

A STUDY ON ACCOUNTING PRACTICES IN MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN KAMRUP DISTRICT OF ASSAM

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) are considered the backbone of the economy in almost every country in the world and India is no exception thereto. The MSME sector plays an important role in creating employment opportunities comparatively at a lower capital cost than large industries and it contributes significantly to the country's economy. Despite playing crucial for the development of the economy, MSMEs' sickness is at an alarming rate as they are facing some major problems/challenges. One of the major reasons for the sickness of MSMEs is the lack of proper management. Though the Government is taking initiatives from time to time to support MSMEs, still MSMEs are facing some issues which affect the performance of MSMEs at different levels of their operations. A business, no matter how big or small needs an effective accounting system that plays an important role in the management of the enterprise to sustain and establish long-term operational and financial goals. Accounting helps in decision making; planning and controlling processes as it provides significant information. Accounting is considered a supporting activity for the success of a business entity. This present study has been undertaken to study the accounting practices adopted by MSMEs in Kamrup district of Assam.

Keywords: Accounting, Management, Micro, Small, Economy.

1. INTRODUCTION:

Micro, Small, and Medium Enterprises (MSMEs) occupy a very significant position in any economy. In a developing country like India, the role and importance of MSMEs are very significant towards poverty eradication, employment generation, rural development, and creating regional balance in the promotion and growth of various development activities. Ever since the independence of India, MSMEs have been playing an important role in the economic development of India. It has been making a substantial contribution to the G.D.P. of the country. MSMEs play a very important role in widening the base of entrepreneurship.

Management is equally important in all types of organizations irrespective of their size. It is commonly defined as the alignment and coordination of multiple activities in an organization. Management in all business areas and organizational activities is the act of getting people together to accomplish desired goals and objectives by utilizing limited resources efficiently and effectively. Most MSMEs owners are responsible for managing all aspects of their businesses themselves. Business owners need to use management skills to accomplish the goals and objectives of their businesses.

Accounting is often referred to as the language of business. It provides a clear picture of income and expenditure, profit or loss, and the financial position of the enterprise from time to time. Accounting provides information on various business activities viz. financing, investing and operating activities, etc that are communicated through the medium of accounting to the users including owners as well as outsiders. This information helps the management in decision-making, planning, and controlling processes. In a competitive business environment, it is essential for all enterprises, whether small or large, to adopt and recognize their decision input with the help of accounting information. Besides, accounting is important to file tax returns and apply for business loans.

Definition of MSME:

Enterprises	Investment and annual turnover	Limit
Micro	Investment in plant and machinery or equipment	Does not exceed one crore rupees (<Rs 1 crore)
	Turnover	Does not exceed five crore rupees (<Rs. 5 crore)
Small	Investment in plant and machinery or equipment	Does not exceed ten crore rupees (<Rs 10 crore)
	Turnover	Does not exceed five crore rupees (<Rs. 50 crore)
Medium	Investment in plant and machinery or equipment	Does not exceed fifty crore rupees (<Rs 50 crore)
	Turnover	Does not exceed two hundred and fifty crore rupees (<Rs. 250 crore)

(Source: Ministry of Micro, Small and Medium Enterprises)

2. STATEMENT OF THE PROBLEM:

The MSME sector plays a crucial for the development of the Indian economy and the government provides support from time to time for the development of this sector. But MSMEs' sickness is at an alarming rate as they are facing some major problems/challenges. As per the 4th All India census Report of MSMEs (Registered sector), 6.46% of sickness MSMEs units' reasons is a management problem. Hence, the entrepreneur should give more attention to the effective management of the enterprise. For the effective management of a business, no matter how small or big the enterprise is, accounting is an important tool. Accounting is considered a supporting activity for the success of a business entity. So, Accounting is essential for the operation of small business units successfully. With a good accounting system in operation, the enterprise can manage its cash inflows and outflows. In today's scenario, accounting covers a wide range of activities, which include business planning, control, performance evaluation, and measurement.

But the entrepreneurs of Micro and Small Businesses give little attention to Accounting. The present study, therefore, sets out to study the accounting practices adopted by these enterprises.

3. REVIEW OF LITERATURE:

Roddrigues (2002) in his study titled “Accounting and Financial Practices of Small Scale Industry” in Goa revealed that the small-scale industries did not maintain separate accounting departments and most of the small-scale industries in the study area, don’t maintain proper accounting records. Most of the small-scale industries are unable to know exactly the correct profit and losses on time and it leads to wrong decisions making As a result, they were unable to know exactly what the correct profit and losses is on time, which leads to wrong decision-making.

Mahboubi. (2007) stated that the professional orientation to accounting procedures and practices among the entrepreneur of small-scale industries is very low due to a lack of knowledge about the importance of accounting as a management decision-support system.

Shiralashetti and Hugar (2007) “Accounting Practices in Business: A study of Wholesale and Retailers in Bijapur District”, stated that in the competitive era accounting significantly contributes to the survival of a business. They found that most of the businessmen give less attention to accounting for their business transactions. They usually concentrated more on selling and buying their products and this has been more in the case of wholesale and retail businesses.

Ezejiofor and et al. (2014) found that there is a significant contribution of accounting to the performance of small-scale business. It was found that all the Small Scale enterprises may not be able to adopt an elaborate system of accounting. A number of small-scale businesses kept no records pertaining to their financial operations, finance, etc., while some enterprises employed professional accountants to keep proper accounting records of their business.

Jeyaseeli and Justus (2014) conducted a study to investigate the accounting practices followed by MSMEs in the Tirunelveli Municipal Corporation of Tamil Nadu and found that the majority of MSMEs fail to keep complete accounting records and there is a wide gap between theory and practice of financial management.

Uddin et. al. (2017), in their study, showed that an effective accounting system has an intense impact on the performance of small and medium enterprises. But, the level of awareness regarding the importance of accounting practices for financial management is very low.

4. RSEARCH GAP:

The existing literature strongly supports the argument that Accounting is an important tool for efficient management and it has a great impact on the performance of the business. It also helps the management in various decision-making processes. Quite a few studies have been conducted in this area, but no study has been found to be conducted in Kamrup district of Assam, so far, on the accounting practices adopted by the MSMEs.

The present study, therefore, has been planned to be conducted to study the accounting practices adopted by the MSMEs of Kamrup district of Assam.

The proposed study is expected to contribute towards filling the present gap in the knowledge prevailing in the area of small businesses in general and their accounting practices in particular.

5. OBJECTIVE OF THE STUDY:

The objective of the study is to study the accounting practices adopted by the MSME sector in Kamrup District of Assam.

6. SOCIAL SIGNIFICANCE OF THE STUDY:

MSMEs act as sources of self-employment and economic shock absorbers. This sector plays a key role in achieving a balance between income and wealth distribution, which broadens and includes the growth process. Hence, the growth and sustainable development of MSMEs deserve top priority. A proper accounting system has a great impact on the performance of the enterprise as it provides useful financial information to the management. It can be said that Accounting is the backbone of the business organization which is an inseparable ingredient of social structure. The present study has been undertaken to keep in mind the importance of accounting for the effective financial management of the enterprise.

The findings of the present study are likely to throw light on the accounting practices adopted by small business enterprise in the selected study area.

7. SCOPE OF INNOVATION IN THE RESEARCH WORK:

The geographical area of this study is proposed to be confined within Kamrup district of Assam and the subject area is confined to accounting practices adopted by Micro, Small and Small Enterprises. The population to be targeted for this study is the Micro, Small and Medium enterprises of the Kamrup district of Assam. From this angle, the selected study area has been left more or less unexplored. Hence, there is scope for innovation in the present research work.

8. RESEARCH METHODOLOGY:

The Research Methodology is designed keeping in mind the concerned objective.

The present research study is Exploratory in nature.

a. Universe of the study:

All the Micro and Small enterprises registered as on 31st March 2020 in the District Industries and Commerce Centre (DICC) of Kamrup District constitute the universe of the study. The total number of registered Micro and Small enterprises in DICC of Kamrup is 1561 as per records of the DICC of Kamrup and this is the universe of the present study.

b. Sample selection:

The present study is based on both primary and secondary data. The primary data has been collected through a well-structured schedule and questionnaire. In order to collect the primary

data, 100 Micro and Small Enterprises were selected randomly. The researchers have selected the sample from each group proportionately as follows:

Enterprise	Micro Enterprise	Small	Total
Total number of registered Enterprise	1223	338	1561
Sample	$1223 \times 100 / 1561 = 78$	$338 \times 100 / 1561 = 22$	100

The secondary data has been collected from various sources such as journals, websites, All India Census reports of Micro, Small, and Medium Enterprises, Economic Survey reports, Statistical Handbooks, MSME annual report etc.

c. Tools:

The statistical tools used in the study are tabulation and percentage analysis methods.

9. LIMITATION OF THE STUDY:

The present study is confined to only Micro and Small Enterprises. Medium enterprises have been excluded from the study.

10. DATA ANALYSIS AND INTERPRETATION:

10.1 Nature of Enterprise:

Enterprise	Manufacturing		Servicing		Total
	N.O.E	Percentage	N.O.E	Percentage	
Micro	65	83.33	13	16.67	78
Small	18	81.82	4	17.18	22
Total	83	83	17	17	100

*N.O.E.-Number of Enterprise (Source: Field Survey)

It has been observed that 83% of respondents are manufacturing enterprises and 17% of respondent enterprises are servicing enterprises. Out of 78 micro-enterprises, 83.33% of respondents are manufacturing enterprises and 81.82% of small enterprises are manufacturing enterprises out of 22 small enterprises respondents. Manufacturing enterprises dominate the sector.

10.2 Demographic Profile of the Entrepreneur:

Demographic factor/Types of Enterprise		Micro		Small	
		Number of Respondents	Percentage	Number of Respondents	Percentage
Gender	Male	64	82.05	22	100
	Female	14	17.95	Nil	
Marital Status	Married	64	82.05	15	68.18
	Unmarried	14	17.95	7	31.82
Age	Below 30 years	5	6.41	2	9.10
	30-40 years	27	34.62	9	40.91
	41-50 years	30	38.46	11	50
	Above 50 years	16	20.51	Nil	00
Religion	Hindu	63	80.77	20	90.90
	Islam	15	19.23	2	9.10
	Other				
Caste	General	39	50	19	86.35
	OBC	15	19.23	1	4.55
	ST	14	17.95	1	4.55
	SC	10	12.82	1	4.55
Educational Qualification	Below Class X	18	23.08	Nil	
	HSLC	27	34.62	1	4.55
	HS	23	29.49	1	4.55
	Graduate	8	10.26	14	63.64
	Postgraduate	2	2.56	6	27.27

(Source: Field Survey)

The demographic profile of the sample entrepreneurs has been presented in the above table. The above table shows that the majority of the entrepreneurs are male (i.e. 82.05%) in micro-enterprises and 100 percent of entrepreneurs are male in small enterprises that were surveyed. and 38.46% of respondents out of 78 micro-enterprises are male entrepreneurs. So this study reveals that the MSME sector is dominated by Male entrepreneurs in the study area. Education is one of the important perquisites for the efficient management of an enterprise. From the above table, it is clear that most of the entrepreneurs of small enterprises of the sample firms i.e. 14 out of 22 (63.64%) are graduates whereas in micro-enterprises only 10.26% of entrepreneurs are graduates, most of them 32.62 % entrepreneurs had higher secondary level of education while 23.08 % entrepreneur had a primary level of education.

10.3 Accounting Practices adopted by the Enterprise:

Types	Yes	Yes				No	
		Manual		Computerized			
		N.O.E*	%	N.O.E*	%	N.O.E	%
Micro	48	41	52.56	7	8.97	30	38.46
Small	22	2	9.10	20	90.90	Nil	Nil

*N.O.E- Number of Enterprises (Source: Field Survey)

10.4 Reasons for not maintaining Accounts:

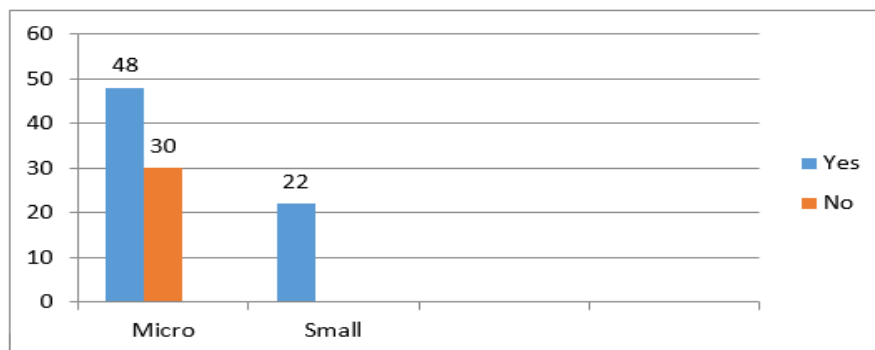
Sl. No.	Reasons	Number of Enterprises	
		Respondents	Percentage
1	Can operate without accounting	12	40
2	Lake of education/ knowledge	2	6.67
3	Due to high cost of maintaining accounts	11	36.66
4	All of the above	5	16.67
5	Total	30	100

(Source: Field Survey)

Accounting is considered the language of business. Accounting is a very important tool to run a business smoothly whether it is micro, small or big business. Table 1.2 shows that only 48 percent of Micro enterprises adopted accounting practices out of which 41 respondents (52.56%) maintain accounts manually and only 7 enterprises maintain a computerized account and 38.46 % of enterprises do not maintain any accounting records. But in the case of small enterprises, it was found that all the enterprises maintain accounting records and most of the small enterprises maintain computerized accounts (i.e. 90.90%).

From the present study, it was found that the high cost of maintaining accounts is the major reason for not maintaining accounts by the enterprises. Lack of knowledge and their thoughts that they can operate without maintaining accounts are some of the reasons for not adopting accounting practices.

Figure 10.3.1 Accounting Practices Adopted by the Enterprise:



10.5 Accounting Records maintain by:

Sl. No		Micro		Small	
		Enterprise	Percentage	Enterprise	Percentage
1	Entrepreneur /Owner	40	83.33	3	13.67
2	Manager	2	4.17	2	9.10
3	Family member	4	8.33	-	-
4	Full time accountant	1	2.08	16	72.73
5	Part time accountant	1	2.08	1	4.54

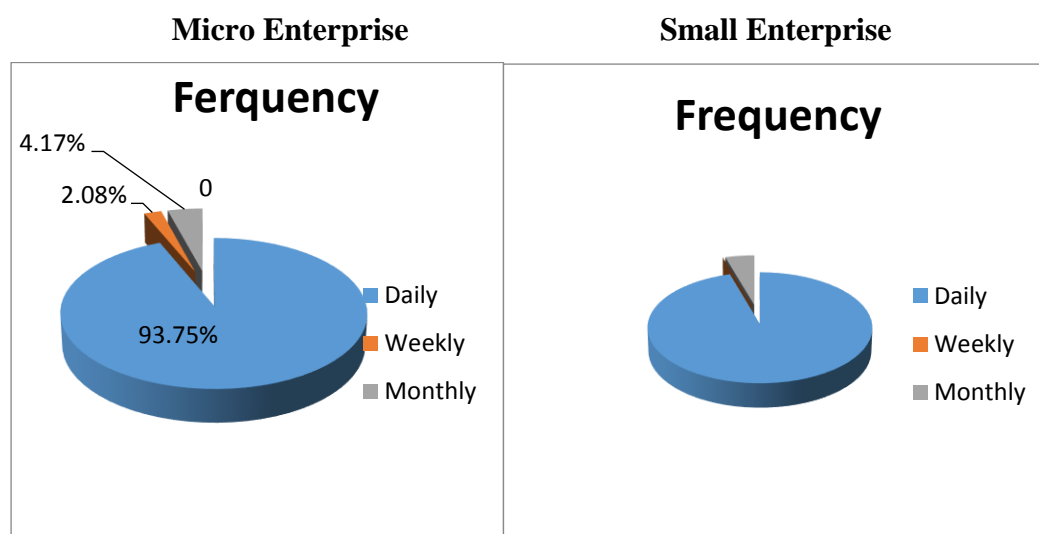
(Source: Field Survey)

As per the data presented in the above table, it is clear that 83.33% out of 48 micro enterprises under the present study, have maintained accounts, and the entrepreneurs do the accounting work by himself/herself. In 72.73 % of small enterprises, there are full-time accountants to look after the accounting-related work.

10.6 Frequency of Maintaining accounting records/entries:

Sl. No	Micro		Small	
	Enterprise	Percentage	Enterprise	Percentage
Daily	45	93.75	21	95.45
Weekly	1	2.08	0	0
Monthly	2	4.17	1	4.55

(Source: Field Survey)

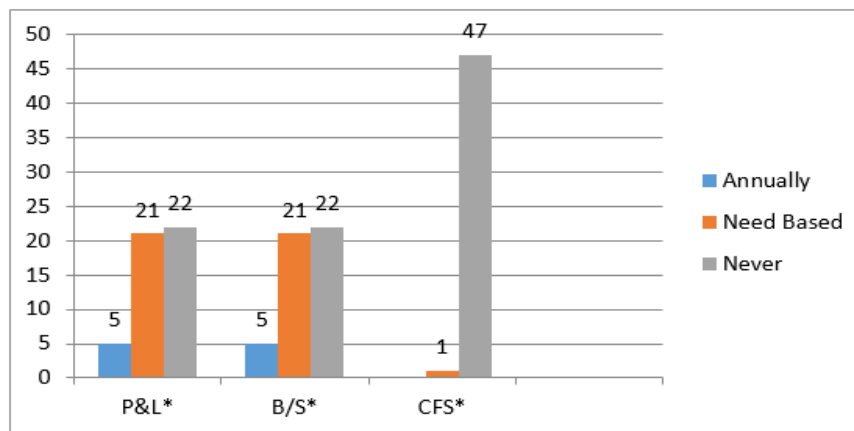


10.7 Financial Statement Prepared by the Enterprise:

Sl. No.	Statement	Annually				Need based				Never			
		Micro		Small		Micro		Small		Micro		Small	
		N.O.E	%	N.O.E	%	N.O.E	%	N.O.E	%	N.O.E	%	N.O.E	%
1	Profit & Loss A/c	5	10.42	22	100	21	43.75	-	-	22	45.83	-	-
2	Balance sheet	5	10.42	20	90.91	21	43.75	2	9.09	22	45.83	-	-
3	Cash Flow Statement	-	-	2	9.09	1	2.08	7	31.82	47	97.92	13	59.10

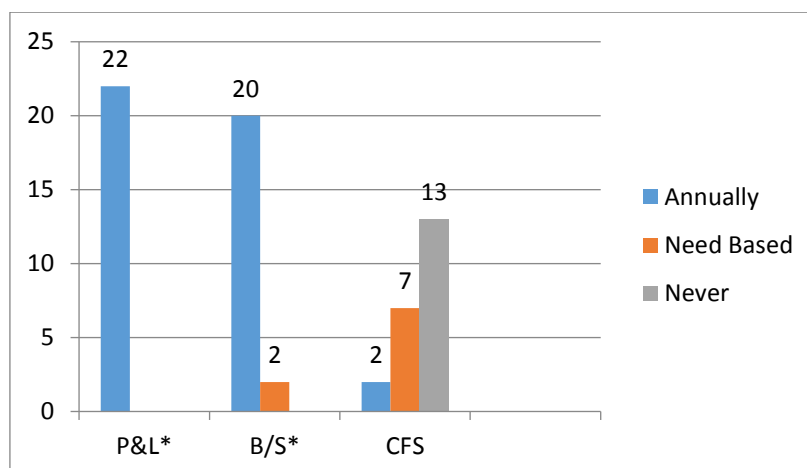
*N.O.E- Number of Enterprises (Source: Field Survey)

10.7.1 Financial Statement Prepared by Micro Enterprises:



*P&L- Profit & Loss Account. *B/S- Balance sheet. *CFS- Cash Flow Statement.

10.7.2 Financial Statement Prepared By Small Enterprises:



*P&L- Profit & Loss Account. *B/S- Balance sheet. *CFS- Cash Flow Statement

From the above table, it has been observed that:

- i. Out of 48 micro-enterprises that have to maintain accounts 5 enterprises (i.e. 10.42%) prepare a Profit & Loss account and Balance sheet annually and 21 enterprises (i.e.) 43.75% prepared a Profit & Loss account and Balance sheet when it is required, such as to take a loan from financial institutions like banks as they need to submit their financial statements and 22 enterprises never prepare Profit & Loss account.
- ii. All the small enterprises (i.e. 100 %) under the present study prepare a Profit & Loss account annually.

- iii. Only one (i.e. 2.08% out of 48 enterprises) micro-enterprise prepared a cash flow Statement on a need basis. Out of the 48 micro-enterprises, 97.92% of enterprises do not prepare cash flow statements.
- iv. Out of 22 small enterprises 9.09% of enterprises prepare Cash Flow Statements annually, while 31.82% of small enterprises prepare when it is required only and 59.10 % never prepare cash flow statements.

10. CONCLUSION AND SUGGESTIONS:

Accounting plays a key role in all types of enterprises irrespective of their size. It helps in finding the results of the enterprise as well as provides important information to the management to take decisions for the business. Accounting gives a clear picture of the financial position of the enterprise.

This study found that all the micro-enterprises do not adopt accounting practices in their business, but the majority of Micro enterprises (i.e.52.56%) maintain accounting records and all Small enterprises maintain accounting records. The main reason for not maintaining accounts is that entrepreneurs think that they can run their businesses without maintaining accounts.

But they accepted that due to a lack of maintaining accounts they are unable to know their exact profits or losses. Recording or accounting of business transactions on regular basis is very essential to survive in the competitive era. Regular accounting helps to reduce the risks and to manage and avoid the unwanted costs of business.

The adoption of sound accounting practices significantly enhances the performance of enterprises. It can be concluded that the adoption of accounting practices by the Micro, Small, and Medium Enterprises is not to the level which is required for better performance and sustainable development of this sector. Therefore, there is a need to adopt a proper accounting system for recording and accounting business transactions in the interest of the entrepreneur in particular and public in general.

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