



Financial Accounting System Followed By Micro, Small And Medium Enterprises- A Study In Kamrup District Of Assam, India

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Abstract: In the Indian economy, the MSME sector plays a vital role as it creates a large number of employment opportunities and contributes a significant portion of the GDP of the nation. MSMEs are the second-biggest employer in India after agriculture. In India, 31.6 million MSME units were registered in the last three years (i.e. from July 2020 to December 2023). Financial accounting practices are one of the utmost substantial areas of management of all enterprises, whether it is small or large, to survive in the long run. This study is conducted in the Kamrup district of Assam to know the system of financial accounting practices followed by MSMEs and the impact of the level of knowledge of entrepreneurs on the accounting practices of MSMEs. Primary data is collected from 120 registered manufacturing enterprises. The study revealed that the level of awareness of accounting among entrepreneurs and the level of education of entrepreneurs affect the accounting practices of MSMEs. From the findings of the study, it is concluded that the system of financial accounting followed by the enterprises, especially in the case of micro-enterprises is not adequate to provide all the required financial information to the management.

Keyword: Financial, Accounting, MSMEs, Economy, Management, Enterprises.

I. Introduction:

In the Indian economy, MSMEs play a vital role as it creates a large number of employment opportunities and contributes a significant portion of the GDP of the nation. MSMEs are the second-biggest employer of India after agriculture. In India, 31.6 million MSME units were registered in the last three years (i.e. from July 2020 to December 2023). It also helps in industrialisation of rural and remote areas of the country. Financial accounting practices are one of the utmost substantial areas of management of all enterprises, whether it is small or large, to survive in the long run. Financial accounting practices are one of the most significant areas of management for all enterprises, whether it is small or large. Financial accounting provides various inputs to the management related to financing, investing and operating and it helps the management to make effective decisions. In today's business scenario, it is essential to manage the concern very efficiently and effectively to survive in the long run. The information provided by accounting helps the management in decision-making, planning and controlling various important financial matters.

Definition of Micro Small and Medium Enterprises: Micro, Small and Medium Enterprises are defined under the MSMED Act 2006 amendment dated June 1, 2020, based on the investment in plant, machinery, or equipment values and annual turnover.

Enterprises	Investment Limit (plant and machinery or equipment)	Annual Turnover
Micro	Up to one crore rupees	Up to 5 crore rupees
Small	Up to 10 crore rupees	Up to 50 crore rupees
Medium	Up to 50 crore rupees	Up to 250 crore rupees

(Source: Ministry of MSMEs)

II. Literature review:

Etim et al. (2020) conducted a study in Akwa Ibom state of Nigeria to investigate the linkage between financial reporting practices and the sustainability of MSMEs. The researcher revealed that there is a positive and significant relationship between financial reporting practices and the sustainability of MSMEs. They recommended that more attention to be paid to improving the accounting knowledge and accounting practices of MSMEs which will enhance their sustainability.

Velasco (2014), studied the Accounting Practices of MSMEs in Quezon Province in Philippines. The researcher based on their findings it is concluded that the majority of MSMEs lack proper accounting knowledge, which results in inappropriate accounting practices among the enterprises.

Balagobei (2020) conducted a study in Sri Lanka to find out the effect of accounting practices on the organizational performance of SMEs. The researcher concluded that accounting practices and budgeting practices have a significant influence on SMEs performance.

Maduraperum et al. conducted a study among small enterprises in Sri Lanka on accounting record keeping adopted by the enterprises and found that maximum of the enterprises does not maintain proper accounting records and accounting information is insufficient to support financial performance.

Justus and Jeyaseeli (2014) conducted a study in Tamil Nadu on accounting practices followed by MSMEs and the researchers revealed that most of the MSMEs fail to keep complete accounting records. The researcher mentioned that there is a wide gap in accounting practices of enterprises and knowledge of accounting.

III. Objective of the study:

1. To investigate the system of financial accounting followed by MSME.
2. To study the impact of knowledge of the entrepreneurs on accounting practices of MSMEs.

IV. Research methodology: In this study, Primary data has been collected from the 120 randomly selected registered manufacturing enterprises of Kamrup district of Assam out of a total 1362 manufacturing Micro and small enterprises (as per the records of DICC of Kamrup as on 31st March 2020). To analyse the data, percentage analysis method, mean rank and regression analysis method has been applied. From each group of enterprises (i.e. micro and small) the researchers have selected a sample from each group proportionality as follows:

Enterprises	Micro	Small	Total
Registered enterprises	1048	314	1362
Sample	$1048/1362 \times 120 = 92$	$314/1362 \times 120 = 28$	120

To study the impact of knowledge of the entrepreneur on accounting practice, following variables has been in the present study:

- (1) Independent variables:
 - (a) Level of Awareness of Accounting among entrepreneurs
 - (b) Educational Level of Entrepreneur
- (2) Dependent Variable: Accounting Practices

V. Delimitations of the study: Followings are the delimitations of the present study-

- (1) This study covers only manufacturing enterprises.
- (2) It is limited to only registered enterprises.

Table:1 Demographic profile of the entrepreneur:

Demographic Factors/Types of enterprises		Micro		Small		Total	
		No. of respondents	Percent	No. of Respondents	Percent	No. of enterprises	Percent
Gender	Male	75	81.52	26	92.86	101	84.17
	Female	17	18.48	2	7.14	19	15.83
	Total	92	100	28	100	120	100

Marital status	Married	80	86.96	18	64.29	98	81.67
	Unmarried	12	13.43	10	35.71	22	18.33
	Total	92	100	28	100	120	100
Age	Below 30 years	15	16.30	3	10.71	18	15.00
	30-40 years	45	48.91	9	32.14	54	45.00
	41-50 years	20	21.74	11	39.29	31	25.83
	Above 50 years	12	13.04	5	17.86	17	14.17
	Total	92	100	28	100	120	100
Religion	Hindu	73	79.35	23	82.14	96	80.00
	Muslim	19	20.65	5	17.86	24	20.00
	Total	92	100	28	100	120	100
Caste	General	35	38.04	14	50.00	49	40.83

	OBC	26	28.26	10	35.71	36	30.00
	ST	18	19.57	3	10.71	21	17.5
	SC	13	14.13	1	3.57	14	11.67
	Total	92	100	28	100	120	100
Educational Qualification	Below class X	21	22.83	2	7.14	23	19.17
	HSLC	27	29.35	3	10.71	30	25.00
	HS	22	23.91	9	32.14	31	25.83
	Graduate	15	16.30	11	39.29	26	21.67
	Post graduate	7	7.61	3	10.71	10	8.33
	Total	92	100	28	100	120	100

(Source: Field survey)

From the table 1 it is found that:

- (i) Most of the respondent's entrepreneurs (i.e., 84.17 percent) are male entrepreneurs. In the case of microenterprises, 81.52 percent of entrepreneurs are male and in small enterprises, 92.86 percent of entrepreneurs are male.
- (ii) The majority of the entrepreneurs (i.e., 81.67 percent) are married and only 18.33 entrepreneurs are unmarried.
- (iii) The highest number of entrepreneurs (i.e.45 percent) belong to the age group 30 to 40 years.
- (iv) Maximum of entrepreneurs (i.e. 80 percent) belong to group of Hindu religion.
- (v) Highest number of entrepreneurs (i.e. 25.83 percent) have higher secondary level of education followed by HSLC level of education i.e. 25 percent. In the case of small enterprises maximum entrepreneurs are graduated.

Table 2: Maintenance of Accounting Books

Enterprises	Yes		No		Total	
	Number of Enterprises	percent	Number of Enterprises	percent	Number of Enterprises	percent
Mico	78	87.78	14	15.22	92	100
Small	28	100	0	0	28	100
Total	106	88.33	14	11.67	120	100

(Source: Field survey)

The table 2 shows that out of a total 120 enterprises, 88.33 percent enterprises maintain accounting books. While 11.67 percent enterprises do not maintain any accounting book. In the case of micro enterprises, it is found that 87.78 percent enterprises maintain accounting books and 15.2 percent enterprises do not maintain any accounting books in their enterprises. However, in case of small enterprises all the enterprises maintain books of accounts.

Table3: System of Accounting:

Enterprises	Double entry system		Single entry system		Total	
	Number of Enterprises	percent	Number of Enterprises	percent	Number of Enterprises	percent
Mico	15	16.30	77	83.70	92	100
Small	21	75.00	7	25.00	28	100
Total	36	30	84	70	120	100

(Source: Field survey)

There are two systems of accounting i.e. single-entry system and double-entry system. The double-entry system of accounting is a scientific system and the single-entry system is an incomplete and unscientific system of accounting. From the tables 3, it is seen that the highest number of enterprises (i.e. 70 percent) maintain accounts under a single-entry system and only 30 percent of enterprises maintain accounts under a double-entry system of accounting. In the case of micro-enterprises, only a few numbers of enterprises (i.e. 16.30percent) maintain accounts under a double entry system and 83.70 percent of the micro-enterprises maintain accounts under a single-entry system. In the case of small enterprises, it is seen that the majority of enterprises (i.e. 75 percent) maintain under double-entry system of accounting.

Table 4: Nature of Accounting system:

Enterprises	Manual		Computerised /electronic		Total	
	No. of Enterprises	%	Number of Enterprises	percent	Number of Enterprises	percent
Mico	55	59.78	37	40.22	92	100
Small	6	21.43	22	78.57	28	100
Total	61	50.83	59	49.17	120	100

(Source: Field survey)

There are several advantages of maintaining accounts in computerized form. However, several challenges are faced by small businesses in maintaining accounts on a computer such as high cost, lack of computer knowledge, etc. In this regard, it is found that 50.83 percent of enterprises maintain accounts manually and 49.17 percent of enterprises maintain accounts in computerized form. only 40.22 enterprises maintain accounts in computerized form. In the case of small enterprises, most of the enterprises (i.e.78.57 percent) maintain accounts on a computer.

Main Purpose of Maintaining books of Accounts:

To know the main purpose of maintaining books of accounts number of parameters are taken into consideration for accounting practices, these are: -

- (1) To comply with the provision of different Laws,
- (2) Performance evaluation (to know profit/loss),
- (3) To know financial position,
- (4) Tracking of receivables and payables, and
- (5) Accessing credit and finance

In this regard, beneficiaries were asked to give Rank in each parameter, ranging from 1 to 5 where in order of importance, (5 being the highest, while 1 being the lowest).

Table 5: Main purpose maintaining accounts:

Micro enterprises	
Main Purpose of Accounting	Mean Rank
Tracking of receivables and payables	4.87
Performance evaluation (to know profit/loss)	2.50
To know the financial position	1.45
To comply with provision of laws	1.25
Accessing credit and finance	1.04
Small enterprises	
To compliance with provision of laws	4.35
Tracking of receivables and payables	3.59
Performance evaluation (to know profit/loss)	3.40
To know financial position	2.88
Accessing credit and finance	2.63

(Source: Compiled from primary data)

The table 5 shows the mean rank of the parameters chosen to know the main purpose of maintaining accounts. It is seen that, in the case of micro-enterprises, tracking receivables and payables ranked highest (mean rank 4.87) by the enterprises as a purpose of maintaining accounts followed by performance evaluation. In the case of small enterprises, 'compliance with the provisions of different laws' ranked higher (i.e. mean rank of 4.35) followed by 'tracking receivables and payables (mean rank of 3.59) and performance evaluation of the enterprises. Thus, it can be interpreted that for micro-enterprises, the main purpose of maintaining accounts is to track receivables and payables and for small enterprises, the foremost purpose of maintaining accounts is to comply with the provisions of laws and 2nd main purpose is to know their receivables and payables.

Regression analysis:

To study the impact of knowledge of the entrepreneur on accounting practice, multiple regression analysis was carried out.

Regression equation is:

$$y = a + bx_1 + bx_2$$

Where, y = Accounting practices (Dependent variable)

x_1 = Level of awareness of accounting among Entrepreneurs (Independent variable)

x_2 = Level of Education of Entrepreneur (Independent variable)

Table 6: Coefficient

Independent Variables	Coefficient
x_1	0.0487
x_2	0.0891

Table 7: Model Summary

R	R Square	Adjusted R Square	Standard Error of estimate
0.977	0.114	0.098	3.427

The above table 7 shows that R square value 0.114. This indicates that 11.4 percent of variation in accounting practices is explained by level of awareness of accounting among entrepreneur and level of education of entrepreneur. While remaining 88.6 percent is explained by other factors.

VI. Conclusion and Recommendations:

To run an enterprise smoothly and for long-term survival, enterprises should have a proper system of accounting according to their need. Micro and small enterprises are important elements of the Indian economy which play a very crucial role in the development of the economy by creating employment opportunities and contributing to the country's GDP. The progress of this segment of the economy has a significant positive effect on society. However, their growth and survival depend on many factors. Both the national and state governments including various development institutions have been providing various support directly or indirectly from time to time to this sector to grow its business. But for the development of this sector entrepreneur also should focus more on financial management and their financial accounting practices so that they can run their business smoothly.

This study found that all the enterprises do not maintain accounting books/records. Some enterprises do not have any system of accounting and they do not maintain accounting books. The study revealed that the level of awareness of accounting among entrepreneurs and the level of education of entrepreneurs affect the accounting practices of MSMEs. A sound system of accounting always helps enterprises to manage their business efficiently and effectively which helps to improve their profitability. Therefore, it is suggested that all enterprises should systematically maintain their business transactions so that they can run their enterprises in a better way.

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