

                                                    Liquidity   ☐

                                                    Gearing   ☐

Other (specify)...

3. Suggest recommendations to improve accounting practices of micro entities.

Bookkeeping training   ☐

Hire consultant   ☐

SME accounting guidelines   ☐

Mandatory record keeping   ☐

Use of accounting packages   ☐

Other (specify) ....

....

....

....

APPENDIX 3

Interview Guide

1.   What are the accounting principles and bases that are used in your firm?

2.   What are the types of accounting records that are maintained by informal traders?

3.   What are the types of financial reports that are being generated by informal traders?

4.   To what extent are informal traders engaged in financial performance measurement?

5.   Are there any problems being encountered in both the recording and reporting of financial transaction? If so elaborate?

6.   Suggest effective strategies that can be made to informal traders regarding appropriate financial accounting practices that improve business performance

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