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Accounting Practices of Micro, Small and Medium Enterprises (MSMEs) in the Tirunelveli Municipal Corporation of Tamilnadu

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ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) have a crucial role to play because of their potential contributions to: improvement of income circulation, employment creation, poverty reduction and the export growth and development of entrepreneurship, industry and rural economy. The MSMEs have been promoting grassroot economic growth and equitable sustainable development is significant. Every business needs to keep track of basic accounting. For MSMEs, it becomes all the more important. Accounting gives us the financial snapshot of the enterprises in order to make decisions about the current status or projected future health of the enterprises. However, the applications of these techniques are limited in MSMEs in India. There is a wide gap between theory of accounting and the actual practices by the MSMEs. The importance of maintaining proper books of accounts and sound accounting practices has been emphasized in ensuring proper financial management in MSMEs. Against this backdrop, the present paper attempts to investigate the accounting practices followed by MSMEs in the Tirunelveli Municipal Corporation through data based on responses to a structured interview schedule.

KEYWORDS : MSMEs, accounting practices, book keeping

INTRODUCTION

MSMEs have been globally accepted as an engine of economic growth for promoting equitable development and have emerged as the single most important sector generating employment next only to the agricultural sector. It has acquired a prominent place in the socio-economic development of India. MSME sector contribute significantly to employment generation, dispersal of industrial activity to rural and backward areas ushering in all round economic growth by value addition, ensuring the mobilization of local capital and developing entrepreneurial skills. With decline in agricultural employment and virtual stagnation in the organized manufacturing sector, employment in MSME sector has emerged as the only ray of hope.

There is a saying that "Money makes the world go around". This is also true in the case of every business enterprises. Financial Management is the key factor which determines whether a business will be successful over the long term. An accounting system is the basis of financial management as all the financial data is first of all recorded according to the rules of accounting in the business books of accounts. In order to survive, MSME owners need updated, accurate and timely accounting information. Accounting information is used to measure and communicate financial information of the enterprise that is needed by management in decision making. Accounting information exerts an important influence on the success of MSMEs, therefore it is important that accounting practice of MSMEs could provide complete and relevant financial information needed by entrepreneurs in decision making. In order to enhance the profitability of MSMEs and their continuity, there is need for adequate record keeping which will help the owners to keep track of the performance of these enterprises. The present paper attempts to investigate the accounting practices of MSMEs in the Tirunelveli Municipal Corporation of Southern Tamilnadu.

REVIEW OF LITERATURE

Amoako (2013) in his study entitled "Accounting Practices of SMEs: A case study of Kumasi Metropolis in Ghana" found that SMEs do not maintain proper books of accounts. The study recommended that accounting record in SMEs be made mandatory.

Koperunthevy and Vijarani (2013) in their study entitled "Accounting system in Small Scale Enterprises: A Case Study" found that accounting system in the SSE is not good, but they have prime books to enter the transactions.

Olatunji (2013) in his study entitled "The impact of accounting system on the performance of small and medium scale enterprises in Nigeria – A survey of SMEs in Oyo State Nigeria" found that adoption of accounting system would significantly enhance the performance of SMEs in Nigeria.

Abor et. al (2011) in their study entitled, "E-Accounting practices among SMEs in Ghana" found that the SMEs put in place accounting softwares to generate their financial performance. The study recommended that SMEs in Ghana adhere to good and standard accounting principles in their operations. The adoption of e-accounting ensures proper accounting practices as well as reversal good implications for entrepreneurs and SME managers.

OBJECTIVE

To investigate the accounting practices followed by MSMEs in the Tirunelveli Municipal Corporation of Tamilnadu

METHODOLOGY

The present study is based on both primary and secondary data. Primary data has been collected with the help of schedule. In Tirunelveli Municipal Corporation, MSMEs had been engaged in 17 types of business. It includes manufacturing of automobile parts, chemicals – soap and washing powder, construction equipment machinery parts, fabricated metal products – welding, grill and lathe works, aluminum vessels, utensils, rice mills and paddy hulling, non-metallic minerals, manufacturer of paper products, manufacturer of plastics, safety pins, stationery products, textile mills, tyre products, wax and wood products. In order to investigate the accounting practices of the MSMEs, all the 73 registered and functioning manufacturing enterprises of the Tirunelveli Municipal Corporation have been selected. Simple percentage analysis is used in this study.

ANALYSIS AND INTERPRETATION

The results of demographic profile of the respondents are reported in Table 1

Table 1 Demographic Profile of the Respondents

Variables	Frequency (N=73)	Percentage (%)
Gender		
Male	60	82.2
Female	13	17.8
Total	73	100
Age		
Below 25	8	10.9
26-35	20	27.4
36-45	32	41.2
46-55	11	17.8
56 and above	2	2.7
Level of Education		
SSLC	3	4.1
HSC	13	17.8
UG	27	36.9
PG	4	5.5
Diploma	20	27.5
Others(Elementary, School dropouts)	6	8.2
Experience		
Below 10 years	37	50.6
10-20 years	20	27.4
21-30 years	13	17.8
31-40 years	2	2.8
Above 40 years	1	1.4

Source: Field Survey – Primary Data

From the above table 1, it is observed that, out of 73 respondents 82.2% were males, while 17.8% were females. Most (41.2%) of the respondents are in the age group of 36-45 years. In terms of the education background of the owner of the firms, the findings indicate that most (36.9%) of the owners have completed UG degree. Based on the length of experience, majority (50.6%) of the owners have below 10 years in the present field.

The results of Enterprise profile of the respondents are reported in Table 2

Table 2: Enterprise Profile of the Respondents

Variables	Frequency (N=73)	Percentage (%)
Category		
Micro	65	89
Small	8	11
Medium	0	0
Total	73	100
Ownership		
Sole Proprietorship	65	89
Partnership	7	9.5
Private Limited	1	1.5
Investment		
Below 1 lakh	19	26
1-50 lakhs	50	68.5
50 – 1 Crore	3	4
Above 1 Crore	1	1.5
Number of Employees		
Below 25	70	95.9
26-50	2	2.7
Above 50	1	1.4

Source : Field Survey-Primary Data

From the above table 2, it is observed that, based on the investment in plant and machinery, a great number of enterprises in the study area is micro enterprises (89%) and Small enterprises (11%). There is no medium enterprise in the study area.

Out of 73 respondents, 89% of the Micro and Small Enterprises (MSEs) are Sole Proprietorship. In terms of Investment, majority (68%) of the enterprises invested 1 to 50 crore. In terms of employees, majority (95.9%) of the enterprises having below 25 personnel for their business operations.

Accounting Practices of Micro and Small Enterprises (MSEs)

Table 3: Response on whether the enterprise follows systematic accounting system or not (N=73)

Accounting System	Frequency (N)	Percentage (%)
Yes	68	93.2
No	5	6.8
Total	73	100

Source: Field Survey-Primary Data

Table 4: Response on whether the enterprise follows book keeping system

Book Keeping	Frequency (N)	Percentage (%)
Double Entry System	17	25
Single Entry System	51	75
Total	68	100

Source: Field Survey-Primary Data

Table 5: Response of None using book keeping

None Using Book Keeping	Frequency (N)	Percentage (%)
Can Operate with accounting	4	80
Lack of accounting Knowledge and education	1	20
Total	5	100

Source: Field Survey-Primary Data

Out of the 73 enterprises 93.2% respondents answered "yes". Those who answered yes (N=68) were asked whether they follow double/ single entry system of book keeping. Of the 68 respondents 25% answered that they follow double entry system and remaining 75% follows single entry system of book keeping.

Out of the 73 enterprises 6.8% respondents answered "no". Those who answered no (N =5) were asked the reasons for not following the book keeping system. 80% of the respondents answered that they can operate without accounting and the remaining 20% answered that they have lack of accounting knowledge and education. But all these 5 enterprises kept some informal records that guide them to track their debtors. But such records do not follow any order to make it qualify for any form of accounting records. It becomes very difficult to present the business to the outside world to ensure confidence in the business and ultimately inhibit the growth of the enterprise.

Table 6: Nature of accounting systems

Nature	Frequency (N)	Percentage (%)
Manual	56	76.7
Mechanical (Computerized)	17	23.3
Total	73	100

Source: Field Survey-Primary Data

Out of the 73 respondents, Majority (76.7%) of the enterprises adopting Manual form ; whereas 23.3% use mechanical/computerized form of accounting systems.

Table 7: Purpose of maintaining accounting system

Purpose	Frequency (N)	Percentage (%)
Taxation	2	2.7
Income Distribution	7	9.6
Performance Evaluation	10	13.7
Tracking of Receivables & Payables	43	58.9
Assessing credit worthiness & finance	9	12.4
Getting Credit	2	2.7
Total	73	100

Source: Field Survey-Primary Data

In terms of purpose of maintaining the accounting records, the results show that most of the firms recorded accounting information for tracking of receivables and payables (58%). Because it is important to monitor what is accounts receivables and accounts payable while running a business.

Table 8: Storage Method of accounting records

Method	Frequency (N)	Percentage (%)
Hard copy	51	69.8
Hard and Soft copy	17	23.3
No	5	6.9
Total	73	100

Source: Field Survey- Primary Data

Majority of the respondents (69.8%) kept their past accounting information in hard copy. 23.3% of the respondents kept it as both hard and soft copy. Remaining 6.9% respondents have no past records.

Table 9: Disclosure of accounting information

Disclosure of accounting information	Frequency (N)	Percentage (%)
Yes	55	75.3
No	18	24.7
Total	73	100

Source: Field Survey-Primary Data

75.3% of the respondents disclose the accounting information to the outsiders and the remaining 24.7% didn't disclose the accounting information.

Table 10: Reason for Non-disclosing of accounting information

Reason	Frequency (N)	Percentage (%)
Want Privacy	10	55.6
Lack of Knowledge and education	8	44.4
Total	18	100

Source: Field Survey

The reasons for not disclosing, the accounting information are they want privacy (55.6%) and lack of accounting knowledge (44.4%)

Table 11: Response on whether the enterprise uses accounting softwares

Accounting Software	Frequency (N)	Percentage (%)
Yes	17	23.3
No	56	76.7
Total	73	100
Kinds of Accounting Software		
Excel	5	29.4
Tally	10	58.8
Wings	2	11.8
Total	17	100
Performance Rating		
Fully satisfied	1	5.9
Satisfied	10	58.8
Less Satisfied	5	29.4
Not at all satisfied	1	5.9
Total	17	100
Usage of software application		
Payroll	13	68
Preparing Accounting records	17	100
Order Processing	13	68
Online Payment	7	36
Online Sales	1	5
Taxation	7	36
Total	17	100

Source: Field Survey – Primary Data

From the above table 11, it is observed that, majority of the respondents (76.7%) are not using the accounting softwares for preparing accounting information. Only 26.1% are using accounting softwares to record the transactions. Out of 73 respondents, only 17 enterprises are using accounting softwares. Out of which 58% of the respondents using Tally as accounting software. While 29.4% use excel, 11.8% adopt wings software.

Out of 17 enterprises, 5.9 % are fully satisfied with the usage of accounting softwares to record their business transactions. With regard to the usage of software application, all the respondents indicated that they use the softwares for preparing accounting records.

Table 12: Types of Accounting Books

Accounting Books	Frequency (N)	Percentage (%)
Cash Book	68	100
Debtors Book	60	188
Creditors Book	56	82
Stock Register	22	32
Sales Book	19	27
Purchase Book	15	22
Payroll Records	10	14
Fixed Asset Register	1	1
Informal Records	5	100

Source: Field Survey-Primary Data

All of the MSEs in the manufacturing enterprises kept cash books followed by debtors' book and creditor's book.

CONCLUSION AND RECOMMENDATIONS

The findings of the field survey indicated that majority (75%) of MSEs fail to keep complete accounting records. The study results confirm that there is a wide gap between theory and practice of financial management. Hence this study recommends that,

The officials of District Industries Centre (DIC) should come up with specific guidelines and provide forms for recording accounting information by MSEs.

Training programmes must be organized to the owners creating awareness and importance of keeping proper books of accounts.

Record keeping in MSEs must be made mandatory to improve their accounting practices. This will not only ensure the proper declaration of income but also will increase tax revenue to the government. Further, it will also make available proper data for national income accounting which usually influences major government policies.

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