

**A STUDY OF ACCOUNTING PRACTICES OF MICRO  
ENTERPRISES IN MIZORAM**

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**SCHOOL OF ECONOMICS, MANAGEMENT AND  
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**A STUDY OF ACCOUNTING PRACTICES OF MICRO ENTERPRISES IN  
MIZORAM**

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Submitted  
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*Re- Accredited 'A' Grade by NAAC in 2019*

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**CERTIFICATE FROM THE SUPERVISOR**

This is to certify that the thesis entitled “ A study of Accounting Practices of Micro Enterprises in Mizoram” submitted by Ms. C. Lalrinsangi (MZU/Ph.D./1620 of 09.11.2020) for the degree of Doctor of Philosophy (Ph.D) of the Mizoram University, embodies the record of original investigation carried out by her under my supervision. She has been duly registered and the thesis presented is worthy of being considered for the award of the Ph.D degree. This work has not been submitted in the past for any degree in this or any other University or Institute of learning.

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## **DECLARATION**

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February, 2025

I, C. Lalrinsangi, hereby declare that the subject matter of this thesis is the record of work done by me, that the contents of this thesis did not form basis of the award of any previous degree to me or to do the best of my knowledge to anybody else, and that the thesis has not been submitted by me for any research degree in any other University/Institute.

This is being submitted to the Mizoram University for the degree of Doctor of Philosophy in Commerce.

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(C. LALRINSANGI)

## **PREFACE**

Micro enterprises, as a type of entrepreneurship, have been identified as one of the key drivers of job creation and economic growth, with their contribution mostly determined by their success. Micro enterprises have limited influence when assessed individually since their yearly turnover is not comparable to that of major and multinational corporations; nevertheless, when viewed together, their impact may be enormous and should not be overlooked. One of the reasons for this increased attention is that these enterprises have been found to have the potential to generate employment while also contributing to poverty alleviation in most countries, including India, where social environments have deteriorated over time due to rising unemployment and widening income disparities.

The fact that micro enterprises have played and continue to play a significant role in economies across the globe cannot be overemphasized. Micro sector with 630.52 lakh estimated enterprises provides employment to 1076.19 lakh persons, which accounts for around 97% of total employment in the MSME sector. Despite their limited resources and capacity to implement elaborate accounting systems, the importance of adopting sound accounting practices in micro enterprises cannot be overstated. By embracing and enhancing proper accounting procedures, these small businesses can effectively manage their financial resources, monitor sales activities, optimize production processes, and streamline human resource management. Improving accounting skills and knowledge within micro enterprises can lead to better financial management, informed decision-making, and overall enhancement of business performance, ultimately contributing to their sustainability and growth in the competitive business landscape.

The study is divided into six chapters, the contents of which are discussed as follows:

## Chapter 1: Introduction

This chapter gives an overview of the concept of accounting practices, the challenges and implementation by entrepreneurs. It takes into account the concept of micro enterprises and their application of accounting practices with the significance of accounting practice for micro enterprises for their sustainability and economic growth. also presents the review of the relevant literature by following thematic approach and the themes are: definition of accounting practices and micro enterprises, application of accounting practices in general and micro enterprises, importance of accounting practices and challenges on application of accounting practices. The relevant studies which were conducted in India and abroad are reviewed in this chapter to identify their main findings, the research gap, research problems, and formulate the appropriate methods for the survey. The research design of the study is included which describes the statement of the problem, objectives of the study, methodology and limitations of the study.

## Chapter 2: Micro, Small and Medium Enterprises in India with reference to Mizoram

Chapter 2 provides a comprehensive overview of the Micro, Small and Medium Enterprises (MSMEs) sector in Mizoram, shedding light on the state's economic landscape, historical background, and challenges faced in entrepreneurship development. The chapter also highlights the performance of MSMEs in India in general, the role and importance of MSMEs in India for achieving inclusive and sustainable economic development. . The chapter also shows problems and challenges faced by the entrepreneurs and the institutional support for the MSMEs in Mizoram.

## Chapter 3: Socio-Economic Profile of Micro Entrepreneurs and Profile of Micro Enterprises in Mizoram

Chapter 3 proposes to identify the socio-economic profile of micro entrepreneurs and business profile of micro enterprises in Mizoram. The demographic profile includes age, gender, marital status, educational qualification and average monthly income. The business profile of the women entrepreneurs includes forms of



business organization, annual sale turnover, about the workers hired by the business, year of operation, DIC/MSME registration or permit acquirement, place of business establishment and GST registration.

#### Chapter 4: Awareness, Knowledge and Attitudes of Micro Entrepreneurs regarding the Maintenance of Books of Accounts

This chapter aimed to highlight the awareness of accounting practices and the extent to which record keeping and basic accounting procedures have been implemented by the micro enterprises in Mizoram. This chapter further aimed at analysing the method used for recording financial transactions, their method of recording, basis of recording, financial reporting basis, person responsible for recording financial transactions and preparation of financial reports, accounting basis, payment method used and the perception of micro entrepreneurs regarding the need of maintaining accounts and their attitudes with regards to accounting.

#### Chapter 5: Types of Accounting Records Maintained and the Challenges Faced

This chapter aimed at highlighting the books of accounts and financial statements prepared by the micro enterprises in Mizoram along with the accounting tools to monitor and track financial position, reasons for incomplete and improper accounting records, challenges to keep proper and complete accounting records, impact of incomplete and improper accounting records, performance of accounting records, functions and necessity to keep accounting records and performance of micro enterprises post covid pandemic. Furthermore, this chapter aimed to highlight the results of the research hypotheses and their analysis.

#### Chapter 6 – Summary of Findings, Suggestions and Conclusion

This chapter provides the overall summary of the present study and aims to provide suggestions based on the major findings of the study. This chapter also deals with the scope for further research for prospective researchers in the field of accounting practices.

Lastly, the thesis concludes with Appendix, References and Bibliography along with the bio-data and particulars of the candidate.

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## LIST OF ABBREVIATIONS

ASPIRE	A Scheme for Promotion of Innovation, Rural Industry & Entrepreneurship
ASSOCHAM	Associated Chambers of Commerce and Industry of India
CCSI	Central Capital Investment Subsidy
CDC	Common Display Centres
CFCs	Common Facility Centres
CGTMSE	Credit Guarantee Trust Fund For MSEs
CLCSS	Credit Linked Capital Subsidy Scheme
COVID	Coronavirus Disease
CPSEs	Central Public Sector Enterprises
CPSUs	Central Public Sector Undertakings
CSO	Central Statistics Office
CSR	Corporates and Corporate Responsibility
CTS	Central Transport Subsidy
DGS&D	Directorate General of Supplies & Disposals
DIC	District Industries Centre
DICCI	Dalit Indian Chamber of Commerce & Industry
EC	European Commission
GOI	Government of India
GSD	Gross Domestic Product
GSDP	Gross Domestic State Product
GVA	Gross Value Added
GVO	Gross Value Output
ICT	Information and Computer Technology
IIE	Indian Institute of Entrepreneurship
IOPs	International Operating Procedures
IPRs	Intellectual Property Rights
IT	Information Technology
KVI	Khadi and Village Industries

KVIC	Khadi and Village Industries Commission
LBi	Livelihood Business Incubators
MCI	Mizoram Chamber of Industries
MDA	Market Development Assistance
MGIRI	Mahatma Gandhi Institute for Rural Industrialisation
MKVIB	Mizoram Khadi and Village Industries Board
MMDA	Modified Marketing Development Agency
MoFPI	Ministry of Food Processing Industries
MPDA	Market Promotion & Development Scheme
MSE-CDP	Scheme for Micro & Small Enterprises Cluster Development Programme
MSEs	Micro and Small Enterprises
MSME-DI	Micro, Small and Medium Enterprises Development Institute
MSMED	Micro, Small and Medium Development
MSMEs	Micro, Small and Medium Enterprises
MTDC	Modified Total Direct Costs
MYOB	Mind Your Own Business
NABARD	National Bank for Agricultural and Rural Development
NBFCs	Non-Banking Financial Company
NER	North Eastern Region
NGOs	Non-Government Organizations
NI-MSME	National Institute for Micro, Small and Medium Enterprises
NIC	National Industrial Classification
NIESBUD	National Institute for Entrepreneurship and Small Business Development
NKC	National Knowledge Commission
NKC	National Knowledge Committee
NSIC	National Small Industries Corporation Limited
NSS	National Sample Survey
PLIs	Primary Lending Institutions
PMEGP	Prime Minister's Employment Generation Programme

PPP	Public-Private Partnership
PRIs	Panchayati Raj institutions
QCI	Quality Council of India
R&D	Research & Development
RMBs	Raw Material Banks
SBU	Small Business Unit
SC	Scheduled Caste
SCLCSS	Special Credit Linked Capital Subsidy Scheme
SFURTI	Scheme of Fund for Regeneration of Traditional Industries
SIDBI	Small Industries Development Bank of India
SMAS	Special Marketing Assistance Scheme
SMEs	Small and Medium Enterprises
SPCRS	Subsidy for Performance and Credit Rating Scheme
SPRS	Single Point Registration Scheme
SPSS	Statistical Package for Social Sciences
SPVs	Special Purpose Vehicles
SSI	Small Scale Industries
ST	Scheduled Tribe
TBI	Technology Business Incubators
UAM	Udyog Aadhaar Memorandum
ZED	Zero Defect and Zero Effect

**CHAPTER 1**  
**INTRODUCTION**

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## **CHAPTER 1**

### **INTRODUCTION**

This chapter is a curtain-raiser that provides an overview of accounting practices and micro-enterprises. It emphasizes the role played by accounting practices in the development of micro-enterprises and the need for increased awareness, knowledge, and technological adoption to enhance accounting practices within micro-enterprises. The review of literature, statement of the problem, objectives of the study, hypotheses of the study, research methodology, limitations of the study, and conclusions drawn from the chapter are also clarified in this chapter.

#### **1.1 Accounting Practices: Evolution, Concept & Meaning**

According to Carruthers & Espeland (1991), people have kept records for as long as they have engaged in buying and selling. Accounts in some form or another go back at least as far as 2300B.C in Egypt and 10000 B.C in pre-Mesopotamia. In both cases these early accounts served mainly to assist the memory of the businessman. Names, dates and the nature of transaction, the transacting parties and other details would be noted. Persons with long term obligations, complex transactions, or simply poor memory would use accounts as little more than mnemonic devices. Accounting records helped the proprietor of business determine what they owed and how much work had been done in monetary terms. Over time, accounting became increasingly important because it evolved into a primary source of information for the growing business empires of early merchants. Consequently, accounts had to be more systematic and complete to do more than just fill the gaps in someone's memory and a standardized format was developed to account for transactions for businesses operating across various locations. Carruthers & Espeland (1991) further state that for a trader, knowing how to keep good and orderly records teaches them to draw contracts, how to do business and how to obtain a profit. For this reason, a merchant must not rely upon memory, for such reliance has caused many persons to err.

The study by Penno (1990) stated that the absence of accounting numbers in small and micro trading business does not imply the absence of an accounting system. He further states that accounting numbers do not always capture all aspects of an enterprise. For a long time, accountants ignored many economic activities which in their view could not be measured in financial terms. This occurred despite these activities being an important factor in the measurement of capital employed.

Accounting, as the art and practice of maintaining records of transactions has withstood complete transformations over the years. It has now come to be recognized as an information support system designed to assist management in carrying out their functions. All organizations, big or small, public or private have accountability to their constituents and accounting, when properly used, is a powerful tool for creating information to improve the decisions that affect those constituents. (Mensah, 2004)

Accounting is often described as the art of recording, classifying, and summarizing money transactions and events which are, at least in part, of financial character in a significant manner and interpreting the results thereof. An accounting practice is planned for the enforcement of a firm's accounting guidelines and policies. Accounting can be defined as the process of recording, classifying, summarizing, analyzing and interpreting the financial transactions and communicating the results to the interested parties (Maheshwari & Maheshwari, 2003). There are two branches of accounting such as financial accounting and management accounting. Financial accounting is mainly confined to the preparation of financial statements for the use of interested parties whereas management accounting is the accounting which provides necessary information to management for carrying out its function. Micro enterprises follow different accounting system. They have a unique unrecorded accounting system (Mwangi 2011) and they may follow the accounting practices directly or indirectly (Uddin et al 2017).

Often it is said that accounting is paramount in any business. Basic accounting is needed to "keep the score" so that the entrepreneur knows what is happening in the business, how much has been sold, what the costs are, what activities are profitable, whether selling prices leave a suitable margin against cost and so on. Accounting

practices are said to be the routine manner in which day-to-day financial activities of a business enterprise are gathered and recorded. Accounting practice also refers to the normal, practical application of accounting policies that occur within a business enterprise. Accounting practice can also be seen as the system of procedures and controls that an accounting department uses to create and record business transactions. An accounting practice should ideally be extremely consistent, since there are a large number of business transactions that must be dealt with. The accounting practices of the micro enterprises are limited to the preparation of cash book, debtor's book, creditor's book respectively. in exactly the same manner in order to produce consistently reliable financial statements.

Keeping proper accounting record is important for businesses to keep track of the health of business for sound decision making, to manage cash flows and to know the financial position of the business. The keeping of proper records and writing of financial statements have enormous benefits for every enterprise, whether small or big. They serve as an important management tool for every business because they provide an accurate reflection of financial performance of the business. They also serve as a means to monitor performance and measure the accuracy of income and expenditure. Several studies have also identified that the lack of keeping proper accounts is one of the most important constraint to growth in the small business sector. Recording financial transaction is critical to ensuring the survival and growth of a business unit.

The keeping of accounting records involves the documentation of all the transactions of the business entity including its assets and capital (equity and liabilities), and in order to solve business limitations such as, lack of finance, weak institutional capacity, lack of managerial skills and training of small-scale enterprises, there is need for business management expertise to manage properly the finances, purchases, sales, production, and human resources aspect of the business. According to Jones *et al* (2012), accounting is important because it allows businesses or organizations to understand their financial position at any given time which enhances the development of strategies to reposition the business for further expansion and



growth. In order to properly develop micro enterprises, there is need for them to adopt and develop proper accounting practices.

Accounting practice are said to be the routine manner in which the day-to-day financial activities of a business entity are gathered and recorded. A SME's accounting practice refers to the method by which its accounting policies are implemented and adhered to on routine basis, typically by an accountant and/or auditor or a team of accounting professionals. Accounting practices are intended to enforce a SME's accounting guidelines and policies. It exists as the daily recording of financial data that is important to the evaluation and monitoring of the SME's economic activities. Accounting practice refers to the normal, practical application of accounting and/or auditing policies that occurs within a business entity.

The development of high level of accounting practice calls for the routine examination of any departures from the predetermined mandated process flow, so that errors can be spotted and the underlying causes corrected. Accounting practice also calls for the continual installation and updating of best practices, so that both the efficiency and effectiveness of the accounting processes are improved over time. Doing so calls for additional skills in identifying best practices and in the installation and monitoring of any changes made thereof. (Pavtar & Agir, 2017)

An accounting system records, retains and reproduces financial information relating to financial transaction flows and financial position. Financial transaction flows encompass primarily inflows on account of incomes and outflows on account of expenses. Elements of financial position, including property, money received, or money spent, are assigned to one of the primary groups, that is, assets, liabilities, and equity. Within these primary groups each distinctive asset, liability, income and expense is represented by respective "account". An account is simply a record of financial inflows and outflows in relation to the respective asset, liability, income or expense. Income and expense accounts are considered temporary accounts, since they represent only the inflows and outflows absorbed in the financial-position elements on completion of the time period (Williams, Haka, Bettner & Carcello, 2008). Accounting

is a technique that helps to organize and make sense of the business world. It would be extremely difficult, if not impossible, to conduct business without due order or recording. And this explains why some small and micro enterprises in Kenya fail; most often it is because they cannot tell the money/financial status of their business. (Bowen *et al*, 2009).

Lack of keeping complete accounting records leads to inefficient use of accounting information to support financial performance measurement by the small and micro enterprises. Also lack of keeping proper accounting records made it difficult for the entrepreneurs to calculate their business profit efficiently (Madurapperuma, Thilakerathne & Manawadu, 2016). Kinney (2001) also states that accounting is one of the important types of information for decision making both within and outside the organization. Therefore, it is very important for any business to have proper, complete and systematic accounting records because without it the financial performance cannot be monitored and the financial position cannot be determined.

A business enterprise must necessarily keep a systematic record of what happens from day-to-day so that it can understand its financial performance and position. A systematic record of the daily events of a business leading to presentation of a complete financial picture is known as accounting. The financial picture mostly has two parts, one showing how much profit has been earned or loss suffered, and the other showing assets and liabilities and the proprietors' interest in the firm.

Early accounting practices differed from modern accounting practices in several key ways. Initially, accounting served as a basic tool for aiding memory and tracking fundamental transaction details, acting as mnemonic devices for business operations. In contrast, modern accounting practices have evolved to encompass systematic and comprehensive processes for recording, classifying, analysing, and interpreting financial transactions, serving a broader purpose of providing essential financial information for decision-making, compliance, and performance evaluation. The scope and complexity of early accounting practices were simpler, focusing on basic record-keeping to track debts, credits, and monetary work done, while modern accounting practices are more intricate and comprehensive, covering a wide range of

financial activities, reporting requirements, and regulatory standards. Early accounting practices lacked standardized formats and guidelines, resulting in variations in recording methods across businesses and regions, whereas modern accounting practices adhere to established accounting principles and standards to ensure consistency, comparability, and transparency in financial reporting, subject to regulatory oversight and auditing requirements. In terms of information and decision-making, early accounting practices were primarily focused on basic financial record-keeping and memory aids for business owners, while modern accounting practices provide detailed financial information, analysis, and reports to support strategic decision-making, performance evaluation, and stakeholder communication. Moreover, early accounting practices relied on manual methods of record-keeping, such as handwritten ledgers, whereas modern accounting practices leverage advanced technologies like accounting software, cloud computing, automation, and data analytics to streamline processes, enhance accuracy, and improve efficiency in managing financial data.

## **1.2 Micro Enterprises**

Microenterprise as a form of entrepreneurship had been characterized as one of the major forces for job creation, further contributed to the economic growth, and their contribution was mainly depended on their performance. Kushnir (2019) explained that microenterprises are the lowest form of enterprises in terms of size that could be measured by either investment or employment or total assets of the firm. It was further explained that microenterprise also have the flexibility of easy start and exit. Bruhn & McKenzie (2014) posited that the majority of the microenterprises in most countries remain as an informal entity. Microenterprises are usually small in size, however, they are responsive and capable of taking benefit of positions which larger enterprises are unable to embark on successfully. Omar, Arokiasamy & Ismail (2009) state that in Malaysia, the definition for small medium enterprise (SMEs) are solely based on a fixed quantitative measure based on the total number of workers and the business sales turnover. The existence of microenterprises in every country is considered very important because of their ability to contribute to the enhancement of

the social economy, to increase income-generating jobs, to explore new entrepreneurial talent, to develop marginalized areas, to improve the standard of living of the community, to create conditions for sustainable living and eliminating extreme poverty (Mitchell, Reid & Smith, 2000).

In India, MSMEs classification is governed by Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 and are classified as below:

- (i) a micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees
- (ii) a small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and
- (iii) a medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

The new classification has come into effect from 1st July, 2020. The earlier criteria of classification of MSMEs under MSMED Act, 2006 were based on investment in plant and machinery / equipment. It was different for manufacturing and service units. It was also very low in terms of financial limits. Since then, the economy has undergone significant changes. A revision in MSME criteria of classification was announced under Aatma Nirbhar Bharat package on 13th May, 2020. This has been done in order to be realistic with time and to establish an objective system of classification and to provide ease of doing business.

Micro enterprises have little impact when considered individually because the annual turnover of an enterprise is not incomparable as to that of large and multi-national companies, but when considered collectively their impact may be significant and should not be ignored. One of the reasons for this considerable attention is that these enterprises have been found to have potential to generate employment and also to contribute to poverty alleviation in most countries even in India where social

environments have worsened overtime due to increasing levels of unemployment as well as increasingly widening gaps of income inequality. According to Ozar *et al.* (2008), there has been an increase in interest and attention to the role of small businesses in the economy since the 1980s.

The fact that micro enterprises have played and continue to play a significant role in economies across the globe cannot be overemphasized. MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.82 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country (India). Micro sector with 630.52 lakh estimated enterprises provides employment to 1076.19 lakh persons, which accounts for around 97% of total employment in the sector. Biggeri *et al.* (1999) add that small and micro enterprises have been attributed with creating local possibilities and converting local funds into local investments.

### **1.3 Micro Enterprises and Accounting Practices**

Accounting practices have undergone significant transformations over the years, moving from rudimentary methods focused on basic record-keeping for memory assistance and transaction tracking to more intricate and comprehensive procedures. These modern accounting practices now encompass a range of activities including recording, classifying, analysing, and interpreting financial transactions. They serve a broader purpose beyond mere documentation, providing crucial financial information essential for decision-making, regulatory compliance, and evaluating business performance. The evolution of accounting practices reflects the increasing complexity and demands of modern business environments.

Micro enterprises, which constitute a substantial portion of businesses across various sectors, play a vital role in driving economic activities such as employment generation, contributing to national outputs, and serving as significant revenue sources. Despite their limited resources and capacity to implement elaborate accounting systems, the importance of adopting sound accounting practices in micro enterprises cannot be overstated. By embracing and enhancing proper accounting

procedures, these small businesses can effectively manage their financial resources, monitor sales activities, optimize production processes, and streamline human resource management. Improving accounting skills and knowledge within micro enterprises can lead to better financial management, informed decision-making, and overall enhancement of business performance, ultimately contributing to their sustainability and growth in the competitive business landscape

The uniqueness of micro business calls for careful consideration in the design of accounting systems. Micro enterprises are a vast majority of businesses found in variety of primary and intermediate production of the economy. These establishments have tremendous impact on the state and well-being of the nation in employment generation, as sources of national outputs and revenues, providing feedstock for large corporations. They may lack the sophistication to apply the detailed accounting processes, yet the value of accounting systems to these businesses is quite profound.

The accounting transactions of an enterprise need to be recorded in the accounting books. The process of recording and maintaining these books is known as book-keeping. 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. UNCTAD (2000), observed the need for promoting transparency with adequate records-keeping early on in the business development phase of SMEs as paramount. Some form of recording will be essential to all business for the day-to-day management of their operations and the fulfilment of unavoidable governmental obligations (e.g. taxation).

It is well known that inadequate record keeping is frequently associated with failures in small businesses even if it is not actually the direct cause of failure. For record keeping purposes the enterprise can use different methods. A report submitted by the European Commission Enterprise and Industry Directorate-General on the accounting systems for small enterprises (2008), suggested the following as the main books to be kept by an SME owner: Purchase Day book, Sales day book, Cash book, Petty cash book, Expenditure book, Payroll records, Assets register etc.

The place of sound accounting and internal control systems in any business, irrespective of its scale, cannot be overemphasized. A vast majority of small-scale businesses cannot afford the complexity of a detailed accounting system even if they would have. Hence, single entries in their books and in some cases on incomplete records exist. As observed by Wood (1979), many small businesses can have all the information they want by merely keeping a cashbook and having some form of records, not necessarily in double entry system.

It is often stated that business decisions need to be supported by good and quality financial information which needs to be relevant, user friendly and available in a timely manner. Where appropriate accounting should be an active steering tool to run and manage a business instead of representing another administrative burden that the sole proprietor has to comply with. It is important that the accounting systems for small businesses should fulfil such functions as providing essential financial information for the owners and managers in order for them to be able to manage the business in a competitive environment and to make informed decisions to prevent business failure and to expand the business. However, owners of small businesses may have particular needs and conditions, so that accounting systems need to be flexible in order not to impose unnecessary operative burdens. (Abdulrasheed, Khadijat & Oyebola, 2012).

Many new business owners are daunted by the mere idea of bookkeeping and accounting. But in reality, both are pretty simple. Keep in mind that bookkeeping and accounting share two basic goals: to keep track of income and expenses, which improves chances of making a profit, and to collect the financial information necessary for filing various tax returns. There is no requirement that records be kept in any particular way. As long as records accurately reflect the business's income and expenses, there is a requirement, however, that some businesses use a certain method of crediting their accounts: the cash method or accrual method.

Depending on the size of the business and number of sales, one can create own ledgers and reports, or rely on accounting (Williams, Haka, Bettner & Carcello, 2008). An accounting system records, retains and reproduces financial information relating

to financial transaction flows and financial position. Financial transaction flows encompass primarily inflows on account of incomes and outflows on account of expenses. Elements of financial position, including property, money received, or money spent, are assigned to one of the primary groups, that is, assets, liabilities, and equity. Within these primary groups each distinctive asset, liability, income and expense is represented by respective “account”. An account is simply a record of financial inflows and outflows in relation to the respective asset, liability, income or expense. Income and expense accounts are considered temporary accounts, since they represent only the inflows and outflows absorbed in the financial-position elements on completion of the time period.

Meanwhile, a number of Micro Enterprises have not given much attention to maintenance of accounting records in relation to their business transaction, despite its importance in the success of businesses. The reason behind this could be lack of sound knowledge in book keeping practices on the part of the owners or respective managers. Also, there was difficulty in ascertaining whether there is a comprehensive accounting record that satisfied the laws under which it was incorporation (Onaolapo & Adegbite, 2014).

A comprehensive record keeping system makes it possible for entrepreneurs to develop accurate and timely financial reports that show the progress and current condition of the business. With the financial report generated from a good recordkeeping system, performance during one period of time (month, quarter or year) with another period can be compared. An accurate record of the business' financial performance is vehicle to monitor performance in specific areas. Accounting records provide a basis for complete and accurate income tax computation, a basis for sound planning for the future and basis for discussion with partners, potential investors, and lenders all these are important aspects which enhance performance of the business. Business also depends on correct accounting records to make good decisions about the firm. Decision such as expansion, drop or maintain decisions of product lines make or buy decisions, about size of debtors. Therefore, if proper records are kept, they will



facilitate efficient, proper timely decision making and enhance performance in small scale industry.

To enable seekers of finance and providers of finance makes an informed economic decision; there is the need to have reliable accounting information which has been generated through sufficient accounting system. That requires proper books of account are kept. An insufficient accounting system is a primary factor in small business failures. Quality of SME records keeping attract investors to invest and for financial institution to provide finance, (Tagoe *et al*, 2001). Most providers of finance assure themselves with financial accounting information generated from an adequate accounting system in order to reduce risk.

Research conducted in this area shows, by (Michael *et al*, 2009), (Zahra A. 2011), indicate that SMEs have faced challenges like; lack of access to credit, cheap imports, insecurity and debt collection, lack of good management, no support from banks and financial institutions, inadequate economic sphere, and insufficient governmental policies. In turn (Ismail & King 2007), and Mahon (1999) concluded that accounting information must be accurate and reliable, homogeneous and verifiable, useful, and timely at the same time. Also, at economic entities in general, and those in the trade, in particular, accounting information must be presented in accordance with their legal and economic basis, applying the accounting rules to be performed with sincerity, and the information to be provided on a regular basis, so that they can be used in the sound decision-making process, by persons who possess this quality. The studies of Dyt & Halabi (2007) concluded that the main problem of business owner and managers of micro enterprises is mostly in their inability to keep sufficient records to aid them in their decision-making. Results of their studies show that majority of micro businesses rely more heavily on manual methods /they hold their business traditionally/, while small businesses are more likely to use computerized systems. Other researcher like Amoako (2013) stated that SMEs do not maintain proper books of accounts because owners do not appreciate the need to keep accounting records, lack accounting knowledge and find the cost of hiring professionals too expensive. As per Pasha (2017), SMEs in Ethiopia often face

problems with regard to recording their daily transactions. This is due to the fact that most of the SMEs operators do not know how to maintain such records in a simple and easy manner.

Accounting forms an integral part of the management process in an organization, where it provides essential information to the business in its planning, evaluating, controlling and decision-making process (Mahfar & Omar, 2004). Accounting information is provided by accounting systems. Accounting system comprises all the procedures necessary to record transactions, assets and liabilities in the books of accounts which will form a reliable basis for the preparation of the financial statements (Sathyamorthi, 2001). Without an accounting system, it would be very difficult for SMEs to determine performance, identify customer and supplier account balances and forecast future performance of the organization (Stefanou, 2006). Padachi, (2012) also observed that proper system of accounting indicates how well the business is performing and what decisions are necessary to be made in order to keep the business in the market and emphasized the need for businesses to maintain proper books of accounts.

Businesses are required to keep proper books of account and prepare financial statements which give a true and fair view of the business's financial affairs. Proper accounting records must show and explain the enterprise's transactions, disclose with reasonable accuracy the enterprise's financial position at any time, and enable the directors to ensure that any accounts prepared there from comply with the appropriate financial reporting framework. They must also include entries from day to day of all money received and paid out together with a record of all assets, liabilities and owners' equity. This can be done either mechanically or electronically by using a computer.

The success or failure of any business depends on keeping accurate and timely accounting information to give a clear financial business image (Ankrah, Mensah & Ofori-Atta, 2015). However, prior research reported that most SMEs did not keep complete records of accounts assigning several reasons. For example, a study by Maseko & Manyani (2011) established that most SMEs did not keep complete records of accounts due to lack of knowledge in accounting and the cost of engaging

professional accountants. Consequently, the use of accounting information to support measurement of financial performance by SMEs was ineffective.

The development of a sound accounting system in SME's depends on the owner-manager's level of accounting knowledge (Ismail & King 2005). However, Abor & Quartey, (2010) bemoaned that even though majority of SME owner-managers did not have adequate accounting knowledge; they failed to seek professional advice on technical challenges and rather tend to take crucial financial decisions themselves. Proper accounting practices can actually help a business to succeed. Some studies show that hiring qualified accounting personnel, exercising financial discipline and taking charge of working capital management can greatly ensure that SMEs outlive their owner-managers and grow to be multinationals.

A good accounting system is not only judged by how well records are kept but by how well is able to meet the information needs of both internal and external decision-makers. Maseko and Manyani (2011) suggested that for a small or micro business, accounting practices will involve the maintenance of adequate Cash Book (if possible, with analysis), Bank Accounts (with policies on deposits and withdrawals), Petty Cash system, irregular or regular preparation of Bank Reconciliation statement, Credit Policies with creditors for Purchases and with customers on Sales, Stock-keeping policy, Fixed Asset register and Budgeting for the entire business. Maseko and Manyani (2011) contended that micro and small business record keeping is the backbone of one's business. Whilst, Muteti *et al.* (2018) observed in their study that most enterprises kept several importance accounting records in their business including purchases records, sales records and expenses records. Furthermore, remembering the nature of financial transaction, keeping track of enterprises profits, for profit analysis purposes, to enable observing of the performance or improvement of their company and as a reference point in the growth of the enterprise were reasons cited for keeping records by the enterprises. The study also found that four important factors in the micro and small enterprises accounting systems were maintaining records for costing of goods and services, recording expenses and payments, recording sales and recording purchases. They found that entrepreneurs

were noted to keep records in order to remember, observe progress and track profit. Whereas, Germain (2019) posited that micro and small enterprises perceive record keeping as a method of recovering initial investment in the form of cash at the end of the accounting period. However, if micro and small enterprises accounting records are not maintained properly, long term sustainability of the business could be affected.

Seman *et al.* (2019) observed that microenterprises primarily focus on recording cash and sales books to track expenses and sales. They complete the accounting cycle by keeping daily transactions and financial statements, mainly on income, cash flow, and balance sheets. Owners often prepare these records themselves, rather than outsourcing. They suggested that microenterprises should incorporate comprehensive bookkeeping practices, including cash book, sales book, ledger, and journal, to accurately reflect their financial performance and facilitate decision-making, ultimately leading to business success.

While accounting methods have grown more comprehensive and strategic, their importance in promoting the growth and sustainability of micro enterprises should not be ignored. Adoption and development of good accounting procedures in micro firms is critical for successful financial management, sales monitoring, production optimization, and human resource management. By enhancing their accounting skills and knowledge, micro enterprises can improve their decision-making processes, enhance operational efficiency, and ultimately boost their overall business performance. Therefore, cultivating a culture of sound accounting practices within micro enterprises is not only advantageous for their internal operations but also instrumental in ensuring their long-term success, competitiveness, and resilience in the dynamic commercial landscape. By recognizing the value of accounting systems and investing in building accounting capabilities, micro enterprises can position themselves for sustainable growth, improved financial health, and strategic decision-making, ultimately contributing to their continued success and impact in the economy.

## **1.4 Entrepreneurship**

Entrepreneurship is usually regarded as one of the most significant factors influencing a country's growth and development. Entrepreneurship development is critical to increasing output and productivity in the primary, secondary, and tertiary sectors of the national economy. People have various meanings of entrepreneurship. Simply put, entrepreneurship is the ability and willingness to initiate, organize, and manage a business activity, with all associated risks, in order to profit. In other words, entrepreneurship is the deliberate activity of a person or group of people who participate in profit-generating economic activities.

The term 'Entrepreneurship' is defined by different authors in different ways. According to Joseph A. Schumpeter (1934), "Entrepreneurship is based on purposeful and systematic innovation. It includes not only the independent businessman but also company directors and managers who actually carry out innovative functions." In the opinion of A.H. Cole (1959), "Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or aggrandize profit by production or distribution of economic goods and services." According to Kuratko and Rao (2016), "Entrepreneurship is a dynamic process of vision, change, and creation that requires an application of energy and passion toward the creation and implementation of new ideas and creative solution. Essential ingredients include the willingness to take calculated risks-in terms of time, equity, or career; the ability to formulate an effective venture team; the creative skill to marshal needed resources; the fundamental skill of building a solid business plan; and, finally, the vision to recognise opportunity where others see chaos, contradiction, and confusion." According to Peter F. Drucker (1985), "Entrepreneurship is neither science nor art. It is a practice. It has a knowledge base. Entrepreneurship is a potential and enterprising individual, endowed with special ability to innovate or imitate and for decision making, interest in advancing technology and willingness to assume risk involved in it. It is meant for creating something new, organizing and coordinating and undertaking risk and handling economic uncertainty."

According to Higgins (2000), “Entrepreneurship is the function of seeking investment and production opportunity, organising an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials, finding site, introducing a new technique and commodities, discovering new sources of raw materials and selecting top managers for day-to-day operation of the enterprise.” The most authentic definition of entrepreneurship with special reference to India is given by the National Knowledge Commission (NKC, 2008). The NKC has defined entrepreneurship as, “the professional application of knowledge, skills and competencies and/or of monetizing a new idea, by an individual or a set of people by launching an enterprise de nova or diversifying from an existing one (distinct from seeking self-employment as in a profession or trade), thus, to pursue growth while generating wealth, employment and social good.”

Khanka (2016) defines entrepreneurship as involving two key elements: innovation and risk-taking. Being classified as an entrepreneur requires innovation, which is defined as accomplishing something new or unusual. Entrepreneurs are constantly seeking for new and inventive methods to meet the changing demands of their clients. Starting a new business is always dangerous, and attempting to do something fresh and distinctive is much riskier. As a result, an entrepreneur must be brave enough to accept the risks that come with running a firm.

## **1.5 Entrepreneurs**

Entrepreneur is derived from the French word 'entreprendre', that means 'to undertake'. This term was initially used by a Frenchman in the early 16th century to describe to those involved in military operations. In the seventeenth century, it was expanded to include people involved in technical operations such as construction and fortification. In the 18th century, the term was used to refer to people involved in the economic elements of human activity. Richard Cantillon (1971), an Irishman residing in France, was the first to use the word 'entrepreneur'. Cantillon states that "an entrepreneur is an agent who buys factors of production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future."

The word entrepreneur was popularized by economists Jean Baptiste Say and John Stuart Mill (Mujuni, 2008). J.B. Say (1827), a liberal French economist and businessman who advocated for competition and free trade, described an entrepreneur as "the economic agent who combines all means of production, such as land, labour, and capital, to produce a product." By selling the product in the market, he pays the rent of the land, the salaries of the labour, the interest on the capital, and the remaining profit (Parihar, 2017). In his classic 1848 book, *Principles of Political Economy*, J.S. Mill introduced the term 'entrepreneur' to refer to someone who takes on both the risk and the administration of a firm (Mujuni, 2008).

According to Joseph A. Schumpeter, "Entrepreneur is a person who foresees the opportunity and tries to exploit it by introducing a new product, new method of production, a new market, a new source of raw materials or a new combination of factors of production." According to David McClelland, "An entrepreneur is someone who exercises some control over the means of production and produces more than what he can consume in order to sell (or exchange) it for individual (or household) income." According to E.E. Haggen, "An entrepreneur is an economic man who tries to maximise his profits by innovation. Innovations involve problem- solving and the entrepreneur gets satisfaction from using his capabilities in attacking problems." Peter F Drucker defined an entrepreneur as, "One who always searches for change, responds to it and exploits it as an opportunity. Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a for a different business or service."

Bolton and Thompson (2000) have defined an entrepreneur as "a person who habitually creates and innovates to build something of recognized value around perceived opportunities." Robert D. Hisrich defined that an entrepreneur is characterized as "someone who demonstrates initiative and creative thinking, is able to organize social and economic mechanisms to turn resources and situations to practical account, and accepts risk and failure." According to Max Weber, "Entrepreneurs are a product of particular social condition in which they are brought up and it is the society which shapes individuals as entrepreneurs."

The definition of an entrepreneur is someone who has the abilities and determination to develop, run, and profit from a start-up firm, even if it involves taking on risk. Entrepreneurs are sometimes referred to be new idea generators or innovators, and they bring new ideas to market by replacing old ones.

## **1.6 Entrepreneurship and Economic Development**

Schumpeter (1934) saw the entrepreneur as the most important performer in economic growth because of his role in promoting innovation. Entrepreneurship refers to explorers and inventors across a variety of areas. It has been influenced by economics, psychology, marketing, sociology, history, strategic management, and human sciences, and is seen as an essential topic in the economy of both developed and developing nations (Chahine, 2020). According to Parson and Smelser (1956), entrepreneurship is one of two required criteria for economic progress, along with increased capital output. Entrepreneurship is believed to improve the economy's production, capacity, and size by fostering creativity and competition (Acs *et al.*, 2008; Zanjirchi *et al.*, 2019). Harbison (1965) considers entrepreneurs to be the primary drivers of innovation, whereas Sayigh (1962) merely describes entrepreneurship as a necessary dynamic force. It is also believed that progress does not emerge spontaneously as a natural result of "excellent" economic conditions: a catalyst or agent is always required, which necessitates entrepreneurial aptitude.

Khanka (1994) emphasized that India, as an underdeveloped country, aims for a decentralized industrial structure to mitigate regional imbalances in levels of economic development; small-scale entrepreneurship in such an industrial structure plays an important role in achieving balanced regional development. The following highlights the significant role that entrepreneurship plays in the economic growth of an economy (Khanka 2016):

- Entrepreneurship promotes capital formation by mobilising the idle saving of the public.



- It provides immediate large-scale employment. Thus, it helps to reduce the unemployment problem in the country, i.e., the root of all socio-economic problems.
- It promotes balanced regional development.
- It helps reduce the concentration of economic power.
- It stimulates the equitable redistribution of wealth, income and even political power in the interest of the country.
- It encourages effective resource mobilisation of capital and skill which might otherwise remain unutilised and idle.
- It also induces backward and forward linkages which stimulate the process of economic development in the country.
- It also promotes country's export trade i.e., an important ingredient to economic development.

Thus, it is clear that entrepreneurship serves as a catalyst of economic development. Entrepreneurship, the de facto barometer of overall economic, social and industrial growth has brought revolutionary changes in the society (Desai, 2018).

### **1.7 Significance and Scope of the Study**

The significance of the study stems from its exploration of the challenges encountered by micro enterprises in implementing effective accounting practices, emphasizing the importance of sound financial management for their growth and sustainability. The study sheds light on the barriers hindering proper accounting procedures in these small businesses and provides valuable insights that can inform policy interventions, training programs, and support initiatives aimed at enhancing the financial literacy and capabilities of micro entrepreneurs. Ultimately, addressing these challenges can lead micro enterprises to improved business performance, better decision-making, and increased competitiveness, contributing to their overall success and economic impact.

Small business failures are largely caused by insufficient accounting systems, despite the fact that accounting is a critical component in the success or failure of

modern businesses. Accounting systems provide information for owners and managers of businesses in every industry to monitor financial success, and the importance of financial performance measurement cannot be overstated for any size organization. Profit may be considered of as a company's lifeblood, hence the accounting bases, ideas, and principles employed should gather and report all important accounting information to assure its accuracy in measurement. As a result, microenterprise accounting procedures must provide accurate and relevant financial information in order for entrepreneurs to make better economic decisions.

The significance of accounting practices for small businesses, particularly for micro enterprises for sustainable growth and success in their business operation has led the researcher to study the accounting practices of Mizo entrepreneurs running micro enterprises. This research will prove helpful in determining the extent of book-keeping and financial reporting practices followed by the Mizo entrepreneurs, the challenges faced by the entrepreneurs in their accounting practice, the reasons for maintaining accounting records and reports, the consequences of inadequate and inconsistencies while maintaining accounting records and reports and functions of accounting practices on their business. The findings of the present study can be helpful in guiding entrepreneurs to achieve success in their business operations by assisting them in leveraging financial information effectively. Microenterprises can enhance their operational efficiency, strategic decision-making, and overall competitiveness in the market.

The present study aims to examine the accounting practice of micro enterprises in Mizoram. Thus, the study was conducted among Mizo entrepreneurs operating micro enterprises who registered their units at District Industries Centre, Aizawl and Lunglei since 2008-2009 under two registration systems, i.e., Entrepreneurship Memorandum – II (EM-II) and Udyog Aadhaar Memorandum (UAM) set up under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. The researcher chose Aizawl District and Lunglei District because of the thrive of the micro enterprises economy in both the places.

## **1.8 Review of Literature**

A systematic and thematic approach of review of relevant literature in the present study covers studies on accounting practices, application of accounting practices among micro enterprises, importance of accounting practices, challenges of application of accounting practices and so on. Careful review of literature enables meaningful research gap identification.

The Dictionary for Accounting terms (Shim & Siegel, 2010), defines accounting practices as normal practical applications of accounting and/or auditing practices that occurs within a business. A firm's accounting practice refers to the method by which its accounting policies are implemented and adhered to on a routine basis (Businessdictionary.com, 2019) . It is the day to day implementation of the accounting policies of an organization (Kenton 2021), the system of procedures and controls that an accounting department uses to create and record business transactions. Accounting practice should ideally be extremely consistent, since there are a large number of business transactions that must be dealt with in exactly the same manner in order to produce consistently reliable financial statements (Shim & Siegel, 2010). It exists as the daily recording of financial data that is important to the evaluation and monitoring of the firm's economic activities. It has been found that the majority of business enterprises are categorized in the microenterprise group.

Omar, Arokiasamy & Ismail (2009) state that in Malaysia, the definition for small medium enterprise (SMEs) are solely based on a fixed quantitative measure based on the total number of workers and the business sales turnover.

Bruhn and McKenzie (2014) posited that the majority of the microenterprises in most countries remain as an informal entity. Microenterprises are usually small in size, however, they are responsive and capable of taking benefit of positions which larger enterprises are unable to embark on successfully (Malaysia, B.N., 2015).

Kushnir (2019) explained that microenterprises are the lowest form of enterprises in terms of size that could be measured by either investment or employment

or total assets of the firm. It was further explained that microenterprise also have the flexibility of easy start and exit.

The Micro, Small and Medium Enterprises (MSMED) Act, 2016 stipulated that effective from 1<sup>st</sup> July, 2020, in India, microenterprises are characterized as an enterprise whose investment in plant and machinery or equipment is less than ₹ 1 crore and their turnover must be less than ₹ 5 crore subject to all sectors of services and manufacturing (MSMED Act, 2006, Revised Classification on 2020). An establishment must meet the requirement of either one of the two specified criteria, to be considered as an SME.

A survey of the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015- 16, found that there were 633.88 lakh unincorporated non-agriculture MSMEs (Micro, small and medium enterprises) in India engaged in different economic activities. The Micro sector with 630.52 lakh estimated enterprises accounts for more than 99% of total estimated number of MSMEs. 3.31 lakh small sector enterprises and 0.05 lakh medium sector enterprises accounts for 0.52% and 0.01% of total estimated MSMEs respectively. (Annual Report 2022-23, Ministry of MSME).

### ***Accounting Practices: Application, Importance & Challenges***

A substantial amount of literature has evolved dealing with whole or part on the accounting practices by small business entities. Several studies have strongly supported the use of accounting tools and techniques by small business entities (Mayo & Rosenbloom, 1975; Konstans & Martin, 1982; McMahon & Davies, 1994).

Wichman, (1983) finds that accounting pose major challenge to management of SMEs and recommends that managers or owners in SME's must learn about record keeping and accounting. He also states that cash flow is one of the major records in any enterprise.

Keasy, (1990); Bohman, (1984) argue that the high cost of hiring professional accountants leaves the SME's owner or managers with no option but to outsource accounting information management.

Penno (1990) stated that the absence of accounting numbers in the small and micro trading business does not imply the absence of an accounting system. He further states that accounting numbers do not always capture all aspects of an enterprise.

Carruthers & Espeland (1991) states that in the past, accounting has been underestimated by social scientist and understood one-dimensionally as a technique for making rational decisions. They argued that accounting is both more important and interesting than that and deserves closer attention from sociologists. In the contemporary world, it is especially important to understand the symbolic power of technique and how it structures cognitive categories.

According to Osuala (1993), many firms record their transactions at random without adhering to any defined accounting standards, making it impossible to follow cash flows in the enterprises.

The majority of micro business do not fully used their accounting information because lacking business knowledge and accounting skills. This is proved by several studies that due to these main reasons, numerous micro businesses could not prepare and practiced comprehensive records of account [Osuala (1993), MC Mahon (1999), Everaery *et al.* (2006), Mbroh & Attom (2011), Mutambanengwe (2012), Sanga *et al.* (2014), Sibanda and Manda (2016), Musah (2017) & Muteti *et al.* (2018)] and the cost to hire professional and qualified accountants [Mbroh & Attom (2011), Amoako (2013)].

In the word of McMahon & Davies (1994) Small business at West Midland, UK shows that firms which do not do well, is not because of lack of business records and lack of awareness of key business factors, but due to the lack of adequate accounting knowledge and proper financial records. Comprehensive financial reporting and analysis should generally lead to improved financial control and that this

is itself could significantly increase the chances of a small enterprise (business) prospering through growth. They further revealed that the majority of SMEs' financial reporting practices do not adhere to recommended standards. The study also indicated that SMEs' managers and owners are generally reluctant to submit financial reports because they are not readily available to external parties, whether they are regulatory bodies or not.

According to Lybaert (1998), the quality of accounting information utilized within the SME has a positive relationship with an entity's performance and survival. Similarly, it has been emphasized that there is the need for financial information for small and micro business units due to the volatility normally associated with their situation such as unstable cash and profit positions, and reliance on short term borrowing.

Biggeri *et al* (1999) further note that small and micro enterprises have been credited for providing local opportunities and turning local savings into local investments.

Biryabarema (1999) & Amoako (2013) agreed that by having a good book of accounts can allow several businesses specially micro businesses to maintain precise accounting information which also help them in making decision.

Mitchell *et al* (2000) noted that the existence of microenterprises in every country is considered very important because of their ability to contribute to the enhancement of the social economy, to increase income-generating jobs, to explore new entrepreneurial talent, to develop marginalized areas, to improve the standard of living of the community, to create conditions for sustainable living and eliminating extreme poverty. They further argued that accounting information could help SMEs manage short-term problems in such areas as costing, expenditure and cash flow by providing information to support monitoring and control.

Peren & Grant (2000) noted that decision making process in small scale enterprises are more sophisticated than anticipated but they lacked effective accounting information and control system to support their decisions.

Study conducted by Siop & Ahmed (2000) in PNG shows that there is a big gap between the owners/managers awareness and the use of financial management controls/techniques. It seems SME owners/managers are venturing into business without proper financial 'know-how'. Even owners/managers who are aware of financial management controls/techniques are somehow restricted from using them to effectively manage their enterprises.

Ismail (2005) concluded that the development of a sound accounting information in SME's depends on the owners' level of accounting knowledge. Research has shown that majority of the SME's owners do not have the adequate accounting knowledge and therefore a few capable owners use professional firms to account for their business.

Kinney (2001) posits that accounting is one of the important types of information for decision making both within and outside the organization. He further states that the quality of this information gauged by its relevance and its reliability for a particular decision is equally important.

McChlery *et al* (2005) reviewed financial records in small firms and concluded that financial records of SMEs should include; sales day book, purchase day book, cash receipt book, cheque payment book, petty cash book, general journal, nominal ledger, debtors' ledger and creditors' ledger. Accounting and marketing pose major challenges to management of SMEs and recommends that managers or owners in SMEs must learn about accounting or hire experts.

Sian (2006) states that evidence shows keeping good records helps to increase the chances of business survival. In essence, the SME's owners or manager should be personally involved in record keeping. Proper record keeping ensures long term sustainability of the business and anticipates long term prospects.

According to Ismail and King (2007), the development of a sound accounting system in SMEs hinge on owners' level of accounting knowledge and skills.

Mensah *et al.* (2007) states that a significant number of enterprises in their survey kept no records pertaining to operations, finance, audited accounts, tax returns, and so on. Until recently, all the micro and small enterprise could not receive credit from the banks and promotional institutions on grounds that the formal banking sector considered them a high-risk area, and hence charged them high cost for borrowed funds from the banks.

European Commission (2008) reported that researchers agree over the needs of accounting and financial records and recommended that all small enterprises will need to keep some kind of financial records in order to keep financial control over their businesses.

Tanwongswal and Pinvanichkul (2008) found in their study that SMEs have two major reasons in preparing financial statements which is *(a) for the purpose of tax return, and (b) to measure their business's profitability.*

Howard (2009) emphasized that many small businesses failed to keep adequate records. This leads to major problems and quite possibly the closing of the business.

Das & Dey (2010) conducted a study about the uses of financial accounting tools and techniques among the small business owners/managers of North-Eastern region of India. They discovered that only 12 out of 27 financial and management accounting tools and techniques were known to owner/managers. Out of these 12 known instruments excepting cash book, creditors' book and debtors' book, the awareness level on other techniques were very low.

Lalin and Sabir (2010) added that the most powerful pressure that forces SMEs to provide a complete financial statement is pressure coming from regulatory authorities. There is positive link between values of accounting data used inside SME with their business's outcome and continued existence, thus, resulted that most



businesses had to close down due to failure to provide good accounting records and practices.

Rama Ramswamy (2010) conducted a study on the micro handloom weavers in Thenzawl cluster, Mizoram. This study examined the socioeconomic characteristics, motivational factors, growth and performance and the problems faced by handloom entrepreneurs. The study has brought out several interesting dimensions of the motivational factors that have motivated the entrepreneurs to become entrepreneurs. The sociocultural ethos of the Mizo has also played a key role in motivating the entrepreneurs to start their own micro enterprises. The study offers specific suggestions to strengthen the cluster.

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.

Glottz (2011) opined that poor accounting is one of the top ten reasons why small-scale businesses fail in his study ‘Adoption of Accounting Practices and its Effects on SMEs: Financial Perspective of Sachet Water Producers in Northern Region of Ghana.’ He asserted that efficient control of a business entity is dependent on the owner’s knowledge of what takes place in the business.

Laldinliana (2011) made an attempt to touch up different aspects such as importance of participatory approach in rural development, Swarnajayanti Gram Swarozgar Yojana (SGSY), dynamics of entrepreneurship, practical facilitation for entrepreneurial development of self-help groups as micro enterprises and so on.

Mwangi (2011) in his study revealed that small and micro enterprises do have an unrecorded accounting system. He also states that the existence of informal trade in which small and micro enterprises thrive cannot be dismissed as transitory.

Nelson & Onias (2011) investigated accounting record keeping practices for performance measurement employed by SMEs in Zimbabwe. The study revealed that SMEs do not keep complete accounting records because of lack of accounting knowledge and the cost of hiring professional accountants.

In a study of 148 respondents in Nigeria (Enugu), Okoli (2011) links proper record keeping and profitability of small-scale enterprises and assert that due to inadequate record keeping, the small-scale operators could not assess their performances effectively. He argues that in order to enhance the profitability of small-scale enterprises and their continuity, there is need for adequate record keeping which will help the proprietors to keep track of the performance of these enterprises. He further argued that adequate record keeping will help the proprietors to keep track of the performance of their enterprises. Record keeping is a fundamental skill a business owner must have as the accounting information is vital for decision making even though preparing financial reports is not mandatory for small businesses and they have no obligation to keep proper books of accounts.

Maseko & Manyani (2011) argued that several large SMEs' business that possess a specified degree of accounting skill and practical feasibility was seemly maximum utilized of accounting information, but this situation is rare for small businesses. They further stated that record keeping and generation of financial report is at the heart of business activities and decision making and there was a positive relationship between the preparation of accounting records and the financial performance of SMEs. They suggested that numerous major SMEs with a certain level of accounting competence and practical feasibility appear to make the best use of accounting information, but this is unusual for small enterprises. Improved accounting information would allow SMEs to operate their operations more effectively and have easier access to finance. They contended that micro and small business record keeping is the backbone of one's business.

Olawale Fatoki (2012) study focused on six areas of financial management namely financial planning, analysis and control, accounting information, working capital management, investment management and management accounting. The

results indicate that micro-enterprises do not engage in financial planning, analysis and control. In addition, under accounting information, most of microenterprises keep sales book and purchases book. However, the use of other accounting books such as drawings book is limited. Also, none of the micro-enterprises makes provision for depreciation. Pricing decisions of micro-enterprises are mainly to realize the objective of maximizing profit, sales and market share. The results for working capital management are mixed. In addition, micro-enterprises do not engage in any form of evaluation when making investment decisions. However, micro-enterprises do engage in a limited level of accounting information and seem to have a pricing strategy.

Mutambanengwe (2012) noted that SMEs assumes that the practice of maintaining such accounting records is such a waste of time, money and effort as well as doing various ways of eliminating the records of transactions made by the owner in the event of any sudden investigation of any government agency.

Amoako (2013), investigated the record keeping strategies utilized by SMEs in Kumasi (Ghana) through data based on responses to a structured questionnaire from 210 SMEs in Kumasi. The results revealed that SMEs do not maintain proper books of accounts because owners do not appreciate the need to keep accounting records, lack the necessary accounting knowledge and blame the cost of hiring accounting professional. Consequently, the application of accounting information to support assessment of financial performance by SMEs in Ghana is inefficient. He observed that proper accounting is paramount in any business and crucial in tracking all aspects of the business from the information contained in the books. However, he discovered that the majority of SMEs failed to maintain a complete accounting record because they thought it was not necessary to keep accounting records and to disclose their financial position. Having improved accounting information would permit SME owners to manage their firms better and would allow them to access finance more easily. The lack of expertise as accounting functions do not only require knowledge of generally-accepted accounting rules or the tax regulation, but also require that one knows how to apply the rules in a given business environment. Due to this Amaoko (2013) found that most businesses which do not adopt proper accounting practices

would cause difficulty in tracking the daily transaction of business and so difficult to identify the expenses and profits of the business at the end of the operation.

According to Mintah *et al* (2014) for good financial record keeping practices, an entity must keep records on purchases, sales, earnings, receipts and payments. The following books must therefore be kept; Purchases Journal/ Ledger, Sales Journal/Ledger, General Journal/Ledger, Debtors and Creditors Account, Cash/Bank Account.

According to Eric and Gabriel (2012) bookkeeping enable managers to know the financial positions of their businesses and to take certain control measures to improve corporate performance.

As contended by Owusu *et al* (2013), bookkeeping practices is a mechanical and systematic process of capturing economic consequence of business transactions in compliance with accepted Accounting Standards. It also allows managers and owners to determine whether they are making profits or loss.

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.

Koperunthevy & Vijarani (2013) in their study entitled “Accounting system in Small Scale Enterprises: A Case Study” found that accounting system in the small scale enterprise is not good, but they have prime books to enter.

Jeyaseeli & Justus (2014) indicated that majority of MSMEs fail to keep complete accounting records. Their study results reveal that there is a wide gap between theory and practice of financial management.

It was asserted by Sanga *et al.* (2014) that keeping business records is an important driver for the success of a business and they observed that a comprehensive

record or bookkeeping system enables business owners to develop accurate and timely financial reports that detail the progress and prospects of the business.

Umeji & Obi (2014) stated that recording and reporting daily business transactions by using accounting techniques helps owners to identify cash flow, cost of production, assets and liabilities.

According to Onaolapo & Adegbite (2014), most SMEs do not comply with the double entry system of record keeping.

The study by Mintah *et al.*, (2014) indicate poor financial record-keeping, lack of financial reporting practices, challenges in accessing financial assistance, and high levels of illiteracy in financial record keeping among small scale businesses in Kumasi Metropolitan Assembly, highlighting the need for improved financial management through training and education programs.

Rahamon & Adejare (2014) investigated the impact of Accounting Records Keeping on the Performance of the Small Scale Enterprises and data collected were analysed using both the qualitative and quantitative methods. Findings revealed that majority of the respondents keep business accounting records. Records are kept on cash basis. Sales purchases, creditors and debtors, receipts, invoices, payment vouchers are used as record keeping documents which help to reduce operating costs and improve efficiency and productivity. Further they revealed that, there is a strong positive relationship between accounting record keeping and performance of small scale enterprises. This implies that accounting record keeping affects performance of small scale enterprises. They argued that the general objectives of bookkeeping include improving efficiency and productivity, to control creation and growth to reduce operating costs, to ensue regulatory requirement. Bookkeeping practices serves as the basis for proper planning and management of business activities. They also posited that the double entry system is important in creating a convenient relationship which permits an interim check of accuracy of recording work at any time during the process.

Solace, Isaaka & Boame (2014) studied the adoption of accounting practices and its effects on sachet water producers in Northern region of Ghana. It is evident from their findings that majority of the sachet water producers adopt accounting practices. However, challenges in accounting practice have been a common feature associated with most sachet water producers and those in Tamale Metropolis are not exception. Among the factors that were identified include lack of training, wilful misconduct, negligence etc. It was also revealed that there low level of education and ignorance affects producer's adoption of accounting practice, hence a great number of sachet water producers in the area operate without accounting knowledge despite their successes. These challenges affect negatively on the growth of these enterprises as they cause cash drainage, financial lost and low profitability. Financial loss, limited access to credit and dented image are other effects of these challenges. Serious measures therefore need to be adopted to minimize if not eliminate these challenges in accounting practices among the sachet water producing firms. Knowing the fact that lack of professional training is the major cause of the challenges in accounting practices, they suggested that account officers in the sachet water producing sector should be encouraged to go in training to acquired knowledge and skills needed to perform accurate accounting procedures.

Vishwa & Harsha (2014) discusses the crucial role of Micro, Small, and Medium Enterprises (MSMEs) in driving economic growth and job creation. It highlights that MSMEs face significant challenges in accounting practices, including limited financial literacy, resource constraints, and regulatory compliance issues. Key findings reveal that many MSMEs use accrual accounting and Tally software, but there is a pressing need for improved financial management practices and training to enhance their overall performance and sustainability.

Dawuda & Azeko (2015) found that majority of SMEs do not keep proper records of their businesses, hence, inability to measure financial performance and position of their businesses. SMEs operators are keeping improper records like note books, writing on walls and papers. Only few of SMEs are keeping proper records such as cash book, sales day book, petty cash book, purchase day book, income

statement and statement of financial position. Also they confirmed that SMEs owners are ignorant of the value of keeping proper financial records and have perception that it is waste of time and resources to establish a Department of Finance and Accounting with qualified staff taking into account. Further they emphasized lack of education and high cost of hiring qualified staff made it very difficult for the owners to keep proper books of accounts. Some also failed to keep proper books of accounts in order to avoid tax.

Lalhunthara (2015) in his study on the entrepreneurship in micro enterprises in Aizawl district revealed that the entrepreneurs do not keep proper records of their business transaction and most of them do not have training or skill development programme.

Mutua (2015) argued that proper bookkeeping helps SMEs to control the activities and to help manage cost and expenses.

Madurapperuma *et al* (2016) contended that proper record keeping ensures long term sustainability of the business and anticipates long term prospects.

Sibanda & Manda (2016) defined challenges in accounting practices as the gaps, interruptions, or obstacles in implementing the accounting practices. The interruption of accounting principles, policies and systems during the process of recording and posting of business's transactions also is included in the context of challenges in accounting. They further stipulated that most research identifies causes which collectively represent accounting or financial problems and bad management as "internal" factors (the factors that are unique to the companies concerned). Enterprises confront various obstacles in adopting accounting practices since it is considered as to be time consuming, difficult to maintain, requires technical knowledge and reveals the enterprise to the taxpayer. However, the scope of the challenge is not limited to cash flow alone, but the right way of using the right set of skills, the application of efficient accounting systems and the lack of real business information is also part of the business accounting challenge.

Nikhil, Brajesh & Safiqul (2017) reported that the implications from their study is that there is a gap between the theory of accounting and actual use of accounting tools for managing small business by the owners/managers of MSMEs in Tripura.

Pasha (2017) reported that SMEs in Ethiopia often face problems with regard to recording their daily transactions. This is due to the fact that most of the SMEs operators do not know how to maintain such records in a simple and easy manner.

Pavtar & Agir (2017) concluded that, SMEs in general are bedevilled with a lot of challenges. The pivotal of all these challenges is anchored on their inability to prepare financial reports as a result of poor records keeping, fear of exposing the business to danger if business information is made public, high cost associated with financial reporting and lack financial and accounting education. They further claim that there is high level of illiteracy, in terms of basic financial records keeping and financial reporting, on the part of small business owners.

Uddin *et al.* (2017) studied the accounting practices of SMEs in Bangladesh. The research aims to examine and evaluate the current status of adopting and implementing the accounting systems and practices of SMEs in Rangpur region. The study reveals that accounting systems are followed directly or indirectly.

Zotorvie (2017) examined the financial accounting practices of SMEs drawing on a survey of 225 owner/managers in Ho Municipality. The results revealed that majority of SMEs failed to keep proper accounting records pertaining to their businesses. The major reasons for the entities failure to maintain proper accounting records and prepare a complete set of financial statements included high cost of hiring qualified accountants and lack of accounting knowledge on the part of some owner-managers.

It was indicated by Musah (2017) that absence of specific guidelines for bookkeeping and accounting recordkeeping, fear of discouragement in case of a loss, inadequate education and training skills, and cost and time constraints are some of the challenges faced by SMEs.



Priskil & Fanai (2018) stated that the food and grocery shop owners of Mizoram do not go beyond basic products of banking services such as savings bank account, withdrawing and depositing cash, passbook, cheque book, ATM cards. They do not have proper records of their business transactions and therefore cannot determine their net profit.

Muteti *et al.* (2018) observed in their study that most enterprises kept several importance accounting records in their business including purchases records, sales records and expenses records. Furthermore, remembering the nature of financial transaction, keeping track of enterprises profits, for profit analysis purposes, to enable observing of the performance or improvement of their company and as a reference point in the growth of the enterprise were reasons cited for keeping records by the enterprises. The study also found that four important factors in the micro and small enterprises accounting systems were maintaining records for costing of goods and services, recording expenses and payments, recording sales and recording purchases. They also found that entrepreneurs kept notes to keep records in order to remember, observe progress and track profit. They posited that it is important for business's operations and owner managers to adopt use of accounting practices and systems because it promotes effectiveness to prepare recording business transactions systematically and more proper which helping business preparing more accurate financial reports.

The study of Roslan *et al.* (2018) found that small businesses daily transactions were recorded manually, some owners do not know the differences between revenue and net profit and majority of them did not maintain any financial reports for the business.

Germain (2019) posited that micro and small enterprises perceive record keeping as a method of recovering initial investment in the form of cash at the end of the accounting period. However, if micro and small enterprises accounting records are not maintained properly, long term sustainability of the business could be affected.

Seman *et al.* (2019) conducted a study among 157 owners of micro enterprises in Batu Pahat, Malaysia and observed that microenterprises primarily focus on recording cash and sales books to track expenses and sales. The study emphasized the need for improved accounting knowledge, better financial record-keeping, and enhanced decision-making processes to support business growth and success in the region. They complete the accounting cycle by keeping daily transactions and financial statements, mainly on income, cash flow, and balance sheets. Owners often prepare these records themselves, rather than outsourcing. They suggested that microenterprises should incorporate comprehensive bookkeeping practices, including cash book, sales book, ledger, and journal, to accurately reflect their financial performance and facilitate decision-making, ultimately leading to business success.

Adnan & Ishaq (2020) revealed that majority of SMEs failed to keep proper accounting records pertaining to their businesses. Consequently, it was difficult for the owner-managers to determine the profit earned or loss suffered in the business during a particular accounting. The pivotal of all these challenges is anchored on their inability to prepare financial reports as a result of poor records keeping, Lack of skills to handle asset and liability, inability how to prepare financial Reports , Distrustful attitude of owner /manager, Cost of hiring qualified employees, finally fear to disclose all information by in view of taxation to government.

Lalrinsangi & Fanai (2020) revealed that majority of the micro enterprises in Lunglei failed to keep complete records of financial transactions as they lack technical skills and expertise. Also, they lack proper understanding of the necessity to maintain proper books of accounts. Sales book and debtor's book were most commonly used for keeping records of financial transactions. This study recommended that workshops, seminars and training programmes should be initiated in State level and/or District level for the entrepreneurs to create awareness on the importance of record keeping. The study further suggested that common accounting records practices in micro enterprises may be followed and it is desirable that it is made mandatory. Furthermore, the study recommends for utilization of digital payment like internet banking, debit cards, credit cards and mobile banking application.

Srinivasarao, Reddy & Babu (2020) investigates the significance of accounting record-keeping among SMEs in Ongole city, Andhra Pradesh, India. They found that effective accounting practices are crucial for the success and sustainability of SMEs, as they provide essential data for financial performance measurement and decision-making. While most SMEs maintain some form of accounting records, many do so without a complete understanding of accounting systems, with approximately 80% using these systems indirectly. The study identifies challenges such as a lack of accounting knowledge, absence of regulatory frameworks, and limited resources, which contribute to inadequate bookkeeping and hinder business growth. The research reveals a significant positive relationship between proper accounting practices and SME performance, leading to the recommendation that SMEs improve their record-keeping practices and seek training to enhance their understanding of accounting systems for better financial decision-making and operational efficiency.

Nsoke, Okolo & Ofoegbu (2021) examined the effect of accounting practices on the growth of micro and small enterprises (MSEs) in Nigeria. The study specifically examined the influence of book-keeping and accounting knowledge on the growth of micro and small enterprises as well as the effect of financial management practices on the growth of MSEs in Nigeria. The findings indicated that book-keeping and accounting knowledge as well as financial management practices have significant effect on MSE growth in Nigeria. This finding implies that MSEs will experience continuous growth if they acquire accounting knowledge and apply such knowledge in financial management practices in their business operations.

The survey conducted by Jangkhola & Singh (2021) revealed that many of these businesses' owners and managers still lack basic understanding of financial management and its significance to their operations. The financial management system followed by these enterprises are only firefighting in nature. Many owners and managers record and manage their accounts using their expertise as a tool. They also fail to generate financial strategies and budgets or have a formal estimate of working capital. Many businesses lack adequate systems for collecting and paying off debt. An

appropriate system of accounting records and financial management must be developed for Manipur's micro and small businesses.

The study by Kingie G. Micabalo *et al* (2022) aimed to determine the extent of bookkeeping practices and its effects on the growth of micro and small enterprises in Lapu-Lapu City. The respondents have basic bookkeeping knowledge and prefer to do it independently using the manual method of record-keeping. Bookkeeping practices were practiced moderately in the micro and small enterprises. However, results showed that bookkeeping has a high impact on the growth of the business. The study further revealed significant relationship between the level of implementation of bookkeeping and the growth of micro and small enterprises in the locale. This study concludes that the bookkeeping practices of the micro and small enterprises in Lapu-Lapu City have a direct relationship towards the growth of the enterprise.

The findings from the research on financial reporting practices of micro enterprises in Mizoram by Lalrinsangi & Fanai (2022) indicate that while the majority of respondents are familiar with basic accounting practices, they often fail to maintain complete or proper books of accounts due to a lack of required skills and knowledge. Owners themselves tend to record financial transactions, resulting in low-quality and inaccurate reports because of a lack of understanding of complex accounting systems. Micro enterprises in Mizoram face challenges such as insufficient skills to handle assets and liabilities for financial statements, a distrustful attitude of owners, the high cost of hiring professionals, and fear of tax implications. Additionally, small businesses in Mizoram, especially micro enterprises, struggle with poor record-keeping practices, concerns about exposing business information, high financial reporting costs, and a lack of financial and accounting education. These findings underscore the importance of addressing skill and knowledge gaps in accounting practices among micro enterprises in Mizoram to enhance their financial reporting capabilities and overall business performance.

A study by Vattoli A & Nisha S (2022) provides a comprehensive analysis of the accounting and auditing practices among micro and small enterprises (MSEs) in the Malabar region. The study emphasizes the significant role of MSEs in contributing

to the socio-economic development of India, particularly in terms of GDP and exports. They revealed that while many micro and small enterprises are structured as sole proprietorships and engage primarily in trading, there is a significant reliance on inadequate accounting systems, with only half conducting audits, indicating a need for improved financial practices and training to enhance their growth and sustainability.

A recent study by Johari, Awang & Daud (2023) examined whether the micro-entrepreneurs at Pasan Tani keep accurate records of their business transactions and, if not, the reason. They discovered that one of the main obstacles to proper bookkeeping among micro-entrepreneurs is a lack of bookkeeping knowledge. This lack of understanding may result in a lack of understanding of the significance of bookkeeping. Furthermore, the lack of external fund source pressure and a straightforward company plan may be deterrents to implementing an appropriate recordkeeping system. A lot of entrepreneurs who run micro businesses think they could get by without the documentation.

Banik GP & Boro JK (2023) examines accounting practices in Micro, Small, and Medium Enterprises (MSMEs) in Kamrup District, Assam. Their main findings indicate that a significant number of micro-enterprises do not maintain proper accounting records or prepare essential financial statements like cash flow statements. Most accounting tasks are performed by the owners themselves, reflecting a lack of professional accounting support. The study underscores the critical need for better accounting practices to improve decision-making and overall business performance among micro-enterprises.

According to Silaen & Tulig (2023), in a recent study emphasized that accounting expertise is crucial for managing MSMEs. The accounting process should be carefully designed with the educational background of the sector in consideration, as the owners of micro to small enterprises have relatively low levels of education. For micro and small businesses, it would be appropriate to train these entrepreneurs on basic accounting concepts, such keeping track of cash inflows and outflows.

According to a study on Mizo women entrepreneurs by Lalnunthara, Jyoti Kumar & Laldinliana (2023), there is growing recognition of the critical role that women entrepreneurs play in economic progress, which is vital to the improvement of society and the economy as a whole. Despite being a small state with no large industry (Lalnunthara, 2019, Lalnunthara, Jyoti Kumar & Laldinliana, 2023), female entrepreneurs in Mizoram are growing, developing, launching a wide range of businesses, and enhancing the state's economy.

The above research studies were related to the accounting practices, application, adoption, importance and challenges of application of accounting practices and the profile of entrepreneurs in MSMEs in different parts of India and foreign countries. However, these studies may not be adequate to explain the real application of accounting practices by micro enterprises in Mizoram. There are very few studies of entrepreneurship in India which focused on their accounting practices. Though the studies conducted by Lalnunthara (2013), Rama Ramswamy (2010,2013), Lalnunthara, Jyoti Kumar & Laldinliana (2023) elaborated different dimensions of entrepreneurship, their studies did not confine to the accounting practices of micro enterprises. Therefore, there exists a serious gap in the existing literature which prompted the researcher to take up the study with reference to accounting practices of the micro enterprises in Mizoram.

### **1.9 Statement of the Problem**

The study covers diverse range of businesses owned by micro enterprises in a small state of Mizoram, one of the eight states in North East India. As mentioned, from the 633.88 lakhs MSMEs in India, 99% were micro enterprises subject to all sectors of manufacturing and services and it generate employment opportunities to 1076.19 lakh persons, which accounts for around 97% of total employment in the MSME sector. (Annual report 2023-24, Ministry of MSME). It is evident that Micro enterprises play a significant role for inclusive development and expansion of the country's economy as it contributes significantly to the country's GDP, creates employment opportunities and ensure effective use of the country's resources. Small scale enterprises are a broad majority of businesses found in diversity of primary and

intermediate production of the economy. These establishments have enormous influence on the state and well-being of the nation in employment generation, as sources of national outputs and revenues, providing feedstock for large corporations. They may not afford to have the required knowledge and experience to use a detailed accounting system, but their accounting process is quite profound. Considering this relative importance of MSMEs as an initiator of economic well-being reinforces the significance for research in this particular area.

Good number of research work is available on small business and in particular about small business failure rates (Watson and Everett, 1996). Nevertheless, the most significant reason for this high failure rate is the inability of small business units to make adequate use of important business and management practices. Many small firms fail to develop an initial plan, and those who are able to establish a plan fail to make it up to date and use it as a benchmarking tool. Similarly, Nikhil, Brajesh and Safiquil (2017) claimed that there is a gap between the knowledge and the actual uses of accounting tools and techniques. Most of the entrepreneurs are making less use of the accounting instruments for systematic record keeping or any kind of financial business decision making. The most commonly used tools are the debtor's book, creditor's book and cash book. This may be because the awareness level for other techniques is very low.

Accounting aspect of a small business is often assumed as most neglected area, because owners/managers of the small enterprises do not understand its functions and utilities for business survival and growth. As a result, they cannot do simplest things like keeping track of the cash or know the financial status of their business (Bowen *et al*, 2009). Further, Gebremedihin (2019) stated that the micro enterprises in Sodo town, Ethiopia have understanding on the importance of accounting practices for the growth of enterprises but failed to implement it. The reasons are lack of skills to handle asset and liability to prepare financial statements, distrustful attitude of owner, and cost of hiring and fear of tax.

For these reasons Micro enterprises offer a potentially rewarding location for investigating financial accounting practices and exploring the factors underlying their

development. At present in Mizoram there is a shortage of information on the awareness and extent of use of financial accounting practices among the micro enterprises of Mizoram. Lalrinsangi & Fanai (2020) revealed that majority of the micro enterprises in Lunglei, Mizoram failed to keep complete records of financial transactions as they lack technical skills and expertise. Also, they lack proper understanding of the necessity to maintain proper books of accounts. Given their small size especially in the context of developing countries, there is a possibility that micro enterprises were not aware about tools and techniques available for managing small businesses and inability to take full advantage of the opportunities that may create better accounting information for business decision making. The absence of data on financial accounting practices in micro enterprises has perhaps prevented the Indian regulators/policy makers from taking actions that might improve the functioning of Indian MSMEs. Consequently, there are significant gaps in the knowledge base relating to awareness of financial accounting practices and their uses for better management of Micro enterprises in Mizoram and in India as well, which should be filled on the grounds that the information provided may strengthen government policy towards the sector.

The necessity for researching the accounting practices of micro enterprises in Mizoram stems from the evident deficiencies in financial management and accounting proficiency among micro entrepreneurs in the area. Prior studies have revealed that many micro enterprises in Mizoram struggle to maintain sufficient accounting records, leading to obstacles in ascertaining their net profit and making well-informed economic choices. Similar challenges faced by SMEs in comparable settings include difficulties in recording daily transactions and preparing financial reports due to skill shortages, concerns about divulging business information, and the high costs linked with financial reporting.

Furthermore, the scarcity of official enterprise data and the absence of comprehensive records present notable hurdles for researchers and policymakers. It is imperative to grasp the current landscape of accounting practices in Mizoram's micro enterprises to pinpoint the specific barriers they encounter and devise precise



interventions to enhance their financial knowledge and capabilities. Through an exploration of the awareness, adoption, and challenges associated with financial accounting practices in micro enterprises, this study has the potential to offer valuable insights for enhancing financial management, decision-making processes, and overall performance within these businesses.

Consequently, undertaking a study on the accounting practices of micro enterprises in Mizoram is crucial for bridging knowledge gaps, fostering improved financial management practices, and bolstering the sustainable advancement and prosperity of small businesses in the region.

This study aims to investigate the challenges that micro enterprises face while developing effective accounting processes, with a focus on the variables that impede solid financial management within these tiny organizations. The research attempts to identify significant issues impacting microentrepreneurs' financial knowledge and abilities by assessing the barriers to the adoption of appropriate accounting processes. This research is critical for developing tailored interventions, training initiatives, and support programs to address these challenges and improve micro enterprises' performance, decision-making capabilities, and competitive edge, thereby fostering their long-term success and economic influence.

There are many studies on entrepreneurship in Mizoram (e.g., Lalhunthara (2015); Ramswamy and Kumar, 2013; Gogoi, 2018; Lalhunthara (2019), Lalrampuii, 2020; Lalmuanpuui *et al.*, 2022); Lalnunthara, Jyoti Kumar & Laldinliana (2023)) however, they did not focus sufficiently on the accounting practices. Against this backdrop, it is attempted to study the accounting practices of micro enterprises in Mizoram.

### **1.10 Objectives of the Study**

These are the main objectives of the present study:

1. To identify the socio-economic characteristics of the micro entrepreneurs in Mizoram.

2. To study the profile of micro enterprises in terms of nature of business, form of business, period of establishment and sales.
3. To study the awareness, knowledge and attitudes of micro entrepreneurs regarding the maintenance of books of accounts.
4. To study the accounting practices with regard to the type of accounting records maintained by micro enterprises.
5. To identify the challenges faced by micro enterprises in maintenance of proper books of accounts.

### **1.11 Hypotheses**

Based on observations from past studies and empirical study, the present study seeks to test the following hypotheses:

1. H<sub>0</sub>: There is no significant difference in the number of respondents following accounting practices among manufacturing and service units
2. H<sub>0</sub>: There is no significant association between attitudes and accounting practices of micro enterprises.
3. H<sub>0</sub>: There is no significant association between gender of the respondents and awareness about accounting tools and techniques.
4. H<sub>0</sub>: There is no significant association between age group of the respondents and awareness about accounting tools and techniques.
5. H<sub>0</sub>: There is no significant association between marital status of the respondents and awareness about accounting tools and techniques.
6. H<sub>0</sub>: There is no significant association between educational qualification of the respondents and awareness about accounting tools and techniques.

## **1.12 Research Methodology**

### ***(I) Research Approach***

This study employs quantitative research as a main approach. The use of numerical data to measure constructs requires quantitative approach (Camerron & Sankaran, 2015). This makes the quantitative approach more suitable for this study.

A descriptive research was carefully constructed to ensure a detailed account of the situation, minimizing bias in data collecting, and reducing mistakes in data interpretation (Ghauri and Gronhaug, 2010). This approach is also adaptable, suitable, and effective as it allows the researcher to experiment with different data gathering sources and techniques. It is acceptable since its conclusion clearly outlines a research topic, research questions, and a set of objectives. The researcher physically visited each of the micro enterprises in Aizawl and Lunglei in addition to using the quantitative technique to monitor and evaluate the maintenance of their accounting records.

### ***(II) Population of the study***

A population in statistics is the particular population that is the subject of the sought information (Mugenda & Mugenda 2003). A population is a precisely defined collection of individuals, services, objects, events, or homes under investigation. The list of responders used to create the samples is known as the sampling frame. It offers an exhaustive list of every person on the planet (Naoum, 2007).

The population of the study comprised of micro enterprises from manufacturing and service sectors who registered their units at District Industries Center, Aizawl and Lunglei since 2008-2009 to 2017-2018 under two registration systems, i.e., Entrepreneurship Memorandum – II (EM-II) and Udyog Aadhaar Memorandum (UAM) set up under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. The MSMED Act was enacted in 2020 and accordingly the MSMEs in India are being classified as per the new enactment. However, the population of the present study consist only of micro enterprises

registered between 2008-18. So the new classification given in MSMED Act, 2020 was not applicable for the present study. The researcher chose the two biggest Districts in Mizoram in terms of geography as well as population. There are 1606 registered MSMEs in Aizawl District and Lunglei District which is 63.8% out of the total registered enterprises. As per the records of Directorate of Commerce and Industries, Government of Mizoram, there are 1217 manufacturing and service units registered in District Industries Center (DIC) Aizawl from 2008-2009 to 2017-2018 and there are 389 manufacturing and service units registered in District Industries Center (DIC) Lunglei from 2008-2009 to 2017-2018. The target population of 1606 (DIC, Aizawl and Lunglei) respondents were decided on, consisting of entrepreneurs in micro enterprises sector.

**Table 1.1 District wise distribution of enterprises (2008-18)**

<b>District</b>	<b>EM-II</b>	<b>UAM</b>	<b>Total</b>
Aizawl	1043	174	1217
Lunglei	373	16	389
Siaha	123	7	130
Champhai	322	38	360
Serchhip	32	3	35
Kolasib	181	37	218
Lawngtlai	66	10	76
Mamit	89	3	92

**Source: Directorate of Commerce & Industries, Government of Mizoram**

### ***(III) Sample size of the study***

A sample is a representation of the targeted population and is an important feature of any empirical study in which the goal is to make inference about a population (Israel, 2013). Sampling is necessary because in conducting a research study, it is practically impossible, time-consuming and too expensive to test every individual in the entire population. Hence, there is the need to get a fair representation of the people. To achieve this then sampling techniques become important. As defined

by Kraska and Neuman (2011), a sampling is the process of selecting a sample as a subset from a defined population.

The sample size of the present study was 200 respondents, with 100 micro enterprises each selected from manufacturing sector and service sector to better reflect the total population. Furthermore, micro enterprises which are in operation of at least 5 years were selected as samples. Their selection was influenced by the main objective of the study and also on the aspect of trying to get variations in experiences as far as possible.

#### ***(IV) Data collection***

**(a) Primary data:** The study is based mostly on primary data. Primary data were collected from a sample of micro enterprises in the study.

- (i) Survey of micro enterprises:* The questionnaire was framed based on the extensive literature survey. In order to ensure the reliability and appropriateness of the instruments, pilot testing was conducted with 30 micro enterprises by using Cronbach's Alpha score and the output of the reliability of the statistics was 0.851 and the instruments was found reliable.

The questionnaire consists of three parts: Part I, Part II and Part III (Annexure). Part I consists of questions relating to the socio-economic profile of respondents. Part II consists of questions relating to the profile of micro enterprises and Part III consists of questions relating to accounting practices of micro enterprises and some of the statements are Likert's five points scale. Secondary data: It was collected through various sources such as books, journals, bulletin, newspapers, published and unpublished thesis and dissertations, published and unpublished documents by the State and Central Government, reports and websites, etc.

Primary data were collected by administering a structured questionnaire (Annexure) among the sample respondents. The Questionnaire was translated into Mizo and the survey was conducted personally by the

researcher herself with the support of a research assistant. The assistant was trained on how to identify the respondent, how to approach, and how to solicit required information in different locations of two select districts. The Questionnaire was administered to the micro entrepreneur under the study in their enterprises during working hours. The questionnaire were tested to verify the validity of the questions and Cronbach alpha (Cronbach, 1951) has been calculated as 0.844, which is well above the minimum acceptable level of 0.70. The researcher have also verified normality of questions based on different statistical tests.

**Table 1.2 Test of reliability**

<b>Cronbach's Alpha</b>	<b>Cronbach's Alpha Based on Standardized Items</b>
.844	.845

(ii) *Period of collection:* Information from the sample entrepreneurs was collected during 2022 and 2023 by administering a questionnaire. Because of the low number of COVID-19 cases throughout the timeframe, the researcher had no major difficulty conducting the field survey. However, it proved to be a challenging effort to contact and persuade micro entrepreneurs to complete the questionnaire, which required around 40-60 minutes of their time because the data was gathered at the entrepreneurs' workplaces and during their working hours. Furthermore, the questionnaire presented had certain information that would disclose their financial data, so the entrepreneurs were a bit hesitant to provide it. Notwithstanding these constraints, the entrepreneurs were cooperative in sharing their time and information.

(b) **Secondary data:** An extensive literature review based on accounting practices was undertaken to familiarise with the concepts and issues. Secondary data were collected from various Government publications such as Statistical Handbook,

Mizoram; Mizoram Statistical Abstract; Economic Survey, Mizoram; Basic Statistics of NER; Annual Report, Ministry of MSME. Other sources of secondary data includes unpublished Government documents, journals, bulletin, newspapers, published and unpublished thesis and dissertations, textbooks, business magazines, newspapers and websites of different organisations.

## **(V) Data Analysis**

After data collection, survey data was edited and coded. This is where data were examined for errors and omission. In the coding process, data were organized into categories after which, numerals were assigned to each item before entering them into a worksheet. Descriptive statistics, mainly frequency tables and percentages were the medium used for the analysis. Other relevant statistical tools were used for analysing the data collected.

SPSS was used to generate quantitative results including percentages and frequencies. Since the study specifically employed quantitative approach, tables depicting frequencies and percentages were used to present outcomes of the analysis. The study subsequently employed statistical tools like Spearman Correlation, Chi-square test for association to analyse the objectives and test the formulated hypotheses.

### **1.13 Limitations of the study**

1. Even though micro enterprises is one of the largest sector in India, the researcher faced problems in acquiring past and up to date secondary information regarding accounting practices.
2. Although the primary data were collected through structured questionnaire and non- disclosure statement was provided, many micro enterprises seemed to be little reluctant to respond since the questionnaire called for respondents to disclose information associate with financial matters, also many of them did not maintain detailed or complete set of accounting records.

3. The study focused on accounting practices of micro entrepreneurs; hence, the findings of the study may not be used as generalisation to accounting practices of other sectors.
4. The questionnaires were administered during the business hour in which many respondents were busy in dealing with their entrepreneurial role. Despite the researcher's precautions, it is still possible that the respondents' behaviour and answers may be influenced by the time constraints in a limited way.

### **1.14 Conclusion**

Micro enterprises are a great source of generating self-employment since it does not require huge capital investments. They are catalysts for the economic growth and development of the world especially for backward regions since establishing these enterprises does not require high educational qualification or technical skills which is convenient for anyone who have the passion to start a business. According to the Annual Report given by the Ministry of MSME 2023-24, the sector is estimated to create about 11.10 crore jobs throughout the country. This sector has consistently registered a higher growth rate than the rest of the industrial sector. Further the report published by the Ministry of MSMEs state that the seven sister states of North Eastern Indian (Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Tripura) and one brother state Sikkim, collectively have nearly 4024 lakh MSMEs, which provide employment to about 13.27 lakh people as against 214.38 lakh people.

Accounting practices are vital for the growth of micro enterprises as they provide crucial financial information for decision-making, regulatory compliance, and performance evaluation. These practices assist micro entrepreneurs in financial management by tracking expenses and cash flow, aiding in resource allocation. Additionally, maintaining accurate financial records supports business planning by analysing past performance and projecting future growth. Ensuring regulatory compliance through proper accounting practices reduces the risk of penalties and fines. Moreover, well-maintained accounting records enhance credibility for accessing finance, enabling assessment of creditworthiness by financial institutions and investors. Furthermore, accounting practices help in evaluating business performance,



identifying areas for improvement, and making strategic decisions. By managing risks through tracking financial transactions, micro enterprises can mitigate potential issues like cash flow shortages. Overall, sound accounting practices are essential for the sustainable success of micro enterprises, facilitating informed decision-making, regulatory adherence, investment attraction, and financial optimization.

Several studies have also identified that the lack of keeping proper accounts is one of the most important constraint to growth in the small business sector. Recording financial transaction is critical to ensuring the survival and growth of a business unit. However, from the review of literature, it has come to knowledge that micro and small enterprises fails to maintain detailed or complete books of accounts. Improper or incomplete records of financial transactions often results in inefficient use of accounting information to support financial performance measurement by the small and micro enterprises. Hence, the study aimed at identifying the extent to which record keeping and basic accounting procedures have been implemented by the micro enterprises in Mizoram and the challenges faced by them in record keeping. The study also aims to give suggestions to that interested parties may benefit from the study.

**CHAPTER 2**  
**MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA WITH**  
**REFERENCE TO MIZORAM**

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## **CHAPTER 2**

### **MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA WITH REFERENCE TO MIZORAM**

This chapter highlights an overview of Mizoram and the entrepreneurship development programmes and practices initiated by the Government of India to strengthen the MSME sector in India and Mizoram. In addition, the recent initiatives taken by the Ministry of MSME for the promotion of Micro, Small & Medium Enterprises have also been discussed.

#### **2.1 Performance of Micro, Small and Medium Enterprises (MSMEs) in India**

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. The MSMEs in India are playing a crucial role by providing large employment opportunities at comparatively lower capital cost than large industries as well as through industrialization of rural & backward areas, inter alia, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global market. Ministry of Micro, Small & Medium Enterprises (M/o MSME) envisions a progressive MSME sector by promoting growth and development of the Sector, including Khadi, Village and Coir

Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises, adopting cutting edge technologies and encouraging creation of new enterprises.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as below:

- (iv) a micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees
- (v) a small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and
- (vi) a medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

The new classification has come into effect from 1st July, 2020. The earlier criteria of classification of MSMEs under MSMED Act, 2006 were based on investment in plant and machinery / equipment. It was different for manufacturing and service units. It was also very low in terms of financial limits. Since then, the economy has undergone significant changes. A revision in MSME criteria of classification was announced under Aatma Nirbhar Bharat package on 13th May, 2020. This has been done in order to be realistic with time and to establish an objective system of classification and to provide ease of doing business.

Table 2.1 depicts the distribution of different categories of enterprises in rural and urban areas.

**Table 2.1: Distribution of enterprises (Category Wise)**

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
All	630.52	3.31	0.05	633.88	100

Source: MSME Annual Report, 2022-2023

Table shows that the Micro sector with 630.52 lakh estimated enterprises accounts for more than 99% of total estimated number of MSMEs. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs accounts for 0.52% and 0.01% of total estimated MSMEs, respectively.

Table 2.2 shows the distribution of MSMEs activity category wise.

**Table 2.2: Estimated number of MSMEs (Activity Wise)**

Activity Category	Estimated number of Enterprises (in Lakhs)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.50	196.65	31
Electricity	0.03	0.01	0.03	0
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
All	324.88	309.00	633.88	100

Source: MSME Annual Report, 2022-2023

It is seen that 31% MSMEs were found to be engaged in Manufacturing activities, while 36% were in Trade and 33% in Other Services. Again out of 633.88 estimated number of MSMEs, 324.88 lakh MSMEs (51.25%) were in rural area and 309 lakh MSMEs (48.75%) were in the urban areas.

As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, there were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities (196.64 lakh in Manufacturing,

230.35 lakh in Trade and 206.84 lakh in Other Services and 0.03 lakh in Non-captive Electricity Generation and Transmission,) excluding the MSMEs registered under (a) Sections 2m(i) and 2m(ii) of the Factories Act, 1948, (b) Companies Act, 1956 and (c) Construction activities falling under Section F of National Industrial Classification (NIC) 2008. It is seen that 31% MSMEs were found to be engaged in manufacturing activities, while 36% were in Trade and 33% in Other Services. Again, out of 633.88 estimated numbers of MSMEs, 324.88 lakh MSMEs (51.25%) were in rural area and 309 lakh MSMEs (48.75%) were in the urban areas. The Micro sector with 630.52 lakh estimated enterprises accounts for more than 99% of total estimated number of MSMEs. Small sector with 3.31 lakh and medium sector with 0.05 lakh estimated MSMEs accounts for 0.52% and 0.01% of total estimated MSMEs, respectively. (Annual Report 2022-2023 Ministry of MSME)

MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.82 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country. Micro sector with 630.52 lakh estimated enterprises provides employment to 1076.19 lakh persons, which accounts for around 97% of total employment in the sector. Small sector with 3.31 lakh and medium sector with 0.05 lakh estimated MSMEs provides employment to 31.95 lakh (2.88%) and 1.75 lakh (0.16%) persons of total employment in MSME sector, respectively (Annual Report 2022-2023 Ministry of MSME).

**Table 2.3: Estimated employment in MSME sector (Activity wise)**

Activity Category	Estimated number of Enterprises (in Lakhs)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Electricity	0.06	0.02	0.07	0
Trade	164.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
All	497.78	612.10	1109.89	100

Source: MSME Annual Report, 2022-2023

**Table 2.4: Percentage distribution of enterprises by male/female owners**

<b>Category</b>	<b>Male (%)</b>	<b>Female (%)</b>
Micro	79.56	20.44
Small	94.74	5.26
Medium	97.33	2.67
All	79.63	20.37

**Source: MSME Annual Report, 2022-2023**

Out of 633.88 lakh MSMEs, 608.41 lakh (95.98%) MSMEs were proprietary enterprises. There has been overwhelming predominance of male owners in proprietary MSMEs. Thus, for proprietary MSMEs as a whole, male owned 79.63% of enterprises as compared to 20.37% owned by female. There was no significant deviation in this pattern in urban and rural areas, although the dominance of male owned enterprises was slightly more pronounced in urban areas as compared to rural areas (81.58% as compared to 77.76%). Further male dominance in ownership has been more pronounced for small and medium enterprises with 95% or more enterprises being owned by them, as compared to micro enterprises where 77.76% were owned by males.

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country's Gross Value Added (GVA) and Gross Domestic Product (GDP), at current prices is 31.60% and 28.77% respectively. The contribution of Manufacturing MSMEs in the country's total Manufacturing GVO (Gross Value of Output) at current prices has also remained consistent at about 33%, i.e., one third during the last five years.

The latest annual report (2022-2023) published by the Ministry of MSMEs state that the seven sister states of North Eastern Indian (Assam, Arunachal Pradesh,

Manipur, Meghalaya, Mizoram, Nagaland and Tripura) and one brother state Sikkim, collectively have nearly 4024 lakh MSMEs, which provide employment to about 13.27 lakh people as against 214.38 lakh people. However, the percentage of establishments in the North eastern part remains comparatively low with the rest of the country and the challenge is to ensure greater enterprise creation in this region.

## **2.2 Role of Micro, Small and Medium Enterprises (MSMEs) in India**

MSMEs contribute significantly to economic growth in a variety of ways, including by generating jobs, educating employees and entrepreneurs, reducing poverty, distributing revenue, fostering regional development, and more. As a result, the SME sector may be considered a vital component of the nation's economic development. Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the Indian economy. They contribute significantly to employment generation, industrial output, and export earnings. It is estimated that in terms of value, the sector accounts for about 45% of the manufacturing output and 40% of the total exports of the country. The sector is estimated to employ about 11.10 crore persons in over 633 lakhs units throughout the country. Further, this section has consistently registered as higher growth rate than the rest of the industrial sector. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSMEs provide the maximum opportunities for both self-employment and jobs after agriculture (Annual Report 2022-23, Ministry of MSME)

Here are some key points highlighting the importance and role of MSMEs in the Indian economy:

**1. *Employment Generation:*** MSMEs are major employment generators in India, providing jobs to millions of people, especially in rural and semi-urban areas. They help in reducing unemployment and underemployment by creating opportunities for a diverse workforce. This sector is the largest employment provider in India next to agriculture sector. The MSE sector in India has grown significantly since 1960, when there were only 12,376 MSEs providing employment to 10 lakh people. Of



which direct employment was 1.85 lakh. An annual production level was Rs 875 crore. The employment opportunities provided by MSMEs has significantly increased to about 11 crore people as of 2023.

**2. Innovation and Entrepreneurship:** MSMEs are known for their agility and ability to innovate. They often introduce new products, processes, and business models, contributing to economic growth and competitiveness. They also play a crucial role in promoting entrepreneurship and nurturing new ideas.

**3. Industrial Output:** MSMEs make a significant contribution to industrial output in sectors such as manufacturing, services, agriculture, and handicrafts. They form a vital part of the supply chain for larger industries and contribute to the overall economic development of the country.

**4. Export Promotion:** MSMEs are essential for promoting exports from India. Many small and medium enterprises engage in export activities, contributing to foreign exchange earnings and enhancing the country's trade balance. They help in diversifying India's export basket and reaching global markets.

**5. Regional Development:** MSMEs are crucial for promoting inclusive growth and balanced regional development in India. They often operate in rural and backward regions, providing employment opportunities and supporting local economies. This helps in reducing regional disparities and promoting overall development.

**6. Financial Inclusion:** MSMEs play a vital role in promoting financial inclusion by providing access to credit, especially to small entrepreneurs and marginalized sections of society. Initiatives like the Prime Minister's Employment Generation Programme (PMEGP) and other government schemes have been introduced to support MSMEs and enhance their access to finance.

**7. Making inclusive growth:** The MSME sector is a reflection of all vulnerabilities; it affects the lives of women, children, minorities, SCs, and STs in rural, urban slums, and impoverished areas of thriving cities and towns. For many households, it is the sole source of income. For others, it supplemented their family

income. Thus, rather than providing charity, this sector aims to enable individuals to overcome the cycle of poverty and hardship. It emphasizes on individuals' abilities and agency. Different socioeconomic groupings dominate particular segments of the MSME sector.

Overall, MSMEs are considered the backbone of the Indian economy, contributing significantly to GDP growth, employment generation, and fostering entrepreneurship. Their role is critical in achieving inclusive and sustainable economic development in India.

### **2.3 Major Schemes of the Ministry of MSME**

The Ministry of MSME runs numerous schemes targeted at a) providing credit and financial assistances b) skill development training, c) infrastructure development, d) marketing assistance, e) technological and quality upgradation and f) Other Services for the MSMEs across the country.

#### **A. Credit and Financial Assistances to MSMEs**

##### **I. Prime Minister's Employment Generation Programme (PMEGP)**

The scheme aims to generate employment opportunities in rural as well as urban areas of the country through setting up of new self-employment ventures/ projects/ micro enter- prises. Another objective is to provide continuous and sustainable employment to a large segment of traditional and prospective artisans and rural / urban unemployed youth in the country, so as to help arrest migration of rural youth to urban areas. A third objective is to increase the wage earning capacity of artisans and contribute to increase in the growth rate of rural and urban employment.

The Scheme is implemented by Khadi and Village Industries Commission (KVIC), as the nodal agency at the National level. At the State level, the Scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs) and banks. The maximum cost

of the project/ unit admissible under manufacturing sector is Rs.25 lakh and under business/service sector is Rs.10 lakh.

Any individual, above 18 years of age is eligible to seek assistance. If the project size is above Rs.10 lakh in the manufacturing sector and above Rs. 5 lakh in the business/ service sector, the applicant must be at least Class VIII Pass.

Only new projects are considered for sanction under PMEGP. Self Help Groups (including those belonging to BPL provided that they have not availed benefits under any other Scheme), Institutions registered under Societies Registration Act,1860; Production Co- operative Societies, and Charitable Trusts are also eligible. (Annual Report 2022-23, Ministry of MSME)

## **II. Credit Linked Capital Subsidy Scheme (CLCSS)**

The objective of the Scheme namely “Credit Linked Capital Subsidy Scheme (CLCSS)” for Technology Upgradation of Micro and Small Enterprises is to facilitate technology upgradation in Micro and Small Enterprises (MSEs) by providing capital subsidy of 15% (limited to maximum of Rs.15.00 lakhs) on institutional finance availed by them for induction of well-established and improved technology. Maximum limit of eligible loan for calculation of subsidy under the Scheme is investment in approved plant & machinery up to Rs.1.00 crore for induction of well-established and improved technologies.

MSEs are particularly disadvantaged due to insufficient investment and lack of awareness of both the quality standards and access to modern technologies. A large percentage of MSEs are running with outdated technology and plant and machinery. The CLCSS is envisaged to address this issue. Presently, 51 Sectors / sub-sectors with approved Machinery/Technologies are covered under the scheme. The scheme is applicable to new and existing Micro & Small Enterprises (MSEs) engaged in manufacturing.

Office of the Development Commissioner (MSME) is implementing the scheme through 12 Nodal Banks/Agencies. The eligible MSEs are required to apply

online through Primary Lending Institutions (PLIs), from where the MSEs availed term loan for up-gradation of technology. The completed application is uploaded by PLI through Online Application and Tracking System to the attached Nodal Agency, which, in turn, recommends the application online to Office of DC (MSME) for release of subsidy. After processing of application and subject to availability of funds, due approval is accorded from competent authority and concurrence of Internal Finance Wing, after which funds are released to Nodal Agencies. Funds are then transferred by the Nodal Agencies to the PLIs where the account of the MSE is operated.

The scheme has been immensely successful in enabling MSEs in technology upgradation. This in turn has resulted in productivity improvement, increase in turnover and productivity. A substantial improvement in product quality has also been reported. The scheme has also led to energy reduction in terms of electricity consumption and fuel consumption besides having a positive impact air, water and noise pollution. Since, inception of the scheme 48618 MSEs have availed subsidy which is Rs. 2907.68 crore till 31-12-2017. The scheme is applicable to new and existing MSMEs.

### **III. Credit Guarantee Trust Fund For MSEs (CGTMSE) - Provision of collateral free credit for MSMEs**

Guarantees are provided for extending collateral free lending to Micro and Small Enterprises through banks and financial institutions (including NBFCs). The Scheme covers collateral free credit facility (term loan and/or working capital) extended by eligible lending institutions to new and existing micro and small enterprises up to Rs. 200 lakh per borrowing unit. The guarantee cover provided is up to 75% of the credit facility up to Rs. 50 lakh (85% for loans up to Rs. 5 lakh provided to micro enterprises, 80% for MSEs owned / operated by women and all loans to NER) with a uniform guarantee at 50% of the credit exposure above Rs. 50 lakh and up to Rs. 200 lakh. A composite all in Annual Guarantee Fee of 1.0% p.a. of the credit facility sanctioned (0.75% for credit facility up to Rs. 5 lakh and 0.85% for above Rs. 5 lakh and up to 200 lakh for women, Micro Enterprises and units in NER including Sikkim) is charged.

This Scheme has been tremendously successful if we consider the fact that the scheme has facilitated loans which were 20 times the corpus and has thus been able to promote entrepreneurial activities in the country. It is the only of its kind guarantee scheme which has covered more than 29 lakh beneficiaries in last 10 years. The beneficiaries experienced a boost in their turnover as well as employment generation in the years following approval of CGTMSE funding. CGTMSE funding has had a positive impact on six major areas in the MSE sector - technology upgradation, skill upgradation, market development, sustainability of scheme, economic impact, and social Impact.

The scheme has been successful in spanning itself geographically across the country with a special focus in the North East. The benefits of the scheme have also reached more than 100 industrial sectors in which MSEs are operating. The beneficiaries are spread over even tier 3 towns and not limited to major industrial hubs. CGTMSE has been highly effective in settling the claims wherein the first instalment was settled within 3 weeks in majority of the cases.

From the financial prudence perspective too, it may be mentioned that the risk coverage is adequately calculated and measures have been taken to ensure that banks conduct due-diligence before submitting the application under CGTMSE scheme. Among the stringent criteria for availing loans are registration of an enterprise as an LLP, private Limited or Proprietorship Company, the necessary tax registrations and approval to do business. New businesses, especially, need to submit a detailed plan with financial projections, business model, and promoter profiles and existing businesses have to submit their financial performance report and financial statements. This scheme is applicable to new and existing MSMEs.

## **B. Skill Development and Training**

### **I. A Scheme for Promotion of Innovation, Rural Industry & Entrepreneurship (ASPIRE).**

A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE) aids to set up a network of technology centres and to set up incubation centres to accelerate entrepreneurship and also to promote start-ups for innovation in agro-industry. ASPIRE provides financial support to set up Livelihood Business Incubators (LBI) or Technology Business Incubator (TBI). The main objectives of the scheme are to:

- Create new jobs and reduce unemployment
- Promote entrepreneurship culture in India
- Grassroots economic development at the district level
- Facilitate innovative business solution for unmet social needs
- Promote innovation to further strengthen the competitiveness of MSME sector

The scheme components are:

- (i) Create a database of technologies available with various Government/ private agencies and set up a *Network of Technology Centres* for sharing of best practices and experiences;
- (ii) Develop the required skilled *Human Resources* necessary for mentoring and handholding the incubates;
- (iii) Set up *Livelihood Business Incubators (LBI)* under National Small Industries Corporation (NSIC), KVIC or Coir Board or any other Institution/agency of GOI/State Govt.
- (iv) *Incubation and Commercialisation of Business Ideas Programme* through technical/ research institutes Ministries of GOI and Private incubators.
- (v) *Business Accelerator* programme for scaling up.
- (vi) Create a framework for *Start-up Promotion* through Small Industries Development Bank of India (SIDBI) by using innovative means of finance to enable ideas/innovation & to convert these into commercial enterprises.

*The Objective of LBIs is*

- (a) To set up business incubators so that eligible youth can be adequately incubated in various skills and be provided the opportunity to set up their own business enterprises;
- (b) To impart entrepreneurship, and skill development training to youth;
- (c) To provide mentoring and hand holding with facilitation for funding with a view to empower them to set up own business enterprises.
- (d) To promote new low-end-technology/livelihood based enterprises.

*The following activities are covered under the scheme:*

(A) Livelihood Business Incubators by NSIC, KVIC, Coir Board or any other Institution or any other Institution or Agency of Govt. of India/State - Setting up LBI's (100 lakh for NSIC & others and INR 50 lakh for eligible agencies under ppp) for plant & machinery only.

(B) Technology Business Incubators:

1. Incubation centre-

- Support for Existing Incubators (INR 30 lakh for incubator capex)
- Setting up of New Incubator (INR 100 lakh for incubator capex)

2. Incubation of Ideas (INR 3 lakh per idea)

3. Creation of Enterprise out of innovative idea (Seed Capital fund@ INR 1.00 cr. per incubator for enterprise creation@ 50% of project cost or 20 lakh per successful idea whichever is less)

4. Accelerator workshop

NSIC, KVIC and the Coir Board are nodal agencies tasked to replicate the “Rapid Incubation Model”. In addition, Private partner institutions and entities can

also set up livelihood incubation centres under PPP mode with NSIC, KVIC or Coir Board, or any other Institution/agency of GOI/State Govt.

#### *Intended beneficiaries*

(a) Existing incubation centres currently operating under different Ministries and beneficiaries Departments of the Government of India or Institutions including National/Regional level institutions of GOI/State Governments.

(b) To set up new incubation centres, eligible private institutions including Industry Associations, along with the Academic Institutions, R&D laboratories, Universities, Government entities and Technology Parks, Technical institutions with a proven track record in promotion of innovative/technology based entrepreneurship in the agro-rural landscape.

### **C. Infrastructure**

#### **I. Scheme for Fund for Regeneration of Traditional Industries (SFURTI)**

“Scheme of Fund for Regeneration of Traditional Industries (SFURTI)” is a programme of the Ministry of Micro Small and Medium Enterprises, Government of India and was launched in the year 2005 with the view to make the traditional industries more competitive, market-driven, productive, profitable and capable of providing sustainable employment for traditional industry artisans and rural entrepreneurs. The Coir Board is the Nodal Agency for the implementation of the scheme. The scheme is being implemented by the Board through the Implementing Agencies engaged by the Board for each cluster. This scheme focuses on physical infrastructure creation, technology upgradation, training, product development, innovation, design interventions, marketability, improved packaging and marketing infrastructure with the aim of improving artisanal income.

The Scheme covers three types of interventions namely Soft Interventions, Hard Interventions and Thematic interventions.



- Soft Interventions: General awareness, counselling, motivation and trust building, Skill development and capacity building, Institution development, Exposure visits, Market promotion initiatives, Design and product development, Participation in seminars, workshops and training programmes on technology up-gradation etc.
- Hard Interventions: Creation of facilities such as Multiple facilities for multiple products and packaging wherever needed, Common Facility centres (CFCs), Raw Material Banks (RMBs), Up-gradation of production infrastructure, Tools and technology up-gradation, Warehousing facility, Training Centre, Value addition and processing Centre.
- Thematic Interventions: Cross-cutting thematic interventions at the sector level including several clusters in the same sector with emphasis on both domestic and international markets. These will primarily include Brand-building and promotion campaigns, new media marketing, e-commerce initiatives and innovation.

#### *Intended beneficiaries*

Non-Government organizations (NGOs), institutions of the Central and State Governments and Semi-Government institutions, field functionaries of State and Central Govt., Panchayati Raj institutions (PRIs), Private sector by forming cluster-specific SPVs, Corporates and Corporate Responsibility (CSR) foundations with expertise to undertake cluster development.

## **II. Scheme for Micro & Small Enterprises Cluster Development Programme (MSE-CDP)**

The Ministry has adopted the cluster development approach as a key strategy for enhancing the productivity and competitiveness as well as capacity building of Micro and Small Enterprises (MSEs) and their collectives in the country.

*Objectives of the Scheme -*

- (i) To support the sustainability and growth of MSEs by addressing common issues such as improvement of technology, skills and quality, market access, access to capital etc.
- (ii) To build capacity of MSEs for common supportive action through formation of self-help groups, consortia, upgradation of association etc.
- (iii) To create / upgrade infrastructural facilities in the new / existing industrial areas / clusters of MSEs.
- (iv) To set up Common Facility Centres (for testing, training centre, raw material depot, effluent treatment, complementing production processes etc.)

*Major activities:*

- i. Funding support for setting up of ‘Common Facility Centres (CFC)’.
- ii. Funding support for setting up of ‘Common Display Centres (CDC) for Women Entrepreneurs’.
- iii. Funding support for ‘Infrastructure Development Projects (new / upgradation)’.

*Intended beneficiaries:*

- i. Funding support for setting up of Common Facility Centres (CFCs)- Implementing beneficiaries agencies such as organisations of State Governments, National and International Institutions engaged in development of MSME sector or any other institution /agency approved by the Ministry of MSME.
- ii. Funding support for setting up of Common Display Centres (CDC) for Women Entrepreneurs - Association of Women Entrepreneurs.
- iii. Funding support for Infrastructure Development Projects (new/upgradation) - Implementing agencies such as organisations of State Governments.

## **D. Marketing Assistance**

### **I. Scheme for providing financial assistance to Khadi institutions under MPDA**

Government has introduced w.e.f 01.04.2010, a flexible, growth stimulating and artisan oriented Market Development Assistance (MDA) Scheme, in place of the erstwhile system of Rebate. Under MDA, financial assistance is provided to institutions @ 20% of the value of production of khadi and polyvastra, to be shared among artisans, producing institutions and selling institutions in the ratio 40:40:20. MDA provides institutions flexibility to use the assistance for improving the outlets, products and production processes, besides giving incentive to customers, etc. The scheme has been modified as MPDA by amalgamating existing Market Development Assistance on production (Khadi & Poly) Scheme and additional components of Publicity, Marketing and Market promotion (including Export Promotion) & Infrastructure (inclusive of new component of Marketing Complexes/Khadi Plaza) out of VI Grant. Under the Modified MDA (MMDA), Pricing would be fully de-linked from the cost chart and products can be sold at market- linked prices at all stages of production. Incentives would be extended to Artisans and Karyakartas.

Further, production & marketing support for products, which are self-sustainable, will be phased out. Modified MDA shall be calculated at 30% of the Prime Cost, {cost of raw material plus conversion charges up to grey cloth plus processing charges without margins [establishment expenditure (25%) and trading, insurance & bank interest (8%)]}. The Modified MDA shall be distributed amongst producing institutions (40%), selling institutions (20%) and artisans (40%). KVIC is the implementing agency. The Khadi institutions, having valid Khadi certificate and categorized as A+, A, B and C, beneficiaries are only eligible to avail MDA grant from KVIC.

## **E. Technology Upgradation and Competitiveness**

### **I. Financial Support to MSMEs in ZED certification**

The Ministry of Micro, Small & Medium Enterprises (MSME), Government of India has launched on 18.10.2016 a new scheme 'Financial Support to MSMEs in ZED Certification Scheme', for the benefit of Micro, Small & Medium Enterprises (MSMEs). The scheme will be implemented in 22,222 MSMEs with the total Project Cost of Rs. 491.00 crore.

The scheme envisages promotion of Zero Defect and Zero Effect (ZED) manufacturing amongst MSMEs and ZED Assessment for their certification with the objectives like, developing an Ecosystem for Zero Defect manufacturing in MSMEs, promoting adaption of Quality tools / systems and Energy Efficient manufacturing, enabling MSMEs for manufacture of quality products and to encourage MSMEs to upgrade their quality standards in products and processes with adoption of Zero Defect production processes and without impacting the environment, etc.

The scheme is an extensive drive to create proper awareness in MSMEs about ZED manufacturing and motivate them for assessment of their enterprise for ZED (Bronze- Silver-Gold-Diamond-Platinum) and support them. After ZED assessment, MSMEs can reduce wastages substantially, increase productivity, expand their market as IOPs, become vendors to CPSUs, have more IPRs, develop new products and processes etc.

The Quality Council of India (QCI) is the National Monitoring & Implementing Unit (NMIU) to implement ZED scheme among MSMEs across the country. 10963 MSMEs are registered under ZED certification till 1 started Online Self-Assessment, out of which 1424 have completed so far. 242 MSMEs have paid Fees for Desk Top Assessment and 60 MSMEs have paid Fees for Site Assessment. Out of 38 cases presented before Rating Committee 08 MSME got Gold, 14 MSMEs got Silver, 09 MSMEs got Bronze and 07 MSMEs have No rating.

## **F. Other services**

### **I. National Scheduled Caste and Scheduled Tribe Hub**

The Hub provides professional support to SC/ST entrepreneurs to fulfil the obligations under the Central Government Public Procurement Policy for Micro and Small Enterprises Order 2012, adopt applicable business practices and leverage the Stand-up India initiatives. The Scheme is implemented through National Small Industries Corporation Ltd. (NSIC). The National SC/ST Hub carries out the following functions: i. Collection, Collation and Dissemination of information regarding SC/ST enterprises and entrepreneurs. ii. Capacity building among existing and prospective SC/ST entrepreneurs through skill training and EDPs. iii. Vendor Development involving CPSEs, NSIC, MSME-DIs and industry associations including DICCI. iv. Promoting participation of SC/ST entrepreneurs in exhibitions and organizing special exhibitions for this purpose. v. Mentoring and hand holding support to SC/ST entrepreneurs. vi. Working with States as well as other organisations for SC/ST entrepreneurs so that these enterprises can benefit from all of them. vii. Facilitating SC/ST entrepreneurs participating in public procurement, e-platform of DGS&D and monitoring the progress. viii. Facilitating credit linkages for SC/ST entrepreneurs. The Guideline of National SC/ST Hub Scheme is available on the Ministry's Website i.e. [www.msme.gov.in](http://www.msme.gov.in).

The "National Scheduled Caste & Scheduled Tribe Hub" has been set up in the National Small Industries Corporation Limited (NSIC), a public sector undertaking which is the implementing agency.

Financial assistance is currently being provided under NSSH for the following sub- Assistance schemes:

- i. Single Point Registration Scheme (SPRS)
- ii. Special Marketing Assistance Scheme (SMAS)
- iii. Subsidy for Performance and Credit Rating Scheme (SPCRS)
- iv. Special Credit Linked Capital Subsidy Scheme (SCLCSS)

SC/ST owned Micro & Small Enterprises (MSEs), who are having Process valid Udyog Aadhaar Memorandum No. (UAM No.) and enrolled on MSME Databank, are eligible to apply. SC/ST Micro & Small Enterprises shall have to apply either online on NSIC website [www.nsicspronline.com](http://www.nsicspronline.com) or on the prescribed application form in Duplicate and to be submitted to the concerned Zonal/Branch Office of NSIC located nearest to the unit. SC/ST MSEs and SC/ST entrepreneurs are the intended beneficiaries.

## **II. Scheme for Promotion of MSMEs in N.E Region and Sikkim**

*Setting up new and modernize existing Mini Technology Centres-* The Scheme envisage financial assistance to State Governments for setting up new and modernize existing Mini Technology Centres. The quantum of financial assistance is equal to 90% of the cost of machinery/ equipment/buildings, not exceeding Rs. 10.00 crore. Government of India funding would not be admissible towards cost of land.

*Development of new and existing Industrial Estates-* Financial assistance for development of new and existing Industrial Estates. 80% of the cost of infrastructure facilities not exceeding Rs. 8.00 crore will be sanctioned for development of new and existing Industrial Estates. The infrastructure facilities will include power distribution system, water, telecommunication, drainage & pollution control facilities, roads, banks, storage and marketing outlets etc.

*Capacity Building of Officers-* Capacity Building of officers engaged in promotion and development of MSMEs, by deputing them for various Techno-managerial training programmes in MSME Institutions such as NI-MSME, Hyderabad & MSME Technology Centres The expenditure towards training fee and the boarding/lodging expenses of officers would be borne by Government of India under the scheme and would be paid directly to the Training Institutions.

*Other Activities-* The Scheme funds can also be used for undertaking various activities such as Research Studies, Strengthening of Institutes etc. These can be specially designed Projects formulated by State Governments or other organizations for

development and promotion of enterprises in the areas of honey, bamboo, organic products etc. IT modules for ease of doing business for micro and small enterprises working in NER and Sikkim can also be developed. Each such intervention can be up to Rs. 1.00 crore.

## **2.4 Mizoram at Glance**

Mizoram is a small land locked state in the North Eastern Region of India occupying a total geographical area of 21,087 sq. km. It lies between 92.15° E to 93.29° E longitudes and 21.58° N to 24.35° N latitude. The state is bounded by Myanmar in the eastern and southern parts with 404 kms international boundary, in the west it is bounded by Chittagong hill tracts of Bangladesh with 318 kms international boundary and the state of Tripura with 66 kms inter state boundary, in the North is bounded by Cachar district of Assam with 123 kms inter state boundary and also Manipur with 95 kms inter state boundary (Exhibit 2.1). The tropic of cancer runs through the territory. The state occupies a great strategic importance within the North Eastern corner of India due to its long international boundary with Myanmar and Bangladesh. The hills are mainly from north to south. The maximum dimension from north to south is 277 kms and east to west is 121 kms. Most of the region is hilly but few flat land areas are available in low lying areas in the border of Cachar district of Assam. Major rivers flowing towards the north are Tuivai, Tlawng, Teirei, Tuirini, Tuirial and Tuivawl. Rivers flowing from the south are mainly Tuipui, Mat and Tuichang. The capital of the state is Aizawl and it is situated at over 1000 meters above sea level. Other important towns are Lunglei to the south (the second capital of the state), and even further to the south, Siaha; Champhai on the Myanmar border (Ray, 2002).

**Exhibit 2.1 Location of Mizoram in India**

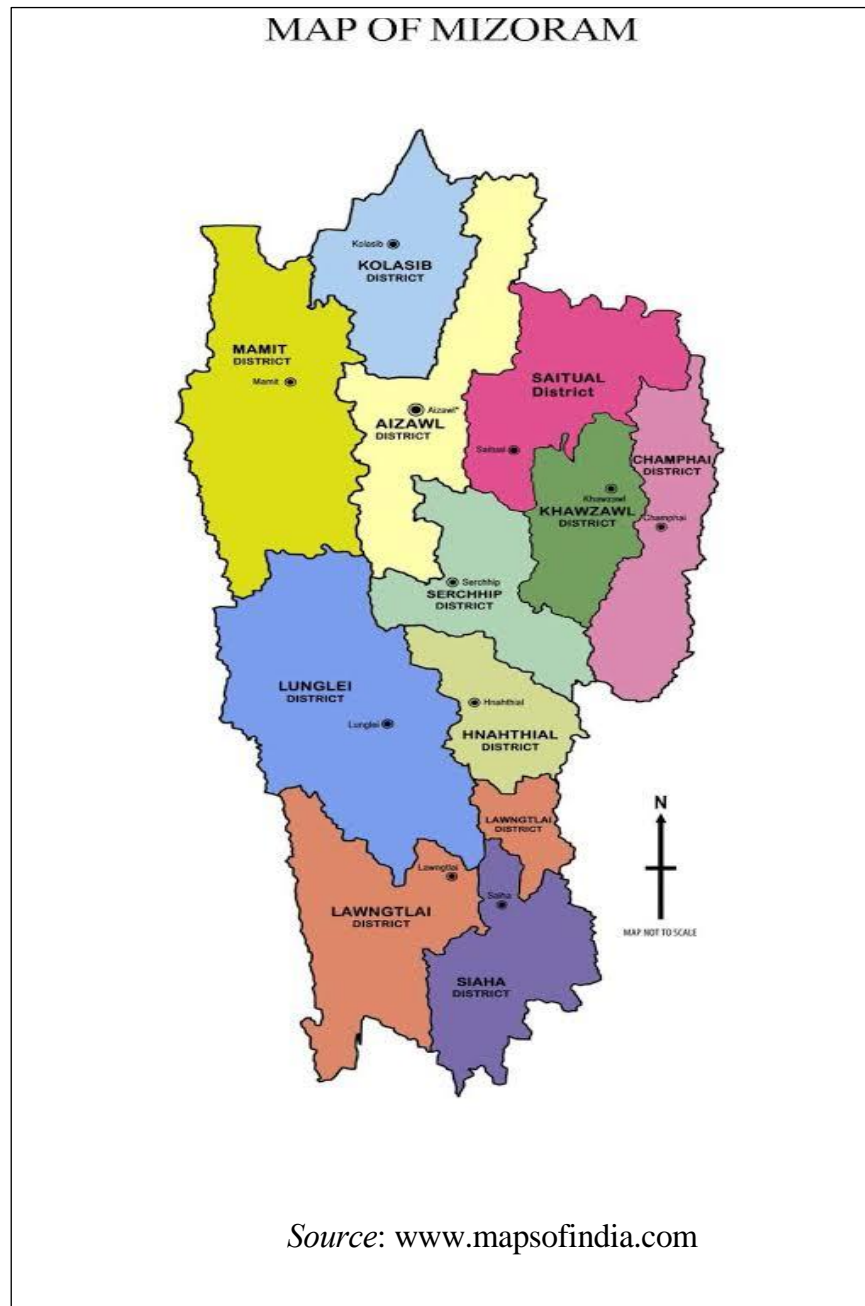


*Source: [www.mapsofindia.com](http://www.mapsofindia.com)*

"Mizo" is the name of native tribes, Mizoram means "land of the Mizos". Mizoram was previously part of Assam until 1972 when it was carved out as a Union Territory. In 1986 the Indian Parliament adopted the 53rd amendment of the Indian Constitution, which allowed for the creation of the State of Mizoram on 20 February 1987, as India's 23rd state. Aizawl is the state capital of Mizoram, located in north of the tropic of cancer in the northern part of Mizoram. Being the state capital, Aizawl is also the political and cultural centre of Mizoram. It is the seat of the state government and the public sector as well as the commercial hub of the state. As of now, Mizoram has 11 administrative districts as shown in Exhibit 2.2, there were 8 districts till 2018 and further 3 new administrative districts were formed in 2019 such as Hnahthial district, Saitual district, and Khawzawl district.



**Exhibit 2.2 Map of Mizoram**



As per provisional reports of Census India, the population of Mizoram in 2011 is 1.097 million (10.97 lakh) and the estimated population of Mizoram in 2023 is 1.241 million (12.41 lakh) and the sex ratio is 976:1000 which is below national average of 940 as per latest census. According to 2011 Census, the population density of the state is 52 sq. km with 2,22,853 household comprising of 48% residing in rural areas and 52% in urban areas (Statistical Handbook Mizoram, 2020). The literacy rate of Mizoram as per Census 2011 is 91.33, in which male literacy percentage is 93.35 and

female is 89.27 percent. The level of literacy among women is also high which hardly obtains anywhere in India (Shyam Nath, 2004). The high level of literacy has been attained over the years during which the Christian missionaries who were allowed in by the British at the time played notable role in the spread of education. They not only converted the people into Christianity but they also set up schools in many villages. The Christian missionaries gave the Mizo tongue the Roman script as well as English, which is the state's other official language (Lalhunthara, 2012). Table shows the district wise population by sex.

**Table 2.5: District wise population of Mizoram**

S.no	District Name	As per 2011 census	Estimated population in 2023
1.	Aizawl	400,309	477,569
2.	Champhai	125,745	150,014
3.	Kolasib	83,955	100,158
4.	Lawngtlai	117,894	140,648
5.	Lunglei	161,428	192,584
6.	Mamit	86,364	103,032
7.	Siaha	56,574	67,493
8.	Serchhip	64,937	77,470

*Notes:* The table includes 8 administrative districts

*Source:* <https://www.indiacensus.net/states/mizoram>

The demographic features of Mizoram is shown in Table 2.5. the decadal growth of population was lowest during 1911-21 which was 7.9% only whereas the highest growth was witnessed during 1971-81 which was 48.5%. the growth rate of population during the last decade i.e., 2001-11 was 22.8%, which works out to be approximately 2.8% every year. One interesting feature to be noted is that from the year 1901, in every census, the decadal growth rate in Mizoram has been higher than all India level.

**Table 2.6: Demographic features of Mizoram: 1901-2011**

Year	Males	Females	Total	Percentage decadal growth (Mizoram)	Percentage decadal growth (all India)	Population on density per sq.km	Sex ratio	Literac y rate
1901	39004	43430	82343	-	-	4	1113	NA
1911	43028	48176	91204	10.6	5.75	4	1120	NA
1921	46652	51754	98406	7.9	-0.30	5	1109	NA
1931	59186	65218	124404	26.4	11.00	6	1102	NA
1941	73855	78931	152786	22.8	14.22	7	1069	NA
1951	96136	100066	196202	28.4	13.30	9	1041	36.20
1961	132456	133598	266063	35.6	21.60	13	1009	44.01
1971	170824	161566	332390	24.9	24.80	16	946	53.79
1981	257239	236518	493757	48.5	24.60	23	919	74.26
1991	358978	330778	689756	39.7	23.87	33	921	82.27
2001	459109	429464	888537	28.8	21.54	41	935	88.80
2011	552339	538675	1091014	22.8	17.64	52	975	91.58

**Source: Provisional Census Total-India Data Sheet, Census of India 2011, Ministry of Home Affairs, Government of India**

The state's population forms only 0.09% of the total population of India. The population is thinly distributed as compared to the national population density. The density of population as per the 2011 census is 52 persons per sq. km while that of all India is 382. Among the states in NER, Mizoram is the second lowest only next to Arunachal Pradesh in respect of density of population.

## **2.5 Growth and Development of Business in Mizoram**

The Mizos had no solid economic or professional roots prior to colonization. During this time, agriculture was the primary source of income. The Mizos' living standards were so poor that they could meet their basic necessities by jhumming (the method of cultivating crops by first clearing the land of trees and plants and then burning it) and other auxiliary activities like as animal husbandry, hunting, fishing, and so on. So, the Mizos throughout this era were more or less self-sufficient by investigating with wisdom the economic possibilities of their surroundings (Zorema,

2007). Cottage industry was critical to the early Mizos' economic well-being. It comprises cotton weaving, basket works, pottery, brass work, iron work, production of musical instrument, etc (Mate, 2014).

During the Colonial Period, even while jhumming remained to be the backbone of the Mizo economy, the notion of commerce emerged into the thoughts of the Mizos with the creation of the bazaars in the border areas and trading was carried out throughout barter system (Mate, 2014). Rubber, ivory, cotton, bamboo, and lumber were among the commercial items sold during this time period (Zochungnunga, 2004). The commercial items brought to Mizoram during colonial time were common salt, guns and ammunition, tobacco (Joshi, 2010; Zochungnunga, 2004) The Mizos purchased salt in return of ivory, rubber and jhum goods from the traders (Joshi, 2010). Following the British crown's 1871 annexation of Lushai Hills (Mizoram), under the direction of Deputy Commissioner T.H. Lewin, the arrival of Welsh missionaries F.W. Savidge and J.H. Lorrain in 1894, the visit of Presbyterian missionary Rev. William Williams in 1891, and other events that left the Mizoram population significantly altered (Rohmingmawii, 2013). The Mizo tribe has undergone significant transformation as a result of the introduction of Christianity and the creation of alphabets by Welsh missionaries to further education (Lalchhantluangi, 2022). The economic structure changed in 1900 with the acquisition of Lushai Hill (Mizoram); the barter system was abandoned and cash was introduced. This era witnessed the birth of new business entrepreneurs such as Dohnuna, Paliana and Pachhunga (Lalmachhuana, 2012), dealing in items such as aluminium, guns and ammunition, ration supplies for the Government, pharmacy and oil from Assam Oil Company Ltd. from 1911 onwards (Lalchhantluangi, 2022).

The influence of education after the post colonialism period may be witnessed until today. Education opened the path for the Mizos since the British devised the alphabets for the language to date. The people of Mizoram have the second highest literacy rate at 91%. This illustrates how much education have altered the lives of the people of Mizoram. With the development in literacy suggests increase in chances to venture in different sorts of companies to acquire the demands of its people.

Following India's independence in 1947, Mizoram was proclaimed a Union Territory in 1972 before becoming a state on June 30, 1986. After Mizoram was declared one of India's states, Aizawl, the state capital, served as the primary commerce and business centre. The state government took steps in the promotion and development of business by establishing the Directorate of Trade and Commerce on 20th February 1987 for the promotion and regulation of trade, agriculture, regulation of markets, trade centres, border trade and trading by non-tribal as well as inter-state trade (Kabra, 2008). Aizawl has evolved into a large market, importing items from Myanmar, Bangladesh, Thailand, China, and Hong Kong, to mention a few. The state's economic and trade sectors continue to grow. There were 24,219 firms in Aizawl, the state capital and 7,775 enterprises in Lunglei, the second most populated district (Mizoram Statistical Abstract, 2021).

## **2.6 Small Scale Industries (SSIs) in Mizoram**

In Mizoram, the state industrial policy is declared for the first time in 1989 followed by the second in 2000. Mizoram is lagging behind than the other states of India in the establishments of industries and enterprises.

According to *Mizoram Statistical Abstract* (2021), there were 57,486 enterprises in Mizoram in the year of 2013. Out of which 24,219 enterprises were located in Aizawl district and 7,775 enterprises in Lunglei district (Table 2.7). As per the *Third Census of Small-Scale Industries (2001-02)*, there were 2718 registered small scale industries in Mizoram, out of which 2027 were in Aizawl district - 1914 were in Aizawl urban and 113 were in Aizawl rural (Lalhunthara, 2012). As per *Mizoram Statistical Abstract 2021*, there were 8,943 small-scale industrial units in Mizoram during 2020-21. Out of which, 6,050 SSI units were located in Aizawl district and 586 SSI units in Lunglei district.

**Table 2.7: District-wise number of Small Scale Industries (2013)**

SN	District	No. of enterprises	Combined % to total
1	Mamit	3,705	6.45
2	Kolasib	4,873	8.48
3	Aizawl	24,219	42.13
4	Champhai	5,964	10.37
5	Serchhip	3,810	6.63
6	Lunglei	7,775	13.53
7	Lawngtlai	4,178	7.27
8	Siaha	2,962	5.15
	Total	57,486	100

**Source: Mizoram Statistical Abstract 2021**

## **2.7 Micro, Small and Medium Enterprises in Mizoram**

The MSMEs sector in Mizoram has been growing at a slow pace, but the basic infrastructure needed for the growth of enterprises in terms of electricity, transport, communication and banking facilities pose a big challenge. Mizoram has ample opportunities for start-ups and MSMEs in food processing sector. The availability of raw materials, changing lifestyles and appropriate policies in Mizoram have given ample scopes to Start-ups and MSMEs in Food Processing sector, said Kummanam Rajasekharan, Governor of Mizoram at the conference on Start-ups and MSMEs in Food Processing organized by ASSOCHAM in conjunction with Ministry of Food Processing Industries (MoFPI), NABARD and Mizoram University in 2018. There are potentials for service industries and MSMEs.

**Table 2.8 Details of units set up, investment made & employment generated by MSMEs in Mizoram (Year Wise)**

<b>Year</b>	<b>Sector</b>	<b>No. of units set up</b>	<b>Investment made(Rs. in crore)</b>	<b>Employment generated</b>
2007-08	Manufacturing	249	27.26	2061
	Service	47	12.33	373
2008-09	Manufacturing	411	78.79	3822
	Service	93	15.91	878
2009-10	Manufacturing	451	26.76	3594
	Service	60	5.6	394
2010-11	Manufacturing	131	20.49	942
	Service	47	15.85	272
2011-12	Manufacturing	121	38.18	948
	Service	24	9.2	143
2012-13	Manufacturing	98	19.17	807
	Service	26	4.3	147
2013-14	Manufacturing	189	38.21	1322
	Service	43	5.52	254
2014-15	Manufacturing	248	97.66	1252
	Service	37	3.06	188
2015-16	Manufacturing	124	20.76	739
	Service	50	73.78	231
2016-17	Manufacturing	50	5.48	229
	Service	15	3.42	74
2017-18	Manufacturing	209	2684.58	3915
	Service	85	351.65	411
TOTAL	Manufacturing	2281	3057.33	19631
	Service	527	500.62	3365

**Source: Directorate of Commerce and Industries, Government of Mizoram (District Industries Centre data)**

## **2.8 Institutional Support in Mizoram**

In India there are various organisations, boards, agencies or corporations which are actively involved in the development of entrepreneurship. Some of them are working at the national level and some others are working at the regional or state level.

Some of the national level institutions are National Small Industries Corporation Limited (NSIC); Khadi and Village Industries Commission (KVIC); Mahatma Gandhi Institute for Rural Industrialisation (MGIRI); National Institute for Micro, Small and Medium Enterprises (NI-MSME); National Institute for Entrepreneurship and Small Business Development (NIESBUD); Micro, Small and Medium Enterprises Development Institute (MSME-DI), Indian Institute of Entrepreneurship (IIE). In respect of Mizoram, some of the institutions which are involved in the development of entrepreneurship are described below:

**i) Small Industries Development Bank of India (SIDBI):** Small Industries Development Bank of India, as a separate apex bank was set up in 2 April , 1990 as a principal institution for promotion, financing and development of industries in the small scale sector and for coordinating the functions of other institutions engaged in similar activities. Financial assistance by SIDBI provides refinancing credit to small scale industrial sector through State Financial corporations and other nationalized banks at a concessional rate of interest under its various policy schemes namely single window scheme, Composite loan schemes etc.

SIDBI under the charter has, inter alia, been assigned the task of being the main purveyor of term finance to small scale sector in the state small scale industrial units, artisans, village and cottage industry units in the tiny sector and small road transport operators are extended financial assistance mainly by way of refinance through primary Lending Institutions. All the projects in the small scale sector are normally eligible for assistance

The minimum promoter's contribution prescribed under the schemes generally varies between 10 % and 25%.The debt-equity ratio upto 3:1 is normally applicable under all refinance schemes in respect of loan amount up to Rs.10 lakh and up to 2:1 above Rs.10 lakh. Interest rate for more activities is related to size of loan under various schemes of assistance. Repayment period for the term loan is fixed after taking into account the profitability and debt-servicing capacity of the project.



**ii) Khadi and Village Industries Commission(KVIC):** Khadi and village industries commission (KVIC) is a statutory body created by an act of Parliament No.61 of 1956 and as amended by Ac No. 12 of 1987 and Act.No10 of 2006) Established in April 1957. It is under the administrative control of the Ministry of Micro, Small and Medium Enterprises, Govt. of India. Its functions comprise building up of a reserve of raw materials and implements for supply of producers, creation of common services facilities for processing of raw materials as semi-finished goods and provision of facilities for marketing of KVI products. It also facilitates training of artisans engaged in khadi and village industries

KVIC Activities and programme in Mizoram:

- SFURTI: Cane and Bamboo cluster, Implementing Agency Hnam chhantu Pawl.
- HRD: MTDC Budget sanctioned Rs.16.00 lakhs for different ongoing training programmes , total fund sanctioned received Rs.8.00 lakhs Mizoram Khadi & V.I Board implement the programme.
- Publicity : Sanctioned Amount Rs.9.00 lakhs, Fund received Rs.2.00 lakhs , Expenditure incurred Rs.2.00 lakhs (as on date)
- Information Technology: Rs 1.00 lakhs was sanctioned and received out of which 60 % of the fund was utilized for the year 2015-16

**iii) Mizoram Khadi and Village Industries Board (MKVIB)**

Mizoram KVI Board was established in March 1986 by an Act of Assembly i.e., the Mizoram Khadi & Village Industries Act, 1982. As provided in section 17 of the Act, the Board shall perform the following functions and activities.

- To start, encourage, assist and carry on Mizoram khadi and village industries and to carry on trade or business in such industries and in the matters incidental to such trade or business.

- To help the people by providing them with work in their homes and to give loans and other form of monetary help to individuals, registered co-operative societies and registered institutions.
- To encourage establishment of co-operative societies for khadi and village industries and handicraft.
- To conduct training centres and to train people with a view to equipping them with the necessary knowledge for starting or carrying on khadi and village industries.
- To manufacture tools & implements required for carrying on khadi and village industries and to manufacture the products of such industries.
- To arrange for the supply of raw materials and tools and implements required for the same purpose; and to sell and to arrange for sale of the products of the said industries.
- To arrange for publicity and popularising of finished products of khadi and village industries by opening stores, shops, emporium of exhibitions and to take similar measures for the purpose.
- To endeavour to educate, public opinion and to impress upon the public, the advantages of patronising the products of khadi and village industries.
- To seek and obtain advice and guidance of expert in khadi and village industries.
- To undertake and encourage research work in connection with khadi and village industries and to carry on such activities as are incidental and conducive to the objects of the Act.
- To discharge such other duties and to perform such other functions as the government may direct for the purpose of carrying out the objects of the Act.

*Source: Mizoram KVI Board*

**iv) Mizoram Chamber of Industries:** The Mizoram Chamber of Industries (MCI), established in the year 1995, is the leading organization of the State of Mizoram for promoting industry and entrepreneurship in the State. Ever since its establishment, the Chamber has been playing key roles in disseminating information and creating

awareness among active and prospective entrepreneurs, business communities, and among unemployed youth of rural and urban sectors of Mizoram on all matters connected with industry, commerce, trade and export opportunity of Mizoram. The Chamber actively interacts with State Government departments and their agencies, Ministries in Govt. of India, Banking Sectors and also gathers valuable inputs from its District Sub – Headquarters, located in four other District in Lunglei, Champhai, Kolasib, Serchhip and also from more than 800 active members of the Chamber and helps in opinion building and seeks policy interventions for the industry sector of Mizoram.

While giving focused attention to issues in such manner, the MCI also remains fully aware of the environmental issue, labour issue and labour welfare, women and child issues, the welfare of Scheduled Tribe (ST) and other disadvantaged communities and also remains aware of the need for striking a sustainable balance between development objectives and the rights of the Tribal population of Mizoram.

*Source: Mizoram chamber of Industries, Aizawl*

## **2.9 Implementations of Central Government Schemes in Mizoram**

Ministry of Micro, Small & Medium Enterprises implements Schemes through different agencies in the state of Mizoram:-

- i) Prime Minister Employment Generation Programme (PMEGP): The Mizoram State introduces the scheme of PMEGP and the Nodal Agencies are District Industries Centre, Industries Department, Government of Mizoram and Khadi and Village Industry (KVI), Mizoram.
- ii) Cluster Development Programme (MSE-CDP): The Industries Department is the Nodal Agency of CDP in the State of Mizoram. Presently there are three approved Cluster and another promising Clusters are diagnosed and proposal are submitted to the Ministry of MSME. The corpus fund for each Cluster is up to Rs. 15.00 Crores

- iii) Scheme of Fund for Regeneration of Traditional Industries (SFURTI): The KVIC directly implemented the scheme of SFURTI in the state of Mizoram. The maximum investment for any single unit is Rs. 8.00 Crores.
- iv) Credit Guarantee Fund Scheme Assistance to Micro & Small Enterprises (CGTMSE): The scheme is directly implemented by Nationalized Banks in the State of Mizoram. A maximum limit is up to Rs. 1.00 Crore for single Unit.

Schemes of Ministry of Commerce and Industry available in Mizoram State:

- i) Export Development Fund for NER: The scheme is implemented through Department of Trade & Commerce, Government of Mizoram. Secretary of Trade & Commerce Department is the designated Export Commissioner for Mizoram State. 30% of Total Capital Investment in the project was subsidized by Ministry of Commerce and Industry, GOI.
- ii) Central Freight Subsidy: Since 2015 the scheme of Central Transport Subsidy (CTS) was converted to Central Freight Subsidy. 90% of transport cost was subsidized by the central government under the scheme. The scheme was implemented through Industries Department, Government of India.
- iii) Central Capital Investment Subsidy (CCIS): 30% of the total investment on Plant and machinery was subsidized by the Central Government.

Schemes of Department of Fisheries, Government of India:-

- i) Post-Harvest Handling Facility: The Post-harvest handling facility is applicable in the state of Mizoram. 30% of the Cold Storage and Cold chain facilities can be availed under the scheme.

Scheme of National Bamboo Mission applicable in Mizoram State:-

- i) Innovative Project: Under the scheme 100% of the project cost is finance by the National Bamboo Mission, Ministry of Agriculture and Cooperation, Government of India. The Nodal Agency of the State is

Mizoram State Bamboo Mission, Department of Forest, Government of Mizoram.

*MUDRA Bank Scheme:* This is the newly introduced scheme by Government of India. As such, all the Nationalized Banks are the Nodal Agencies of the Scheme in Mizoram.

*Ministry of Tribal Affairs Schemes:* All innovative and livelihood sustainability project for Tribal people can be accepted under the scheme. The sharing pattern of the scheme is in the ratio of 90:10 (Ministry of Tribal Affairs: Implementing Agency)

*Source: Mizoram chamber of Industries, Aizawl*

## **2.10 Problems and Challenges of MSMEs in Mizoram**

Mizoram is one of the most industrially backward states in India. The disadvantages due to topographical and geographical condition of the state coupled with underdeveloped infrastructure and transport bottlenecks are the main hurdles for the first-generation entrepreneurs of the state to move towards industrialization. Due to such reasons, mostly micro-enterprises exist in Mizoram while big industries are almost absent. business activities like tailoring, furniture making, automobile repairs, steel making, bakery, handloom weaving, balcksmithy etc, account for 80 per cent of the total number of business enterprises in the state. (Lalhunthara, 2015). Agriculture employs more than 60% of Mizoram's population. In addition, they engage in economic activities to supplement their income. In other words, mostly the entrepreneurs in Mizoram runs their business mainly for their livelihood.

### ***High transport cost and inadequate power supply***

Industrial units in the remote area have to incur additional transportation cost on import of raw materials and other inputs from other parts of the country. in the absence of any mechanical engineering industry in the state. the micro and small enterprises are required to import even a small and simple spare parts and accessories from outside the state. This may, cause undue delay in repair and replacement works. This may, in turn, retards production. Moreover, the manufacturing cost in Mizoram

is also comparatively higher than that in the neighbouring states. The entrepreneurs incur extra cost as compared to units in other states because of high transportation cost. Inadequate power supply is another reason for which Mizoram is industrially backward. It may be an ironical situation when it is seen against the fact that Mizoram is endowed with vast power potential.

### ***No inducement to outside participation***

Most of the businessmen in Mizoram are local entrepreneurs. Outside participation is almost absent due to restrictive regulations are in force. A non-Mizo person is prohibited to do business. If the proposed investment in plant and machinery is more than Rs 50 lakh, a non-tribal may establish an enterprise in thrust areas in a joint venture with local entrepreneurs only. However, this is also subject to fulfilment of other conditions. A non-Mizo may establish medium or large enterprise in joint venture with the state government and this is also subject to fulfilment of certain conditions. Moreover, the provisions of Inner Line Regulation do not permit permanent inner line pass except to those who hold permanent trade license from the former Mizo District Council. For all these things there is no adequate competition among the local entrepreneurs due to absence of outside participation, which is detrimental to the growth of industry in Mizoram.

### ***Limitations of supporting agencies***

The state Directorate of Industries and DICs were set up to promote industrialisation in the state by providing services and incentives to the entrepreneurs. But one of the problems is to find the right and adequate personnel to fill up the technical and managerial posts in these government offices. As a result, training programmes to the entrepreneurs are adversely affected. Non-preparation of proper action plan and lack of determination on the part of government officials are other obstacles in the industrialisation of Mizoram.

### ***Lack of business orientation***

A general lack of concern for industrial development among the entrepreneurs. There are many entrepreneurs who receive financial assistance from government agencies in the form of grants or incentives do not make investment in business rather they prefer to divert funds for some other purposes. It is also observed that many of the entrepreneurs lack business orientation and knowledge of business management. There is neither management training institute to impart training in micro entrepreneurs in the state nor the educated youth prefer to go for such training elsewhere outside the state. Business and entrepreneurship cannot grow without properly trained and technical and managerial personnel. Majority of the entrepreneurs in business and entrepreneurship in Mizoram are from first generation entrepreneurs

### ***Lack of trained manpower***

The entrepreneurship development in Mizoram also suffered due to non-availability of trained and experienced manpower. Because of lack of adequate supervision, the efficiency of workers is below expected level and resulting in higher cost of production. There are many unemployed engineering graduates and graduates in business management in Mizoram but are not adequately for running enterprises.

### ***Entry restriction***

The restriction on the entry of outside people into the state of Mizoram regarding non-tribal people also created difficulty in the growth and development of industries in Mizoram. The high cost of production, high transportation cost, higher wage rate, weak bargaining, high cost of living etc is some of the important issues responsible for not attracting investment from outside the state. Attitude of the local people to non-local entrepreneurs prevented and discouraged outside people to make substantial investments in Mizoram.

### ***Absence of industrial environment***

The high literacy coupled with essential carpentry and mechanical skills possessed by the local people could not help much in creating industrial climate in the state. The youth possessing even the requisite technical education prefer to go for government jobs. They hesitate to start new enterprises. The easy-going life style and the desire to earn quick and easy money have failed to break the vicious circle of non-industrialisation.

### ***Role of state government***

Promotion of entrepreneurship in the state is one of the most important roles of state government. It is expected that the state government has to play a leading role in promotion of industries and entrepreneurship. In practice, the state government has not taken initiative to the desired extent. The meagre state plan expenditure for industrial development is one indication of the fact. Late formulation of industrial policy is another indication. In Mizoram, the state industrial policy is declared for the first time in 1989 followed by the second in 2000. Most of the provisions remained unimplemented. It is expected from the state government to facilitate economic development of the state by making the situation more comfortable for the development of entrepreneurship.

### ***Policy constraints***

The state government notifies industrial policies from time to time to address the constraints facing industrial development in the state. The present Industrial Policy Mizoram (Industrial Policy of 2010) was notified on 13.9.2012 to give direction to the strategy for industrial development of the state. The policy outlined the direction in which development of various sectors of industries may be pursued. Roadmap and detailed action plan in line with the policy is yet to be drawn for different components envisaged in the policy. More elaborated action plan and schemes therefore need to be drawn up taking into consideration financial condition of the state, level of entrepreneurs, resources and infrastructure conditions. The industrial policies have not



been enjoying adequate financial backup thereby unable to achieve the objectives of such policies. Due to limitation of sectoral plan fund, small incentives envisaged in the policy could not be given properly. This has resulted in discouraging the micro and small enterprises who are at the initial stage of production.

The MSME sector is a large contributor for the development of an economy. The present study revealed the potential of the role of MSMEs in developed as well as developing nations, as an engine for providing employment, inclusive growth, export and innovation.

Exploitation of potential advantages and benefits of the MSMEs to the economy requires favourable and effective policy support from the government. Building functional competencies for growth in the MSME sector is not a limited responsibility of the entrepreneurs alone, the facilitating and support institutions and government have to find ways to spread awareness and sustain the MSME growth in the interest of the nation. Also build relationships with banks and other key financiers of international investments and trade to facilitate introductions between these funding sources and SME clients. Mizoram is lagging behind other states of India so far as industrial development is concerned. Though the pace of industrialization in the state had started during the British period, it could not attain much progress even after six decades of economic planning Mizoram is endowed with fertile land and rich forest resources. Unless these resources are utilized within the territory with proper efforts in a systematic manner, the state cannot expect an economic boost. Though many new micro and small enterprises have been coming up in the state, the success rate is poor due to many problems. In a backward and remote state like Mizoram, micro and small enterprises are most suitable and they have a big role to play for the state economy. Though Mizoram is considered as peaceful state in India, the basic infrastructure needed for the growth of enterprises in terms of electricity, transport, communication and banking facilities pose a big challenge. Moreover, lack of vision, lack of willingness to explore the opportunities and absence of entrepreneurial mind hamper the industrial development.

It is the responsibility of state government to take measures to create an environment conducive for the entrepreneurs to participate in the MSME sector. The state government should also take appropriate measures to integrate the regional markets with national and international markets in order to explore opportunities for the entrepreneurs. In order to overcome the problems of uneven growth, unemployment, poor investment and low-quality products, the government should encourage the development of MSMEs by utilising the local resources and subsidised package. There is ample scope for the development of enterprises on the basis of factor endowments in the state. The state government along with other stakeholders like banks and other financial institutions should encourage the entrepreneurs to set up more enterprises in the area of fruit processing, vegetable cultivation, horticulture, piggery and poultry in the state. Moreover, the state government should be proactive in evolving an industrial policy with a view to promote the large and medium enterprises in the state that would address the problem of industrial backwardness.

## **2.11 Conclusion**

In conclusion, the study provides a comprehensive overview of the Micro, Small and Medium Enterprises (MSMEs) sector in Mizoram, shedding light on the state's economic landscape, historical background, and challenges faced in entrepreneurship development. Mizoram's strategic geographical location, with international borders with Myanmar and Bangladesh, presents opportunities for cross-border trade and economic growth. The state's historical reliance on agriculture and cottage industries has shaped its economy, but barriers such as limited infrastructure and lack of industrial development hinder the growth of enterprises. While the Ministry of MSME has introduced initiatives to promote entrepreneurship in Mizoram, there is a clear need for increased support and involvement from the state government to address these challenges and foster sustainable economic development. By leveraging its unique position and implementing targeted policies to support MSME growth, Mizoram has the potential to emerge as a hub for small and medium enterprises, contributing to the overall economic prosperity of the region.

### **CHAPTER 3**

#### **SOCIO-ECONOMIC PROFILE OF MICRO ENTREPRENEURS AND PROFILE OF MICRO ENTERPRISES IN MIZORAM**

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## **CHAPTER 3**

### **SOCIO-ECONOMIC PROFILE OF MICRO ENTREPRENEURS AND PROFILE OF MICRO ENTERPRISES IN MIZORAM**

This chapter proposes to identify and discuss the socioeconomic background of the micro entrepreneurs in Mizoram and their business profile. In this chapter, an attempt is made to study the socioeconomic background of the entrepreneurs in terms of their age, gender, marital status, educational qualification, average monthly income, experience in business etc., and the business profile of the micro entrepreneurs.

#### **3.1 Introduction**

Entrepreneurship is gaining popularity even among tribal communities in India's North Eastern Region (NER) as level of education expands and work prospects in the public sector shrink. Industrialization via entrepreneurial growth is today regarded as the most efficient method of attaining balanced economic development not only in a country but also in diverse areas (Rahman, 2008). It has a critical role in creating jobs, reducing poverty, and using natural resources for economic development in backward regions such as Mizoram. The North Eastern states were gifted with abundant resources, and with the expansion of entrepreneurs and aspirant entrepreneurs, the economy has developed in recent years, although it has yet to achieve significant economic growth and development. The condition of entrepreneurial development in Mizoram is similar to that of other North Eastern states; it has yet to establish a position on India's industrial map, but it is hoped that this will happen soon. Mizoram's industrial economy is characterized by microenterprises with minimal capital investments. Mizo people choose white-collar occupations and rely heavily on government service. However, this is expected to change sooner rather than later as entrepreneurship becomes more prominent among Mizo people.

While reducing unemployment remained the primary goal of development planning, the state's rising unemployment problem remains a source of concern

(Periodic Labour Force Survey, 2022-23). The number of job searchers has increased over time, and unemployment remains an ever-present issue, particularly among educated youth. A potential solution to the problem of educated unemployment might be the growth of entrepreneurship. Policymakers in Governments began to see this as a concern for them. There is also a need to shift the way of thinking of the next generation.

As per MSMEs Annual Report, 2022-23 published by the Ministry on Micro, Small and Medium Enterprises, out of 633.88 MSMEs in India, there were 608.41 lakh (95.98%) MSMEs were sole proprietary concerns. Of these, males owned 79.63% of enterprises as compared to only 20.37% owned by females. There was no significant deviation in this pattern in micro enterprises as well. Males owned 79.56% of micro enterprises and females owned 20.44% of micro enterprises.

For the purpose of the present study, an entrepreneur is defined as someone who is in charge of establishing, managing, and developing a business. The majority of the micro enterprises in this research were founded by entrepreneurs who were still operating their units during the field survey. However, there were only a few situations in which ownership was transferred by inheritance. In such circumstances, the individual inheriting the business was treated as an entrepreneur.

Entrepreneurs' socioeconomic background has a significant impact on the entrepreneurial process. Many studies have found that a person's socioeconomic setting has a substantial impact on their entrepreneurial conduct. For example, Khan (2019) discovered that socioeconomic characteristics such as educational background, religion, previous employment experience, family type, and ownership pattern had a substantial impact on the success of small enterprises in Chennai. Entrepreneurs' company performance was linked to socio-economic variables, which had a favourable and substantial influence on their success (Soomro et al., 2019).

As noted in Chapter 1, the present study covers 200 micro enterprises operating in manufacturing and service sector from Aizawl city and Lunglei town in Mizoram.

### **3.2 Socio-economic Profile of micro entrepreneurs**

This section deals with the socio-economic profile of micro entrepreneurs in the present study such as gender, age, marital status, educational qualification and annual income of family members.

### **3.3 Gender**

The government of India has defined women entrepreneurs based on women participation in equity and employment of business enterprise. Accordingly, the government of India (GOI 2006) has defined women entrepreneur as “an enterprise owned and control by a woman having a minimum financial interest of 51% of the capital and giving at least 51% of the employment generated in the enterprise to women.” In terms of Schumpeterian concept of innovative entrepreneurs, women who innovate, imitate or adopt a business activity are called women entrepreneurs (Khanka, 2016). In a nutshell, women entrepreneurs are those women who think of a business enterprise, initiate it, organise and combine the factors of production, operate the enterprise and undertake risks and handle economic uncertainty involved in running business (Khanka, 2016).

All the entrepreneurs-respondents under this study are the Mizo and they practice Christianity. Haymond, J. E. (2012) in his study “The Proverbs 31 Woman: Entrepreneurial Epitome?” provides an exegesis of Proverbs 31:10-31 from an economic perspective, portraying the Proverbs 31 woman as an ideal entrepreneur. The author views her as engaging in small-scale capitalist production, being industrious, generous, and pious in her actions. The Proverbs 31 woman is depicted as someone who effectively serves consumers in private markets, bringing honour to her household while securing the material goods necessary to fulfil her responsibilities . Her actions are seen as consistent with the vision of entrepreneurship outlined by economists like Mises and Knight, emphasizing qualities such as hard work, resourcefulness, and ethical conduct in business. The Proverbs 31 woman is presented as a model of entrepreneurial excellence, showcasing the intersection of faith, economics, and virtuous behaviour in the realm of business.

There is a specific woman in the Bible, Lydia who was an entrepreneur and a devotee of God's Kingdom. She was hospitable, loved God, and had her own business. Luke, a disciple of Jesus Christ, wrote Acts, detailing the history of their teachings. Paul and his disciples, obedient to God's vision, travelled to Macedonia, specifically Philippi, a Roman colony. On the Sabbath, they found Lydia, a "seller of purple goods" who worshipped God. Lydia's home was in a great area for dyeing garments, where she sold her products and worshipped God. Lydia's characteristics include entrepreneurship, devoutness, hospitality, serving, caring, believing, and Christian. Acts is a book of adventure and bravery, showcasing the journey of Jesus and his disciples in expanding the Kingdom of God. From these findings of we can come to a conclusion that even in a Biblical point of view, women have a blend of qualities that are highly desirable in an entrepreneur.

Legally, there are no entry barriers to micro enterprises on the basis of gender; both the males and females can actively participate. However, in many countries including India, there seems to be cultural bias as regards to comparative roles of men and women. A woman is able to pursue her career aspirations only in addition to her domestic responsibilities. Constraints on women taking to entrepreneurship are many and their participation is smaller in the population of entrepreneurs (Saxena, 2005).

With increasing entrepreneurship awareness and rising educational qualification of women across the world and in Mizoram as well, a growing participation of women entrepreneurs is seen in important economic activities, especially in self-employment activities. Table 3.1 indicates the distribution of the respondents according to their gender and revealed the dominance of male respondents in the study area.

**Table 3.1 Gender of the respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	118	59.0
Female	82	41.0
Total	200	100.0

**Source: Field survey**



With regard to the gender composition among the entrepreneurs (Table 3.1), it was found that 59% of the micro enterprises were owned by male entrepreneurs and the remaining 41% were female entrepreneurs. Analysis of gender characteristics shows that the participation of females in micro enterprises is smaller in the population of the entrepreneurs. However, female work participation is larger as compared to previous studies in other states and other countries. In a similar study conducted in Cachar District of Assam, a neighbouring state of Mizoram by Khadim, M. E. H., & Choudhury, S. R. D (2018), it was revealed that over 91% of the respondents were male entrepreneurs and only 8.6% respondents were female entrepreneurs. The female participation in the micro and small enterprise in their study area was very poor. According to a study on Mizo women entrepreneurs by Lalnunthara. R, Jyoti Kumar, and Laldinliana (2023), there is growing recognition of the critical role that women entrepreneurs play in economic progress, which is vital to the improvement of society and the economy as a whole. Despite being a small state with no large industry (Lalnunthara, 2019, Lalnunthara. R, Jyoti Kumar & Laldinliana, 2023), female entrepreneurs in Mizoram are growing, developing, launching a wide range of businesses, and enhancing the state's economy.

Among all the states in India, Manipur has the highest percentage of women entrepreneurs (50.06%) of MSMEs owned by females. This is followed by Telangana (39.98%) of MSMEs owned by females, and 35.34% in Mizoram (MSME Annual Report, 2022-23). Compared to the earlier studies on entrepreneurship, the high participation rate of women in the current study demonstrates that Mizo women today are growing more competent, ambitious, and confident in pursuing their entrepreneurial abilities and chances. Another driving force for these women to pursue careers in the business sector was the desire to live independently. Women's hitherto untapped entrepreneurial potential has evolved in parallel with a rising awareness of their position and economic standing in society. Today, women entrepreneurs are taking advantage of new economic opportunities. Women are motivated to manage structured businesses for a variety of reasons, including their skills, knowledge, talents, family support, business ability, and a desire to accomplish something new and constructive.

### 3.4 Marital status

The marital status of the respondents leads to requisite of rewards and recognition. It is included as one of the social economic variables in the present study. In general, the need and commitment of the married persons are greater than the unmarried. Similarly, the statuses like divorced and widows ascertain different requirements in life.

Marital status of entrepreneurs may have a great influence on handling and managing their business unit. Married women entrepreneurs have to perform multiple roles in the family in addition to their entrepreneurial activities. They must bear major responsibility for household chores and child care (Kim & Ling, 2001). Marital status of the entrepreneurs also plays an important role in starting the entrepreneurial venture along with other socio-economic characteristics.

In Mizo society, courting is essential for Mizo youth to marry since they prefer love marriage over arranged marriage. Marriage usually occurs after a very long time of courting between boys and girls, and as a result, the odds of divorce were lower than they would have been otherwise. However, divorce is equally common in Mizo society. In light of this, the present study considers the entrepreneurs' marital status. The respondents' marital status is shown in Table 3.2.

**Table 3.2 Marital status of the respondents**

<b>Marital Status</b>	<b>Frequency</b>	<b>Percentage</b>
Married	145	72.5
Single	39	19.5
Divorced	10	5.0
Widowed	6	3.0
Total	200	100.0

**Source: Field Survey**

So far as the sample is concerned, the proportion of married respondents is undeniably higher than the unmarried, divorcee and widow/widower respondents. The study (Table 3.2) revealed that 72.5% of the entrepreneurs were married. At the time

of field survey, discussion with the married entrepreneurs revealed that they have supporting spouses sharing all kinds of responsibilities in running their business.

Only 19.5% of the entrepreneurs were unmarried/single at the time of field survey and discussion with the unmarried entrepreneurs revealed that some of the entrepreneurs (both men and women) face some problems in finding potential partners for marriage because they do not have time to spare to search and select potential partners. This may be true because there is little to no arranged married system in Mizoram. Furthermore, the unmarried respondents consists of younger people who were still engaged in education and are not yet interested to have lifelong partners.

Fortunately, in case of the present study there were very few entrepreneurs who were widowed or divorced. 5% are divorced and 3% female entrepreneurs were widowed. Majority of the widow/widower/divorced entrepreneurs confessed that they were compelled into business due to economic responsibility which they had to shoulder as singles. The table reveals the dominance of respondents who are married in the study area.

### **3.5 Age**

Age is one of the important factors which decides the skill and ability of the persons in any business activity (Gomathi, 2020). Younger people are considered more active, enthusiastic, energetic and dynamic. However, the aged brings more knowledge, experience and skills into a business. Entrepreneurial intentions and willingness are more evident among younger individuals than older ones (Levesque and Minitti, 2006). At the same time, some studies found that entrepreneurial disposition was rising at older ages (Fairlie et al, 2016).

The study conducted by Lalrinsangi & Fanai (2020) on micro enterprises in Lunglei, Mizoram specified that age does not seem to be a barrier for entry into business as the respondents are comprised of different age groups. Furthermore, age is an important social profile since it determines the exposure, eagerness to learn, readiness to take risk and adjustability among the respondents. The elders have more

experience than youngsters while the youngsters are ready to take more risk than the elders.

Table 3.3 shows the distribution of the sample entrepreneurs in the present study according to the age. In this regard, the age of the entrepreneurs is divided into four groups: the first group representing those below 20 years, the second group consist of the age group 21-40 years, the third group in 41-60 years and those above 60 years are in the fourth group.

**Table 3.3 Age group of the respondents**

<b>Age group</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 20 years	2	1.0
21 - 40 years	85	42.5
41 - 60 years	97	48.5
Above 60 years	16	8.0
Total	200	100.0

**Source: Field Survey**

In terms of the age group of the respondents (Table 3.3), 48.5% were in the age group 41-60 years, the second largest group consisted of 21-40 years which constitutes 42.5% and 8% were in the age group above 60 years. The reason for declining in the number of entrepreneurs with the increase in age may be that the Mizo people above 60 years of age want to live a retired life and free from all the economic burden they shoulder for a long period. The age group less than 20 years constituted 1% only with the least number of respondents and it is obvious that the reason behind this findings is that the younger people are still engaged in education and are yet to put their hands into business world . In an overall analysis, more than one-third (56.5%) of the entrepreneurs' age were 40 and above. It is also interesting to note that some of entrepreneurs under the study have started their business at a young age regardless of the challenging task of managing the business. Many of the studies conducted on entrepreneurs in Mizoram shows that the entrepreneurs are mostly below 40 years. Overall, age does not appear to be a barrier to starting a firm. This can be confirmed by the studies conducted by Lalhunthara & Jyoti Kumar (2012), Dingliana (2015),

Lalrinsangi & Fanai (2020, 2022) and R. Lalnunthara, NVR Jyoti Kumar & Laldinliana (2023) relating to age of the entrepreneurs in Mizoram.

### **3.6 Educational qualification**

Education enlarges one's thinking and understanding horizons. It enables one to comprehend conditions more easily and clearly and in a better manner. An educated person can also easily adjust with the changed environment, hold better discussion and communicate in a more convincing manner. Education is one of the important factors to run an enterprise and it is one of the prime necessities to become entrepreneurs. Higher education can often be very beneficial for starting up a new business and this seems to be one of the factors determining the success of new businesses (Hunady, 2018).

While analysing the socioeconomic characteristics of entrepreneurs, it is crucial to assess their level of formal education because formal education has long been seen as a significant advantage when pursuing an entrepreneurial career. Formal education not only assists in obtaining the necessary knowledge for a career, but it also provides information about various occupational options and abilities. In Mizoram, formal education is regarded as a tool of improving one's socioeconomic standing in society. People are more conscious of the value of education in the development of human resources. Lack of education has hampered the success of entrepreneurs and exacerbated their challenges (Ramaswamy and Jyoti Kumar, 2010).

According to National Statistical Office (NSO) data, in 2022 India's average literacy rate was 77.7% in which the male literacy rate was 84.7% and the female literacy rate 70.3%. Mizoram is the third most literate state of the country having literacy rate of 91.58 % in which the literacy of male was 93.72% and female was 89.4%.

In this backdrop, it is proposed to ascertain the educational level of the entrepreneurs by the examinations they have passed or the degrees they have obtained from school, colleges and universities. Table 3.4 shows the educational status of the

respondents. The educational qualification of the entrepreneurs has been indicated into five broad categories as given below:

Matriculate: Those who completed their high school and/or those who study till high school.

Higher Secondary: Those who completed their higher secondary in a school.

Under Graduate: Those who completed their graduation in any course other than professional course.

Post Graduate: Those who completed their master degree from any recognised university in any course other than professional course.

MPHIL/PhD: Those who completed their Bachelor of Philosophy or Master of Philosophy from any recognised university in any course other than professional course.

**Table 3.4 Educational qualification of the respondents**

<b>Educational qualification</b>	<b>Frequency</b>	<b>Percentage</b>
Matriculate	60	30.0
Higher Secondary	47	23.5
Undergraduate	61	30.5
Postgraduate	31	15.5
M.Phil./Ph.D.	1	0.5
Total	200	100.0

**Source: Field Survey**

This data indicates a diverse educational background among micro entrepreneurs in the study area, with varying levels of educational attainment ranging from Matriculates to Post Graduates. The distribution highlights the importance of education in entrepreneurship and its impact on business practices and decision-making.

With regards to educational qualification of the respondents (Table 3.4), it is observed that 30.5% of the entrepreneurs were Under Graduates, 30% accounted for Matriculates, 23.5% accounted for respondents completing Higher Secondary, 15.5% accounted for Post Graduates and only 0.5% accounted for respondents having MPHIL/PHD degree. This shows that educational qualification is also not a barrier for entry into micro enterprises but higher education is preferable for the smooth functioning of the business and acquiring technical knowledge and skills in maintenance of proper records of financial transaction. However, the level of education completed by the Mizo entrepreneurs is far better off compared with the other studies within the country and across the globe.

Preparing their kids for government employment is the primary reason why most parents send their kids to school. Because government jobs in less developed North-eastern states like Mizoram guarantee stability and a steady income, educated youngsters in these states seek after them first. That being said, a significant number of graduates are generated annually by these institutions due to the state's expanding population and growing number of educational establishments. Any government that wants to hire educated youth finds it difficult to offer all of them with government services. Thankfully, the government took the effort to encourage the youth to choose entrepreneurship and organized a number of competitions, workshops, trainings and seminars to encourage both educators and learners to think like entrepreneurs.

Since almost two-fourths of the entrepreneurs in the present study were graduates or postgraduates, it cannot be said that entrepreneurship has no place among educated youth. It should be mentioned, nevertheless, that around half of the sample's entrepreneurs were either higher secondary school graduates or matriculates. It should be noted that having a formal academic background helps entrepreneurs recognize and effectively address company's challenges. Additionally, education is a major factor in determining an entrepreneur's aspirations, desires and sense of accomplishment in an economy with limited prospects.

### 3.7 Annual income of other family members

Aside from their own money and/or loans from banks, an entrepreneur's main source of financing comes from family members. A business may not always succeed and may require the assistance of others. The entrepreneurs' family members are their primary support system, and having the money to sustain the firm during difficult times would be a huge relief for them. The Table 3.5 shows the annual income of entrepreneurs' family members.

**Table 3.5 Annual income of other family members**

Annual Income (₹ in lakhs)	Frequency	Percentage
Below 5	98	49.0
5 - 10	71	35.5
10 - 15	25	12.5
Above 15	6	3.0
Total	200	100.0

**Source: Field Survey**

Regarding the annual income of other family members, 49% were having annual income less than ₹ 5 lakhs and 35.5% were having annual income ₹ 5 lakhs to ₹ 10 lakhs. 12.5% accounted for respondents having annual between ₹ 10 lakhs to ₹ 15 lakhs and 3% % accounted for respondents having annual income more than ₹ 15 lakhs.

### 3.8 Business profile of the respondents

This section analyses the business profile of the respondents in the present study viz., forms of business organization, annual sale turnover, about the workers hired by the business, year of operation, DIC/MSME registration or permit acquirement, place of business establishment and GST registration.



### 3.9 Forms of business organization

In starting a business in India, choosing the right forms of business organization is important. Each type of organization has its own merits and demerits. Forming a proper organization is very crucial because it determines the power, control, risk, and responsibility of the entrepreneur as well as the division of profits and losses. Indian society has historically been based on the joint family system, in which family members jointly held businesses. However, a study conducted by Sujata Mukherjee (2010) among microentrepreneurs in Mumbai and Pune revealed that the joint family structure in India was in decline, with 86% of the participants belonging to nuclear families and only 14% to joint families. According to two further Indian studies (Laxmi Narasaraiah, 1999 & Rajkonwar and Baruah, 2010), there is clear evidence that the joint family structure is gradually breaking down and giving way to the independent family system. However, Lalrinmawia (2005) noted that the joint family system is still prevalent in Mizoram. Ramaswamy and Jyoti Kumar (2010) conducted a study on the micro entrepreneurs of the handloom cluster in Thenzawl town of Mizoram, and found that 73% of the entrepreneurs lived in joint families and that the family owned their businesses jointly. According to a recent research by Lalrinsangi and Fanai (2023) and R. Lalnunthara, NVR Jyoti Kumar & Laldinliana (2023), sole proprietorship is the most common form of business ownership in the current economy, and the majority of sample entrepreneurs were from nuclear families.

Table 3.6 indicates the forms of business organization on the entrepreneurs' business under study.

**Table 3.6 Form of organization of the enterprises**

Ownership	Frequency	Percentage
Sole Proprietor	108	54.0
Family owned business	92	46.0
Total	200	100.0

**Source: Field Survey**

From the field survey (Table 3.6), it is observed that there were 54% sole proprietors out of the total respondents and family-owned business accounted for 46%. It is observed that the Mizo population's preference for nuclear families is causing a slowdown in the growth of family-owned businesses. Due to their desire for independence and the ability to make their own company decisions, Mizo entrepreneurs are increasingly choosing to operate as sole proprietors.

### 3.10 Cross sectional analysis of forms of organization

In this subsequent sections, cross-sectional analyses have been carried out to study the form of organization carried on by the respondents across their age, marital status, educational qualification.

### 3.11 Form of organization across gender

Table 3.7 indicates the form of organization across gender of the respondents. Among the male respondents, around 61.9% were sole proprietors and 38.1% engaged in family-owned business.

**Table 3.7 Form of organization across gender of the respondents**

Form of organization of the enterprise	Gender of the respondents		
	Male	Female	Total
Sole Proprietor	73 (61.9%)	35 (42.7%)	108
Family-owned business	45 (38.1%)	47 (57.3%)	92
Total	118	82	200

**Source: Field Survey**

With regards to the female respondents, 42.7% were sole proprietors and 57.3% engaged in family-owned business. In an overall analysis, the number of male respondents were higher in sole proprietorship whereas the number of female entrepreneurs was slightly higher in family owned business.

### 3.12 Form of organization across marital status

Table 3.8 shows the form of organization across marital status of the respondents.

**Table 3.8 Form of organization across marital status of respondents**

Form of organization of the enterprise	Marital status of the respondents				
	Married	Single	Divorcee	Widow	Total
Sole Proprietor	66 (45.5%)	34 (87.2%)	7 (70.0%)	1 (16.7%)	108
Family-owned business	79 (54.5%)	5 (12.8%)	3 (30.0%)	5 (83.3%)	92
Total	145	39	10	6	200

**Source: Field Survey**

Among the married respondents, around 45.5% were sole proprietors and 54.5% engaged in family-owned business.

With regards to the unmarried respondents, 87.2% were sole proprietors and 12.8% engaged in family-owned business.

Among the divorcee respondents, 70.0% were sole proprietors and 30.0% accounts for entrepreneurs engaged in family-owned business.

Among the widow respondents, more than two-thirds of the respondents which accounts for 83.3% were family-owned business and only one respondent was a sole proprietor.

### 3.13 Form of organization across age

Table 3.9 indicates the form of organization carried on across different age groups of the respondents.

**Table 3.9 Form of organization across the age of respondents**

Form of organization of the enterprise	Age group of the respondents				
	Less than 20 years	21-40 years	41-60 years	Above 60 years	Total
Sole Proprietor	0	64 (75.3%)	41 (42.3%)	3 (18.7%)	108
Family-owned business	2 (100%)	21 (24.7%)	56 (57.7%)	13 (81.3%)	92
Total	2	85	97	16	200

**Source: Field Survey**

Among the age group below 20 years, it is observed that all the respondents were engaged in family-owned business. Young entrepreneurs are taking over the family firm, which is noteworthy because starting new businesses might be difficult for them because they lack the necessary resources such as money, expertise, knowledge, and so on.

Among the age group 21 – 40 years, more than two thirds (75.3%) were sole proprietors and 24.7% engaged in family-owned business. It's noteworthy that despite all the obstacles and hurdles that were predicted to impede their company's growth, these youthful and aspirational entrepreneurs had the resolve and desire to operate as sole owners.

Among the age group between 41 – 60 years, the number of respondents engaged in family-owned business was higher than the number of sole proprietors. 42.3% were sole proprietors and 57.7% engaged in family-owned business. Among the age group above 60 years, 18.7% were sole proprietors and 81.3% engaged in family-owned business. It has been noted that family-owned businesses continue to flourish when their owners are a little older. This might be the result of the entrepreneurs' reluctance to start new businesses on their own as they become older and become more dependent on their family members as their desire for relaxation and retirement drives them.

### 3.14 Form of organization across educational qualification

Table 3.10 indicates the form of organization carried on across educational qualification of the respondents.

**Table 3.10 Form of organization across educational qualification of respondents**

Form of organization of the enterprise	Age group of the respondents					Total
	Matriculate	Higher Secondary	Under Graduate	Post Graduate	MPhil /PhD	
Sole Proprietor	15 (25%)	25 (53.2%)	39 (64%)	28 (90.3%)	1	108
Family-owned business	45 (75%)	22 (46.8%)	22 (36%)	3 (9.7%)	0	92
Total	60	47	61	31	1	200

**Source: Field Survey**

Among the respondent who were matriculates, around 25% were sole proprietors and 75% account for respondents engaged in family-owned business. Among the respondents who passed Higher secondary, 53.2% were sole proprietors and 46.8% entrepreneurs engaged in family-owned business.

Among the Under Graduate respondents, 64% were sole proprietors and 38% accounts for entrepreneurs engaged in family-owned business. Among the respondents who were Post Graduates, more than two thirds (90.3%) were sole proprietors and only 9.7% accounts for entrepreneurs engaged in family-owned business. It was found that the respondent with M.Phil./PhD degree was a sole proprietor.

From Table 3.10, it is noteworthy that when entrepreneurs pursue higher education, their inclination towards becoming sole owners grows. Additionally, it has been found that lower educated entrepreneurs tend to choose family-owned businesses.

### 3.15 Annual sales turnover of the enterprises

Revenue of the micro enterprises have an impact on the development of the entrepreneurial activity of the entrepreneurs. However, some of the business owners

were hesitant to provide their annual sales during the field survey, therefore precise numbers cannot be determined. That being said, the yearly sales turnover is separated into four (4) categories in order to calculate the average annual sales of the micro enterprises. Enterprise-wise annual sales of the micro enterprises are given in Table 3.11.

**Table 3.11 Annual sales turnover of the enterprises**

Annual Sales (₹ in lakhs)	Frequency	Percentage
Below 10	76	38.0
11 - 20	78	39.0
21 - 40	45	22.5
Above 40	1	0.5
Total	200	100.0

**Source: Field Survey**

On the whole, more than 75% of the micro enterprises have average annual sales turnover of ₹ 20,00,000 lakhs and below. With respect to the annual sales turnover of the enterprises (Table 3.11), it is found that 39% enterprises were having annual sales turnover between ₹ 11 lakhs to ₹ 20 lakhs, this account for the highest number of respondents. It further shows that 38% enterprises had an annual sales turnover below ₹ 10 lakhs and 22.5% had annual sales between ₹ 21 lakhs to ₹ 40 lakhs while only 0.5% had annual sales of more than ₹ 40 lakhs.

### **3.16 Cross sectional analysis of form of organization and annual sales turnover**

In this subsequent section, cross sectional analysis has been carried out to study the annual sales turnover of each form of organization in the present study. Further, a hypothesis has been tested to find out if there is a statistical relationship between form of organization and annual sales turnover of the enterprises with Spearman correlation.

Table 3.12 shows the distribution of annual sales turnover across each form of organization in the present study.

**Table 3.12 Form of organization with annual sales turnover**

Form of organization of the enterprise	Annual Sales turnover (₹ in lakhs)				
	Below 10	11-20	21-40	Above 40	Total
Sole Proprietor	44 (40.8%)	41 (37.9%)	22 (20.4%)	1 (0.9%)	108
Family-owned business	32 (34.8%)	37 (40.2%)	23 (25%)	0	92
Total	76	78	45	1	200

**Source: Field Survey**

The table 3.12 shows the annual sales and form of organization of the enterprises. It reveals that among the 108 sole proprietors, 40.8% were having annual sales ₹ 10 lakhs, 37.9% were having annual sales ₹ 11 lakhs to ₹ 20 lakhs, 20.4% had annual sales between ₹ 21 lakhs to ₹ 40 lakhs and the remaining 0.9% had annual sales above ₹ 40 lakhs.

The table further revealed that among the family-owned business, 34.8% accounted for enterprises having annual sales below ₹ 10 lakhs, 40.2% accounted for annual sales between ₹ 11 lakhs to ₹ lakhs and 25% accounted for annual sales between ₹21 lakhs to ₹ 40 lakhs. There were no enterprises having annual sales above ₹ 40 lakhs among the family-owned business.

***Correlation between form of organization and annual sales turnover***

To know correlation between form of organization and annual sales turnover, Spearman correlation is applied with the following hypothesis.

H<sub>0</sub>: There is no significant relationship between form of organization and annual sales turnover.

**Table 3.13 Test of correlation between form of organization and annual sales turnover**

Correlation coefficient	.061
Sig. (2-tailed)	.388
N	200

Table 3.13 reveals that there is no significant correlation between form of organization and annual sales turnover since the significant value is more than 0.5, therefore, the null hypothesis is not rejected.

The correlation coefficient has arrived at .061, indicating a weak correlation between the two variables.

### **3.17 Number of workers employed**

Unemployment is an acute problem faced by the nation. Entrepreneurship functions as a catalyst for the economic prosperity of a nation as it leads to generation of employment, contribution in national income, rural development, industrialisation, technological progress, and export promotion. From the perspective of the role that entrepreneurs play in creating employment, the number of employees that the businesses employ is important. Table 3.14 lists the number of employees that the sample micro enterprises had at the time of the field survey.

**Table 3.14 Number of workers employed**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 2	40	20.0
2 to 5	87	43.5
6 to 10	65	32.5
More than 10	8	4.0
Total	200	100.0

**Source: Field Survey**

Table 3.14 highlighted that 20% enterprises were having workers less than 2 employees, 43.5% respondents were employing 2 to 5 workers. Thus, a considerable



proportion of the enterprises that is 32.5% accounted for enterprises employing workers between 6 to 10. More than 10 workers were employed by 4% respondents in their business enterprise. This suggests that, to a certain extent, micro enterprises played a significant role in creating employment for the educated young of Mizoram. The vast majority of Mizoram's businesses are micro businesses, thus educated entrepreneurs must desire to establish small and medium-sized businesses and be encouraged to do so. At the same time, the state of Mizoram is seeing a growth in the number of educated job seekers.

In Mizoram, the employees were usually hired by the entrepreneurs on need basis as most of the enterprises were micro-enterprises. The study conducted by Lalnunzira and Dingliana (2017) found that most of the Mizo family businesses hired the employee on ad-hoc basis depending on the immediate needs of the firm.

### **3.18 Cross sectional analysis of form of organization with number of workers employed**

In this subsequent section, cross sectional analysis has been carried out to study the number of workers employed in each form of organization in the present study. Further, a hypothesis has been tested to find out if there is a statistical relationship between form of organization and number of workers employed with Spearman Correlation.

Table 3.15 shows the distribution of annual sales turnover across each form of organization in the present study.

**Table 3.15 Form of organization with Number of workers employed**

Form of organization of the enterprise	Number of workers employed				
	Less than 2	Between 2 to 5	Between 6 to 10	More than 10	Total
Sole Proprietor	26 (24.0%)	46 (42.6%)	33 (30.6%)	3 (2.8%)	108
Family-owned business	14 (15.2%)	41 (44.6%)	32 (34.8%)	5 (5.4%)	92
Total	40	87	65	8	200

**Source: Field Survey 2023**

The table 3.15 shows the distribution of number of workers employed across different forms of organization of the enterprise. Among the sole proprietors, 24% accounted for enterprises having less than 2 workers, 42.6% accounted for enterprises employing 2 to 5 workers, 30.6% represented the enterprises having workers between 5 to 10 and 2.8% accounted for enterprises having more than 10 workers.

With regards to the family-owned business, 15.2% accounted for enterprises having less than 2 workers, 44.6% accounted for enterprises employing 2 to 5 workers, 34.8% represented the enterprises having workers between 5 to 10 and 5.4% accounted for enterprises having more than 10 workers.

### **Correlation between form of organization and number of workers employed**

To know correlation between form of organization and number of workers employed, Spearman correlation is applied with the following hypothesis.

H<sub>0</sub>: There is no significant relationship between form of organization and number of workers employed.

**Table 3.16 Test of correlation between form of organization and number of workers employed**

Correlation coefficient	0.109
Sig. (2-tailed)	0.124
N	200

Table 3.16 reveals that there is no significant correlation between form of organization and number of workers employed since the significant value is more than 0.5, therefore the null hypothesis is not rejected.

The correlation coefficient arrives at .124 which indicates that there is a very weak correlation between the two variables.

### **3.19 Years of operation**

The year of experience expresses the experience of the respondents in the field of the business. It strengthens the entrepreneurs to tackle various problems encountered in the enterprises. The work experience of entrepreneurs influenced more than entrepreneurs' education towards business performances (Othman et al., 2016). In fact, the lack of experience has been one of the hurdles to enter into business ventures. The study conducted by Naqvi (2011) also found that the past experience of the manager are the main key factors of success. Table 3.17 reveals the experiences of the respondents in years.

**Table 3.17 Years of operation**

<b>Business operation (in years)</b>	<b>Frequency</b>	<b>Percentage</b>
5 - 10	94	47.0
11- 15	41	20.5
16 - 20	51	25.5
More than 20	14	7.0
Total	200	100.0

**Source: Field Survey**

It may be observed that 32.5% of the sample micro enterprises started their entrepreneurial career in and before 2000's. Notwithstanding several obstacles, these microbusinesses managed to endure. It is important to note that these company owners persisted in operating despite the challenging and troubling circumstances. It is accurate to state in this instance that the most crucial factor for company survival is determination, regardless of limitations and obstacles. Entrepreneurial ability, including accounting knowledge and skills, is one of the many factors that determine the stability, retention, and growth of business units.

The biggest proportion of the micro enterprises i.e., 47% were in business for at least 5 to 10 years. The second biggest proportion of them which account to 25.5% were in business for 16 to 20 years. The percentage of the micro enterprises who were established for 11 to 15 years accounts to 20.5% of the total respondents and the table also shows that the sample who were in business for more than 20 years was 7% only.

### **3.20 Cross sectional analysis of years of operation**

In this subsequent section, cross sectional analysis has been carried out to study the years of operation across forms of organization and annual sales turnover. Further, a hypothesis has been tested to find out if there is a statistical relationship between years of experience in business and select business profile of the respondents with Spearman Correlation.

### **3.21 Years of operation across different forms of organization**

Table 3.18 displays the years of experience across different forms of organization.

**Table 3.18 Years of experience in business across different forms of organization**

Form of organization of the enterprise	Year of operation				
	5 - 10 years	11- 15 years	16 - 20 years	More than 20 years	Total
Sole Proprietor	61 (56.5%)	17 (15.7%)	27 (25%)	3 (2.8%)	108
Family-owned business	33 (35.9%)	24 (26.1%)	24 (26.1%)	11 (11.9%)	92
Total	94	41	51	14	200

**Source: Field Survey**

Table 3.18 shows that among the sole proprietors, 56.5% micro enterprises were in operation for 5 to 10 years, 15.7% were in business for 11 to 15 years, 25% accounted for micro enterprises operating for 16 to 20 years and 2.8% represented micro enterprises which were in business for more than 20 years.

Among the respondents engaged in family-owned business, around 35.9% micro enterprises were in operation for 5 to 10 years, 26.1% were in business for 11 to 15 years, 26.1% accounted for micro enterprises operating for 16 to 20 years and 11.9% represented micro enterprises which were in business for more than 20 years.

### **Correlation between years of experience in business across different forms of organization**

To know correlation the between years of experience in business across different forms of organization, Spearman correlation is applied with the following hypothesis.

H<sub>0</sub>: There is no significant relationship between years of experience in business across different forms of organization.

**Table 3.19 Test of correlation between years of experience in business across different forms of organization**

Correlation coefficient	.200
Sig. (2-tailed)	.005
N	200

Table 3.19 reveals a significant correlation between years of experience in business across different forms of organization since the significant value is less than 0.5, therefore the null hypothesis is rejected.

The correlation coefficient arrives at .200 which indicates a weak correlation between the two variables.

### **3.22 Years of operation across annual sales turnover**

Table 3.20 displays the years of experience in business and their annual sales turnover.

Among the respondents having business experience of 5 to 10 years, 44.7% earned below ₹10 lakhs, 36.2% had annual sales turnover between ₹11 to 20 lakhs, 18.1% earned between ₹21 to ₹40 lakhs annually and only 1% earned above ₹40 lakhs.

Among the respondents having experience in business for 11 to 15 years, two thirds of them which accounts for 82.9% altogether had annual sales turnover below ₹20 lakhs and only 17.1% respondents earned more than ₹20 lakhs annually.

With regards to the respondents having business experience of 16 to 20 years, two thirds of them which accounts for 70.6% had annual sales turnover below ₹20 lakhs and only 29.4% respondents earned more than ₹20 lakhs annually.

Among the respondents having the business experience of more than 20 years, 21.4% accounts for respondents having annual income less than ₹10 lakhs, 35.7%

earned between ₹11 to ₹20 lakhs and respondents earning ₹21 to ₹40 lakhs accounts for 42.9%.

**Table 3.20 Years of experience in business with their annual sales turnover**

Annual sales turnover (₹ in lakhs)	Year of operation				
	5 - 10 years	11- 15 years	16 - 20 years	More than 20 years	Total
Below 10	42 (44.7%)	13 (31.7%)	18 (35.3%)	3 (21.4%)	76
11 – 20	34 (36.2%)	21 (51.2%)	18 (35.3%)	5 (35.7%)	78
21 – 40	17 (18.1%)	7 (17.1%)	15 (29.4%)	6 (42.9%)	45
Above 40	1 (1%)	0	0	0	1
Total	94	41	51	14	200

Source: Field Survey

### **Correlation between years of experience in business and annual sales turnover**

To know correlation the between years of experience in business and annual sales turnover, Spearman correlation is applied with the following hypothesis.

H<sub>0</sub>: There is no significant relationship between years of experience in business and annual sales turnover

**Table 3.21 Test of correlation between years of experience in business and annual sales turnover**

Correlation coefficient	.151
Sig. (2-tailed)	.032
N	200

Table 3.21 reveals a significant correlation between years of experience in business and annual sales turnover at the 0.05 level (2-tailed), therefore the null hypothesis is rejected.

The correlation coefficient has arrived at .151, indicating a weak correlation between the two variables.

### 3.23 Place of business establishment

The place of business establishment is classified as rented, on lease and own property. Table 3.22 indicates the place of business establishment of the micro entrepreneurs.

**Table 3.22 Place of business establishment**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Rented	122	61.0
Lease	1	0.5
Own Property	77	38.5
Total	200	100.0

**Source: Field Survey**

Out of the total respondents, it was observed that majority of the micro enterprises were on a rented property which accounts for 61%, the number of respondents having their own place of establishment accounted for 38.5% and only 0.5% micro enterprise was on a lease property.

### 3.24 GST Registration

In the GST regime, a business whose turnover exceeds ₹40 lakhs (₹10 lakhs for North-Eastern states and hill states) is required to register as a normal taxable person. For certain businesses, registration under GST is mandatory. If the organization carries on business without registering under GST, it will be an offence under GST and heavy penalties will apply. However, under GST, a business does not have to register or collect GST if the annual turnover is ₹10 lakhs. This will allow many small business entities which have a turnover below ₹10 lakhs to avoid applying for the GST return.



**Table 3.23 GST Registration**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
With GST Registration	112	56.0
Without GST Registration	68	31.5
On-Going process	25	12.5
Total	200	100.0

**Source: Field Survey**

The table 3.23 indicated that 56% respondents had registration under GST while 31.5% were without GST registration and the remaining 12.5% were on the process of GST registration. Under GST, a business is not required to register or collect GST if their annual turnover is less than ₹10 lakhs. This explains why some of the micro firms under study do not have GST registration. Only a small percentage of respondents who said they have a GST registration can file their GST on their own; the majority employ someone else to do it.

### **3.25 Investment in Plant/Machinery by Manufacturing enterprises and enterprises rendering Services**

The revised classification of micro, small and medium enterprises by Micro, Small and Medium Enterprises Development Act 2006 applicable from 1<sup>st</sup> July, 2020 stated that a micro enterprise means where the investment in Plant and Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees. This statement is applicable to both manufacturing enterprises and enterprises rendering service. The previous criteria for classifying MSMEs under the MSMED Act of 2006 were based on investment in plant and machinery/equipment. It was distinct for manufacturing and service units. It was also quite modest in terms of budgetary constraints. Since then, the economy has seen tremendous changes. On May 13, 2020, the Aatma Nirbhar Bharat package announced a modification in MSME categorization standards. This was done to be time-efficient, to provide an objective categorization system, and to facilitate commercial transactions.

In order to assist current and potential business owners, a new composite classification for manufacturing and service units was announced on June 26, 2020. The distinction between the manufacturing and service sectors will no longer exist. The prior criterion of classification based solely on investment in plant and machinery has also been updated with a new turnover criterion. The new standards should have a number of positive effects that will help MSMEs expand. Additionally, it has been determined that the turnover related to exports will not be included in determining the maximum turnover for any MSME unit group, including micro, small, and medium-sized enterprises. This is an additional measure to make doing business easier. This will support the MSME sector's efforts to draw in investments and add jobs. The exporters are expected to receive significant relief from the modification in the MSMEs classification criterion.

**Table 3.24 Investment in Plant/Machinery by Manufacturing Enterprises**

<b>Investment</b>	<b>Frequency</b>	<b>Percentage</b>
Not exceeding ₹10 lakhs	87	87
More than ₹10 lakhs but not exceeding ₹50 lakhs	13	13
More than ₹50 lakhs but not exceeding ₹1 crore	0	0
More than ₹1 crore	0	0
Total	100	100

**Source: Field Survey**

As shown in Table 3.24 with regards to the investment in plant and machinery by manufacturing enterprises, 87% invested not exceeding ₹10 lakhs and 13% invested more than ₹10 lakhs but not exceeding ₹50 lakhs. There were no micro enterprises under study who invested more than ₹50 lakhs but not exceeding ₹1 crore and more than ₹1 crore.

**Table 3.25 Investment in Plant/Machinery by Service Enterprises**

<b>Investment</b>	<b>Frequency</b>	<b>Percentage</b>
Not exceeding ₹10 lakhs	78	78
More than ₹10 lakhs but not exceeding ₹50 lakhs	20	20
More than ₹50 lakhs but not exceeding ₹1 crore	2	2
More than ₹1 crore	0	0
Total	100	100

**Source: Field Survey**

With regards to the investment in plant and machinery by service enterprises given in Table 3.25, 78% accounted for micro enterprises invested not exceeding ₹10 lakhs, 20% invested more than ₹10 lakhs but not exceeding ₹50 lakhs and another 2% invested more than ₹50 lakhs but not exceeding ₹1 crore. There were no micro enterprises under study who invest more than ₹1 crore.

### **3.26 Business activity Manufacturing Enterprises and enterprises rendering services**

The micro enterprises dealt with a variety of activities. The aim of the revised MSME classification was to help businesses avail various government benefits and access multiple government schemes. However, not all businesses are considered as MSMEs. As per the classification, ‘all business activities – services and manufacturing are covered in MSME sector’ as long as they meet the investment and turnover criteria. However, there could be certain exceptions to this. Broadly speaking, MSME businesses fall under two categories:

- **Manufacturing business activities:** MSME businesses that are in the manufacturing space – that is, they produce finished goods from raw materials, contribute to 45% of the total manufacturing output and 40% of total exports. With the popularity of the ‘Made in India’ campaign the numbers are already growing.
- **Service sector business activities:** According to data in the Udyam portal, MSMEs in the service sector comprise a larger proportion as compared to those MSMEs in the manufacturing sector. Though the benefits of Udyam MSME registration

are applicable to both, Indian entrepreneurs have registered 8.65 lakh enterprises under the service sector as compared to over 5.37 lakh enterprises under the manufacturing category.

**Table 3.26 Business activity of Manufacturing enterprises**

<b>Business Activity</b>	<b>Frequency</b>	<b>Percentage</b>
Garments/Handloom	35	35
Food products	21	21
Furniture	15	15
Steel fabricated products	14	14
Soap & candle	5	5
Leather products	5	5
Plastic Syntax	2	2
Packaged drinking water	3	3
Total	100	100

**Source: Field Survey**

From the above Table 3.26, it is observed that out of 100 manufacturing enterprises, 35% were engaging in garments/handloom production, 21% were engaging in food products like bakery, ice cream making, pickle making, etc., 15% were engaging in furniture manufacturing like sofa, cabinets, beds, tables, chairs, etc., 14% were engaging in steel fabricated products, 5% were engaging in soap and candle production, another 5% were engaging in leather products, 3% produced packaged drinking water and 2% engaged in plastic syntax production.

**Table 3.27 Business activity of Service enterprises**

<b>Business Activity</b>	<b>Frequency</b>	<b>Percentage</b>
Beauty Parlour & Spa	10	10
Automobile Repairing & Servicing	20	20
Computer Consultancy	10	10
Printing, Screen printing, DTP, Xerox, etc	20	20
Mobile & Computer Repairing & Servicing	22	22
Hotels & Restaurants	18	18
Total	100	100

**Source: Field Survey**

From Table 3.27, it is observed that out of 100 service enterprises, 22% were engaging in mobile & computer repairing and servicing, 20% were engaging in automobile repairing and servicing, another 20% were engaging in printing, screen printing, DTP, xerox, etc., 18% were providing service in hotels and restaurants, 10% were engaging in beauty parlour and spa and another 10% were engaging in computer consultancy.

### **3.27 Conclusion**

Legally, there are no entry barriers to micro enterprises on the basis of gender, both male and female can actively participate. In many countries including India, there seems to be cultural bias as regards to comparative roles of men and women. The female participation in the micro and small enterprise in the study area is very poor (Saxena, 2005, Khadim and Hussain 2018). The study observed that with regard to the gender composition among the entrepreneurs, it was found that 59% of the micro enterprises were owned by male entrepreneurs and the remaining 41% were female entrepreneurs. The participation of female in the present study is much higher than other similar studies across the country. The proportion of married respondents (72.5%) was undeniably higher than the unmarried (19.5%), divorcee (5%) and widow/widower (3%) respondents.

The study also specified that age does not seem to be a barrier for entry into business as the respondents are comprised of different age groups. Furthermore, age is an important social profile since it determines the exposure, eagerness to learn, readiness to take risk and adjustability among the respondents. The elders have more experience than youngsters while the youngsters are ready to take more risk than the elders. In an overall analysis, more than one-third (56.5%) of the entrepreneurs' age were 40 and above. It is interesting to note that most of entrepreneurs under the study have started their business at a young age regardless of the challenging task of managing the business.

In terms of education, it is worth noting that majority of the respondents have completed Higher secondary. This is good news for entrepreneurs launching new

ventures, as it can be argued that education plays a significant role in a company's ability to succeed. 30.5% were Under Graduates, 30% accounted for Matriculates, 23.5% accounted for respondents completing Higher Secondary, 15.5% accounted for Post Graduates and only 0.5% accounted for respondents having MPHIL/PHD degree. This shows that educational qualification is also not a barrier for entry into micro enterprises but higher education is preferable for the smooth functioning of the business and acquiring technical knowledge and skills in maintenance of proper records of financial transaction. Regarding the annual income of other family members, 49% were having annual income less than ₹5 lakhs and 35.5% were having annual income between ₹5 lakhs to ₹10 lakhs. 12.5% accounted for respondents having annual between ₹10 lakhs to ₹15 lakhs and 3% accounted for respondents having annual income more than ₹15 lakhs.

With regards to form of organization, the study observed that the proportion of sole proprietors was undeniable higher than the family owned business. Among the male respondents, around 61.9% were sole proprietors and 38.1% engaged in family-owned business. With regards to the female respondents, 42.7% were sole proprietors and 57.3% engaged in family-owned business. In an overall analysis, the number of male respondents were higher in sole proprietorship whereas the number of female entrepreneurs was slightly higher in family owned business. Among the married respondents, around 45.5% were sole proprietors and 54.5% engaged in family-owned business. With regards to the unmarried respondents, 87.2% were sole proprietors and 12.8% engaged in family-owned business. Among the divorcee respondents, 70% were sole proprietors and 30% accounts for entrepreneurs engaged in family-owned business. Among the widow respondents, more than two-thirds of the respondents which accounts for 83.3% were family-owned business and only one respondent was a sole proprietor. Among the age group below 20 years, it is observed that all the respondents were engaged in family-owned business. Among the age group 21 – 40 years, more than two thirds (75.3%) were sole proprietors and 24.7% engaged in family-owned business. Among the age group between 41 – 60 years, the number of respondents engaged in family-owned business was higher than the number of sole proprietors. 42.3% were sole proprietors and 57.7% engaged in family-owned

business. Among the age group above 60 years, 18.7% were sole proprietors and 81.3% engaged in family-owned business. It is interesting to note that most of sole proprietors under the study have started their business at a young age regardless of the challenging task of managing the business. Among the respondent who were matriculates, around 25% were sole proprietors and 75% account for respondents engaged in family-owned business. Among the respondents who passed Higher secondary, 53.2% were sole proprietors and 46.8% entrepreneurs engaged in family-owned business. Among the Under Graduate respondents, 64% were sole proprietors and 38% accounts for entrepreneurs engaged in family-owned business. Among the respondents who were Post Graduates, more than two thirds (90.3%) were sole proprietors and only 9.7% accounts for entrepreneurs engaged in family-owned business. It was observed that the respondent with M.Phil./PhD degree was a sole proprietor.

With respect to the annual sales turnover of the enterprises, it is found that 39% enterprises were having annual sales turnover between ₹11 lakhs to ₹20 lakhs, this account for the highest number of respondents. It further shows that 38% enterprises had an annual sales turnover below ₹10 lakhs and 22.5% had annual sales between ₹21 lakhs to ₹40 lakhs while only 0.5% had annual sales of more than ₹40 lakhs. A cross-sectional analysis had been carried out to study the annual sales turnover of each form of business organization. It reveals that among the 108 sole proprietors, 40.8% were having annual sales below ₹10 lakhs, 37.9% were having annual sales between ₹11 lakhs to ₹20 lakhs, 20.4% had annual sales between ₹21 lakhs to ₹40 lakhs and the remaining 0.9% had annual sales above ₹40 lakhs. It is also observed that among the family-owned business, 34.8% accounts for enterprises having annual sales below ₹10 lakhs, 40.2% accounted for annual sales between ₹11 lakhs to ₹20 lakhs and 25% accounted for annual sales between ₹21 lakhs to ₹40 lakhs. There were no enterprises having annual sales above ₹40 lakhs among the family-owned business.

All respondents under study have employees working in their enterprises. 20% enterprises were having workers less than 2, 43.5% respondents were employing 2 to 5 workers and 32.5% accounted for enterprises employing workers between 6 to 10.

More than 10 workers were employed by 4% respondents in their business enterprise. In Mizoram, the employees were usually hired by the entrepreneurs on need basis as most of the enterprises were micro-enterprises. The study conducted by Lalnunzira and Dingliana (2017) found that most of the Mizo family businesses hired the employee on ad-hoc basis depending on the immediate needs of the firm. Among the sole proprietors, 24% accounted for enterprises having less than 2 workers, 42.6% accounted for enterprises employing 2 to 5 workers, 30.6% represented the enterprises having workers between 5 to 10 and 2.8% accounted for enterprises having more than 10 workers. With regards to the family-owned business, 15.2% accounted for enterprises having less than 2 workers, 44.6% accounted for enterprises employing 2 to 5 workers, 34.8% represented the enterprises having workers between 5 to 10 and 5.4% accounted for enterprises having more than 10 workers.

The year of experience indicates the respondents' experience in the business area. It helps entrepreneurs deal with an array of challenges that come up with their businesses. Entrepreneurs' work experience affects business performance more than entrepreneurs' education. In reality, one of the barriers to entering into company enterprises has been a lack of experience. The number of micro enterprises under study which has highest proportion of the micro enterprises (47%) were established for 5 to 10 years which is followed by 25.5% micro enterprises established for 16 to 20 years. 20.5% accounted for micro enterprises in operation for 11 to 15 years and the least number of micro enterprises that is 7% were in business for more than 20 years. Among the sole proprietors, 56.5% micro enterprises were in operation for 5 to 10 years, 15.7% are in business for 11 to 15 years, 25% accounted for micro enterprises operating for 16 to 20 years and 2.8% represents micro enterprises which were in business for more than 20 years. Among the respondents engaged in family-owned business, around 35.9% micro enterprises were in operation for 5 to 10 years, 26.1% were in business for 11 to 15 years, 26.1% accounted for micro enterprises operating for 16 to 20 years and 11.9% represents micro enterprises which were in business for more than 20 years. Among the respondents having business experience of 5 to 10 years, 44.7% earned below ₹10 lakhs, 36.2% had annual sales turnover between ₹11 to ₹20 lakhs, 18.1% earned between ₹21 to ₹40 lakhs annually and only 1% earned



above ₹20 lakhs. Among the respondents having experience in business for 11 to 15 years, two thirds of them which accounts for 82.9% altogether had annual sales turnover below ₹20 lakhs and only 17.1% respondents earned more than ₹20 lakhs annually. With regards to the respondents having business experience of 16 to 20 years, two thirds of them which accounts for 70.6% had annual sales turnover below ₹20 lakhs and only 29.4% respondents earned more than ₹20 lakhs annually. Among the respondents having the business experience of more than 20 years, 21.4 % accounts for respondents having annual income less than ₹10 lakhs, 35.7% earned between ₹11 to ₹20 lakhs and respondents earning between ₹21 to ₹40 lakhs accounts for 42.9%.

Registration is a conclusive evidence of incorporation of a business and it grant to legally start doing the business. Even though registration of a business unit to a local concerned department and to have GST registration is not mandatory and there were certain exemptions, it is always beneficial to have registration in the long run. Micro enterprises in Mizoram registered their enterprises in District Industries Centre (DIC) or Micro Small & Medium Enterprises (MSME). 56% respondents had registration under GST while 31.5% were without GST registration and the remaining 12.5% were on the process of GST registration. Under GST, a business is not required to register or collect GST if their annual turnover is less than 10 lakhs. This explains why some of the micro firms under study do not have GST registration. Only a small percentage age of respondents who said they have a GST registration can file their GST on their own; the majority employ someone else to do it.

The revised classification of micro, small and medium enterprises by Micro, Small and Medium Enterprises Development Act 2006 applicable from 1<sup>st</sup> July, 2020 stated that a micro enterprise means where the investment in Plant and Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees. This statement is applicable to both manufacturing enterprises and enterprises rendering service. With regards to the investment in plant and machinery by manufacturing enterprises, 87% invested not exceeding ₹10 lakhs and 13% invest more than ₹10 lakhs but not exceeding ₹50 lakhs. There are no micro enterprises under study who invested more than ₹50 lakhs but not exceeding ₹1 crore and more than ₹1

crore. With regards to the investment in plant and machinery by service enterprises, 78% accounts for micro enterprises who invested not exceeding ₹10 lakhs, 20% invested more than ₹10 lakhs but not exceeding ₹50 lakhs and another 2% invested more than ₹50 lakhs but not exceeding ₹1 crore. There were no micro enterprises under study who invest more than Rs 1 crore.

Micro enterprises dealt with variety of businesses that meet the criteria stated in the revised classification of Micro enterprises under MSMED Act 2006. The business activity for manufacturing business and enterprises rendering services differs. The list of business that comes under Manufacturing Enterprises includes

1. Garments or Handloom sector which accounted for 35% of the total respondents,
2. Food products sector which accounted for 21% of the respondents,
3. Furniture sector which accounted for 15% of the respondents,
4. Steel fabricated products sector which accounted for 14% of the respondents,
5. Soap & Candle production sector which accounted for 5% of the respondents,
6. Leather products sector mainly hood works which accounted for 5% of the total respondents,
7. Plastic Syntax production sector which accounted for 2% of the micro enterprises and
8. Packaged drinking water sector which accounted for 3% of the respondents.

The list of business that comes under Service Enterprises includes

1. Beauty parlour and spa services which accounted for 10% of the total respondents,
2. Automobile repairing and servicing sector which accounted for 20% of the respondents,

3. Computer consultancy services which accounted for 15% of the respondents,
4. Printing, Screen printing, DTP, Xerox, etc services which accounted for 20% of the respondents,
5. Mobile and Computer repairing and servicing sector which accounted for 22% of the respondents,
6. Hotels and restaurants services which accounted for 5% of the total respondents.

**CHAPTER 4**

**AWARENESS, KNOWLEDGE AND ATTITUDES OF MICRO**

**ENTREPRENEURS REGARDING THE MAINTENANCE OF BOOKS OF**

**ACCOUNTS**

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## **CHAPTER 4**

### **AWARENESS, KNOWLEDGE AND ATTITUDES OF MICRO ENTREPRENEURS REGARDING THE MAINTENANCE OF BOOKS OF ACCOUNTS**

This chapter highlights the awareness of accounting practices and the extent to which record keeping and basic accounting procedures have been implemented by the micro enterprises in Mizoram. This chapter further highlights the method used for recording financial transactions, their method of recording, basis of recording, financial reporting basis, person responsible for recording financial transactions and preparation of financial reports, accounting basis, payment method used and the perception of micro entrepreneurs regarding the need of maintaining accounts and their attitudes with regards to accounting.

#### **4.1 Introduction**

Keeping proper accounting record is important for businesses to keep track of the health of business for sound decision making, to manage cash flows and to know the financial position of the business. Maintaining proper books of accounts and preparation of financial statements have enormous benefits for every enterprise, whether small or big. They serve as an important management tool for every business because they provide an accurate reflection of financial performance of the business. They also serve as a means to monitor performance and measure the accuracy of income and expenditure. Several studies indicated that the lack of proper maintenance of accounting record is one of the most significant constraints to development in the small business entity. Recording financial transaction is critical to ensuring the survival and growth of a business unit.

The keeping of accounting records involves the documentation of all the transactions of the business entity including its assets and capital (equity and liabilities), and in order to solve business limitations such as, lack of finance, weak institutional capacity, lack of managerial skills and training of small-scale enterprises,

there is need for business management expertise to manage properly the finances, purchases, sales, production, and human resources aspect of the business.

Micro enterprises follow different accounting systems. A study conducted by Mwangi (2011) on small and micro enterprises in Kenya found that these enterprises have an unrecorded accounting system and they follow informal trade system. The small and micro businesses that make up a large portion of the informal economy are lucrative businesses, just like those in the formal business sector. Financial ratio analysis is made more challenging by the lack of accounting data than it is in the formal company sector. In a similar study conducted by Uddin et al (2017) in Rangpur Bangladesh also found that small enterprises follow the accounting practices directly or indirectly and the accounting practices of the micro enterprises are limited to the preparation of cash book, Debtors Account, Creditors Account respectively. Lalrinsangi. C & Fanai (2020) observed that micro enterprises in Lunglei, Mizoram have very little knowledge on accounting practices and the maintenance of financial records was done on convenient basis.

#### **4.2 Awareness, knowledge and pattern of accounting**

This section highlights awareness of accounting practices and accounting basis, the method used for recording financial transactions, their method of recording, basis of recording, financial reporting basis, person responsible for recording financial transactions and preparation of financial reports, accounting basis, payment method used and the perception of the micro entrepreneurs on the necessity to maintain proper accounting record as well as whether the challenges in financial record keeping hinders the operation of the business.

#### **4.3 Awareness of accounting practices**

A study by Maseko & Manyani (2011) explored the accounting records keeping and growth of small and medium enterprises in Kumasi Metropolitan Assembly, Zimbabwe and established that most small business enterprises failed to maintain complete accounting records as they are not aware about the advantages of

the same and find it needless to seek professional advice because the cost associated with it is too expensive. The study conducted by Lalrinsangi. C & Fanai (2020) observed that more than two-thirds of the micro entrepreneurs were aware of accounting practices but their knowledge was very limited. The reason can be a lack of education in accounting, as the majority of the respondents completed Higher Secondary only. Table 4.1 presents the response to whether respondents of Micro enterprises in Mizoram are aware of accounting practices.

**Table 4.1 Are you aware of accounting practices?**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Aware	179	89.5
Not Aware	21	10.5
Total	200	100.0

**Source: Field Survey**

As shown in the table, nearly 90% of the respondents were aware of accounting practices. The high level of awareness of accounting practices among the respondents in the present study indicates a positive trend towards recognizing the importance of maintaining proper financial records in micro enterprises in Mizoram. This awareness is a crucial first step towards improving financial management and decision-making processes within these businesses.

#### **4.4 Awareness of accounting rules**

Looking at the nature of all the accounts, the accounting rules have been devised. For each account there is a set of Golden Rules and hence there are three

- i. **Real Account:** A general ledger account that remains open at the conclusion of a period or the accounting year is called a real account, often known as a permanent account. Real accounts do not close; instead, they remain open, accrue balances, and roll over into the subsequent period or year. They are assets, liabilities, and stockholders' equity. Cash, accounts receivable, accounts



payable, supplies, equipment, unearned revenue, notes payable, prepaid insurance, and retained earnings are all examples of permanent accounts.

*Rule: Debit what comes in. Credit what goes out*

- ii. **Personal Account:** Personal accounts are ledger accounts that include transactions pertaining to people or other entities that your company directly transacts business with. Customers, suppliers, employee pay accounts, capital accounts of owners, drawings, etc. are a few instances of personal accounts.

*Rule: Debit the receiver. Credit the giver*

- iii. **Nominal Account:** Temporary accounts known as nominal accounts are used to track and record your earnings, losses, spending, and other significant debit and credit items from your financial statements. Since they are temporary accounts, it will be crucial to move and modify money in a genuine or permanent account throughout the next fiscal year. Examples of nominal account are rent A/c, commission received A/c, salary A/c, wages A/c, conveyance A/c, etc.

*Rule: Debit all expenses or losses. Credit all incomes or gains*

Table 4.2 presents the response to whether the respondents were aware of the basic rules of accounting.

**Table 4.2 Are you aware of accounting rules?**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Aware	8	4.0
Not Aware	192	96.0
Total	200	100.0

**Source: Field Survey**

The table reveals that almost all of the micro entrepreneurs in the present study were not aware of the basic rules of accounting. The implications from this finding is

that accounting education is crucial to know the basic accounting principle and the respondents' education system did not provide accounting education. Accounting knowledge has become a necessity, since it is one of the potential skills needed to increase entrepreneurial skills. This necessitates training in accounting education and enhancing entrepreneurs' expertise for improved accounting procedures.

#### **4.5 Proper records of financial transactions**

Financial records keeping is the process of recording all the financial transactions and events that occur in the business. This is essential to the business because all assets that flow in and out of the business as well as liabilities incurred and settled must be accounted for. Without proper records it is difficult to give good account of the business activity. Table 4.3 presents the response to whether respondents keep any books of accounts pertaining to their business. The respondents were provided with two options “keep” or “do not keep”.

**Table 4.3 Do you keep a record of financial transactions from your enterprise?**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Keep	144	72.0
Do not keep	56	28.0
Total	200	100.0

**Source: Field Survey**

The majority of the respondents kept records of their financial transactions, as indicated by 72% of the businesses in the study. This high percentage suggests that micro entrepreneurs in Mizoram are aware of the importance of maintaining proper financial records to track their financial performance and the overall health of their enterprises. By keeping records of financial transactions, these entrepreneurs can monitor their income, expenses, and financial activities, which is essential for making informed business decisions and ensuring the sustainability and growth of their businesses. This proactive approach to record-keeping reflects a commitment to financial transparency, accountability, and effective management practices among micro enterprises in Mizoram.

Church has a significant impact on Mizoram's population not just in their religious and spiritual lives but also in their social, political, and economic lives, as all of the study's respondents are Christians. Because the majority of them did not get accounting education in their school curriculum, they lack awareness of accounting standards. But the Churches had provided them with the chance to learn a little bit about maintaining financial records and preparing financial reports. Within the administration of the Church and YMA, some fellowship groups are mandated to maintain records of their earnings and expenses, as well as compile financial reports and books of accounts. Because of this, even though they were unaware of accounting rules, some of the respondents were seen to follow accounting practices, such as keeping some sort of book of accounts and preparing financial statements.

A very considerable amount of the entrepreneurs in the present study i.e., 28% did not kept any records of their financial transactions. For micro entrepreneurs in Mizoram not keeping records of financial transactions, it is recommended to seek education and training in basic accounting principles, consider using accounting software for automation, consult with professionals for guidance, establish a systematic record-keeping system, and conduct regular reviews for financial analysis. These actions may assist the growth and sustainability of businesses, strengthen accounting procedures, and boost financial management.

#### **4.6 Method used for recording**

Accounting records and financial reports should provide an accurate reflection of the financial performance of the business's financial affairs. The records must include all money transactions which are routine in nature together with a record of all assets, liabilities and owners' equity. This can be done either manually or electronically. Research showed that even while technology is developing quickly, the majority of SMEs do not use ICT for tasks linked to accounting. To record accounting information, they employed antiquated methods including note books, writing on walls, and paper records. Because of this, many find record keeping unappealing and believe it to be an expensive and time-consuming chore. For accounting-related tasks, a variety of accounting packages and computer software (Excel) are available,

including Quick Book, Sage, MYOB, and others. According to research by Madurapperuma et al. (2016) in Sri Lanka, 73% of SMEs do not preserve accounting records using information technology (IT). 29% of respondents don't keep any records at all, whereas 44% of respondents retain manual records. Additionally, 16% of SMEs utilize accounting software and 15% use Excel to maintain their financial records. They also came to the conclusion that ICT-enabled record keeping in SMEs is not being done to gather accounting data for performance evaluation. However, very few SMEs adopt ICT for accounting data protection and management. Just 27% of SMEs who prepare financial statements using ICT to report financial performance provide evidence in favour of this. They also came to the conclusion that financial success and computer utilization are positively correlated.

The use of computerized accounting systems in micro-small businesses was investigated by Sumarna (2023) among the Indonesian MSEs. The study highlighted the advantages and difficulties encountered while switching from conventional techniques to computerized systems, emphasizing the growing trend of digitalization in accounting procedures among smaller enterprises (Sumarna, 2023). In the study conducted by Shbeilat & Al-Hajaia (2022) in Jordan, the focus was on the use of computerized accounting in micro-enterprises. The study highlighted the significance of technology in improving accessibility and efficiency in accounting for micro-enterprises by discussing the difficulties and effects of these apps on financial inclusion.

In a study conducted by Rahman & Nindya (2021), they investigated the ways in which MSMEs performance may be improved by using accounting software and conclude that there exists a clear correlation between the use of such programs and enhanced corporate efficiency and financial performance. In a similar study, Cahyani & Amna (2022) examined how accounting information systems are used in Indonesian Micro, Small, and Medium Enterprises (MSMEs). They looked into how widely these systems have been used and how that has affected MSMEs' financial management procedures.

Despite the many benefits of utilizing accounting software or digitalized record-keeping for their business's financial transactions, owners of micro and small enterprises still choose to keep manual records, such as those kept in a register or on paper. The primary cause of this is that the majority of small business owners were reluctant to adopt computerized accounting software out of concern for fraud, financial disclosure, and the perceived lack of advantages.

In a similar study conducted by Gupta. R (2023) aimed to provide insights into how technology adoption impacts accounting practices in micro enterprises in Delhi and shed light on the nuances of technology integration in this specific context. The study reveals that businesses prioritize cost-effectiveness and functionality when choosing accounting software. While technology adoption boosts data security and satisfaction, it doesn't consistently improve financial efficiency. Challenges in software adoption are linked to business nature, requiring tailored approaches. Desired improvements include tax compliance features, cloud-based access, improved reporting tools, and scalability.

Table 4.4 presents the response to the method used by the micro enterprises in Mizoram for record keeping. The method of record keeping was classified into manual and electronic.

**Table 4.4 What method do you use for recording financial transactions?**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Manual/Register	119	59.5
Computerized method	25	12.5
Neither	56	28.0
Total	200	100.0

**Source: Field Survey**

Micro entrepreneurs in the present study commonly use manual methods, such as registers or paper, for recording financial transactions. According to a field survey, 59.5% of business owners opted for manual/register methods. The preference for manual recording may stem from concerns about fraud, financial disclosure, or

perceived lack of benefits associated with digital accounting tools. By understanding the prevalent methods used for recording financial transactions, micro entrepreneurs can explore opportunities to enhance their accounting practices and improve financial management processes. While 12.5% of micro entrepreneurs were adopting computerized method for recording and 28% business owners did not record financial transactions at all. The implications from the findings is that Computerized Accounting System is also gaining popularity in a Tribal community like Mizoram as around 12% of the micro enterprises were adopting computerized method for recording their financial transactions. The Mizos are fast to learn and embrace new things, thus it is probable that the micro companies in the current research that use conventional methods of recording, i.e. manual, may soon integrate ICT for accounting-related tasks. The researcher also recommends that micro enterprises improve their knowledge and skills in using digital accounting or computerized accounting systems, and that the authorities of the Government of Mizoram regarding MSMEs raise awareness about the importance of digitalised accounting systems and conduct training and education to MSMEs on ICT tasks related to accounting.

#### 4.7 Method of recording

Table 4.5 presents the response to the method used by the micro enterprises for record keeping. The method of record keeping was classified into single entry system, double entry system, keeping in one book and with the help of memory.

**Table 4.5 Method of recording financial transactions**

Response	Frequency	Percentage
Single entry system	12	6.0
Double entry system	118	59.0
Keeping in one book	14	7.0
With the help of memory	56	28.0
Total	200	100.0

**Source: Field Survey**

The table shows that 59% of the micro entrepreneurs in the present study used the double entry method to record financial transactions known for its comprehensive and structured nature, ensuring accurate recording of transactions, while 6% of micro entrepreneurs utilised the single entry method which is a basic approach involving a single entry for each transaction. 7% of business owners maintain all financial records in a single book, simplifying the record-keeping process for them. Surprisingly, 28% of entrepreneurs rely on memory to track sales and trade creditors, posing risks of errors and missing information in their financial records.

#### 4.8 Frequency of recording financial transactions

Proper accounting records must include all the financial transactions, which are disclosed with reasonable accuracy at any time and ensure the directors that any accounts prepared comply with the suitable financial reporting framework. The record of all money received and paid out must be routine and consistent in nature. Table 4.6 presents the response regarding the basis for recording financial transactions of the preparers of accounting records. The basis for recording financial transactions was classified into daily basis, weekly basis, monthly basis and an option was given to those entrepreneurs who did not have record.

**Table 4.6 Frequency of recording financial transactions**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Daily basis	126	63.0
Weekly basis	10	5.0
Monthly basis	8	4.0
Not Prepared	56	28.0
Total	200	100.0

**Source: Field Survey**

Table 4.6 shows that 63% of the micro enterprises recorded financial transactions on a daily basis and this implies that the entrepreneurs were very curious to know their financial transactions which is a positive attitude, just 5% of micro entrepreneurs recorded financial transactions on weekly basis and 4% of business

owners documented financial transactions on a monthly basis. 28% of business owners failed to document financial transactions. This highlights the need for improved recording practices to ensure accurate financial reporting and decision-making.

#### **4.9 Frequency of preparing financial reports**

The study presents the response on how often financial reports or statements are prepared by the micro enterprises in Mizoram. McMahon (1999) stated that reports of financial statement in small and micro enterprises failed to follow the standards recommended by various regulatory authorities that exist for them. He further claims that proprietors of small business enterprises are unwilling to present their financial statements as it may be easily accessible for interested outside parties. Their study suggests the owners to learn more about proper accounting practices or engage accounting professionals for accounting reporting purposes. However, they insist that the accounting reports must be modified to suit the needs of small and micro enterprises.

Table 4.7 presents the response regarding the financial report preparation basis. The basis for preparation of financial report was classified into monthly basis and annual basis.

**Table 4.7 Frequency of preparing of Financial Reports**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Monthly	107	53.5
Annually	11	5.5
Not Prepared	82	41.0
Total	200	100.0

**Source: Field Survey**

The table shows that 53.5% of respondents prepared financial reports on a monthly basis, whereas 5.5% did so on an annual basis. The data also showed that 41% of respondents do not prepare financial statements or reports. The percentage of micro enterprises who did not prepare financial report has hiked and this is due to the inconsistent and incomplete maintenance of books of accounts. The micro



entrepreneurs are therefore encouraged to maintain proper books of accounts for each financial transactions and they should learn more about proper accounting practices or engage accounting professionals for accounting reporting purposes. In this backdrop, opportunities must be many plentiful for the entrepreneurs to enhance their accounting knowledge and skills by conducting accounting education and training by suitable parties. The researcher also insists that the accounting reports must be modified to suit the needs of small and micro enterprises.

However, it would be unfair to not mention that there is a favourable trend among the entrepreneurs of micro enterprises in terms of preparation of accounting reports with about 55% preparing financial reports on monthly basis. It is advisable to maintain their financial statements readily available in instances such as applying for credit or loans from financial institutions as these institutions demand them to produce a report on their financial performance or financial health in order to award them their credit requirements. Not only that, but preparing financial reports is essential for understanding their financial position and to make informed decisions.

#### **4.10 Person responsible for keeping records**

The development of a competent accounting system in small and micro businesses depends on the owner-manager's level of accounting knowledge (Ismail & King 2005). However, Abor & Quartey (2010) bemoaned that even though majority of SME owner- managers in Ghana did not have adequate accounting knowledge; they failed to seek professional advice on technical challenges and rather tend to take crucial financial decisions themselves. Ojaide (1999) concluded that hiring qualified accounting personnel, exercising financial discipline and taking charge of working capital management can greatly ensure that SMEs outlive their owner-managers and grow to be multinationals.

Financial record keeping is technical and so requires a trained professional to do it. Without the needed skills and knowledge, it is difficult to write up good financial records for financial reports generation (Mintah et al, 2014). However, it has come to knowledge from several studies of similar nature that in majority of the entities, the

maintenance of books of accounts and preparation of financial reports was done by the owner themselves which reflected in inconsistency, ineffective and incomplete accounting records.

In a nutshell, it is observed that in most small companies accounting and financial management are carried out by just one person, making segregation of duties impracticable or irrelevant. Financial record keeping is technical and so it requires a trained professional to do it. Without the needed skills and knowledge, it is difficult to write up good financial records for financial reports generation. Wichman (1983) indicated that accounting and marketing constitute major challenges in the management of small business entity and recommends the owners of small business entity to learn more about accounting and good record keeping practices.

Table 4.8 presents the person responsible for keeping records and they were owner, accountant, manager and sales personnel.

**Table 4.8 Who is the person responsible for keeping accounting records?**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Owner	119	59.5
Accountant	1	0.5
Manager	22	11.0
Sales personnel	2	1.0
Not prepared	56	28.0
Total	200	100.0

**Source: Field Survey**

According to the responses concerning who was responsible for keeping financial records, 59.5% of businesses revealed that their owners themselves were in charge of this task. However, 11% of respondents have managers who handle the financial record keeping, compared to 0.5% who hired an accountant to do so. Only 1% of responses mention salespeople maintaining the records. The study found that the owner/manager is primarily in charge of recording transactions, and the accountant is also involved in recording transactions. The study indicates a high level of

involvement and oversight of the owners in the accounting records and financial reporting process.

#### **4.11 Accounting basis**

The two crucial methods for recording a company's revenue and outlays are the accrual method and the cash method (Caccia et al., 2006; He et al., 2008; Krom & Williams, 2011). There are several situations in which we would want to select a reliable accounting system and would like to understand how they operate as well as the benefits and drawbacks of each so that we can select the best one for our company. One common accounting technique for small firms is the cash method, which counts income only when cash or a check is received and, realistically speaking, does not tally costs until they are paid. Regardless of when receivables are genuinely collected or payments are made, all financial transactions are counted under the accrual approach when an order is placed, goods are delivered, or services are rendered. (Zarandia et al., 2013). A study was conducted by Zarandia et al. (2013) shows that accrual-based accounting method provides better information on accounting system, it is more reliable and understandable and leads us to have more commitment transactions.

However, in cases when an entity is a micro or even a very small entity, it might be more appropriate to use cash basis accounting (EC, 2008). Cash basis means that cost or income is accounted for at the equivalent amount of cash paid or received for it. This means that an entity recognizes a transaction only when cash is received or paid. The cash book or the receipts and payment accounts is the main book in this system. Accrual basis of accounting is based on the accruals concept of accounting which states that revenue and costs are accrued (that is, recognized as they are earned or incurred, not as money is received or paid), matched with one another so far as their relationship can be established or justifiably assumed, and dealt with in the statement of comprehensive income for the period to which they relate. This involves accruing any receipts which have been earned in the financial year and accruing any payments which relate to purchases made in the financial year. The corollary of this is that any receipts received or payments made in the current financial year which relate to accruals made in the last financial year, will not affect the current year's profit.

An entity may make a choice between the two bases of cash or accrual or apply both depending on the nature of its business transactions. Several proposals have been made for the use of the cash basis than the accrual basis of accounting in small entities.

**Table 4.9 Accounting basis adopted**

<b>Accounting basis</b>	<b>Frequency</b>	<b>Percentage</b>
Cash basis	86	43.0
Accrual Basis	0	0
Hybrid basis	114	57.0
Total	200	100.0

**Source: Field Survey**

Table 4.9 presents, 43% of respondents used the cash basis of accounting while 57% used the hybrid basis. Table also showed that no respondents were exclusively using accrual based accounting. The study conducted by Zarandia et al. (2013) shows that accrual accounting basis was typically employed by large enterprises, but cash accounting basis was a common way for small businesses. The findings on this study clarified why the majority of owners utilized both accounting bases, depending on the circumstances and a number of factors, including taxation, credit transactions, and credit acquisition. Additionally, this survey revealed that some respondents chose the cash approach alone for their accounting foundation. This simply means that only cash receipts and payments journals are retained in the accounting records, which can reduce bad debt and directly increase the sustainability of the company. To improve the accuracy and reliability of financial reporting, it is recommended that micro entrepreneurs consider transitioning to the accrual basis of accounting. Accrual accounting recognizes revenue and expenses when they are incurred, regardless of when cash transactions occur. This method provides a more accurate representation of a company's financial position and performance over a specific period.

The owners are advised to educate themselves on the accounting principles and attend suitable trainings to enhance their knowledge on accounting practices. By adopting accrual accounting, micro entrepreneurs can enhance the transparency and

reliability of their financial information, which can support better decision-making and financial management within their businesses.

#### 4.12 Payment method adopted

The Government of India is working hard to promote a cashless economy and to make seamless digital payments available to all Indian citizens in a simple manner. The Government of India has made digital payment promotion a top priority in order to bring every segment of our country into the formal fold of digital payment services. The vision is to deliver seamless digital payment services to all Indian residents in a simple, easy, affordable, rapid, and secure manner. As a partner of the initiative Ministry of MSME has taken numerous initiatives to digitally enable the entire MSME ecosystem. The accepted payment method of cash or cheque only have changed over the years. The innovation of UPI have encouraged the easy, seamless and secured payment and it can be said that most entrepreneurs have adopted this cashless payment system in their businesses.

**Table 4.10 Payment method adopted by the micro enterprises**

<b>Payment Method</b>	<b>Frequency</b>	<b>Percentage</b>
Cash only	33	16.5
Cheque only	0	0
Cards only (Debit/Credit cards)	0	0
Online Payment only (Gpay, YONO, etc)	0	0
Cash, Cards & Online Payment	113	56.5
Cash, Cheque, Cards & Online Payment	54	27.0
Total	200	100.0

**Source: Field Survey**

Table 4.10 shows the payment method accepted by the micro enterprises. It is observed that a significant portion of micro enterprises accept cash as the primary payment method (16.5%), while a majority opt for a combination of cash, cards and online payments (56.5%). Additionally, 27% of micro enterprises accept a combination of cash, cheque, cards and online payments. Notably, none of the respondents exclusively accepted cheque, cards or online payments.

The preference for cash payments in the present study indicates a reliance on traditional payment methods, which may pose challenges in terms of security, record-keeping, and scalability and the low adoption of online payment methods suggests a potential gap in leveraging digital payment solutions that offer convenience, efficiency, and security. This reluctance to embrace online payments may hinder businesses from benefiting from the advantages offered by digital transactions, such as streamlined processes, enhanced customer experience, and improved financial management. Addressing this gap and encouraging the adoption of online payment methods can help micro enterprises stay competitive, cater to evolving customer preferences, and enhance their overall operational effectiveness in an increasingly digital business environment.

Encouraging micro enterprises to diversify their payment options by embracing digital payment solutions such as mobile wallets, online payment gateways, and Unified Payment Interface (UPI) can help cater to a broader customer base and enhance convenience. Providing training and resources to educate micro entrepreneurs on the benefits and usage of digital payment platforms is essential to ensure their comfort with adopting and integrating these technologies into their business operations. Offering incentives or discounts for customers who choose digital payment methods can encourage the shift towards cashless transactions and promote a culture of digital payments within micro enterprises. Emphasizing the importance of security measures associated with digital payments is crucial to build trust and confidence among micro entrepreneurs in utilizing online payment channels securely. Implementing efficient payment processing systems that integrate various payment methods seamlessly can reduce transaction complexities and enhance the overall customer experience. Continuously assessing the effectiveness of chosen payment methods and being open to adapting to evolving trends and technologies in the payment landscape is essential to stay competitive and meet customer preferences.

#### 4.13 Perceptions of Micro Entrepreneurs on the Importance of Accounting Record Maintenance

Table 4.11 indicates perceptions of micro entrepreneurs on the importance of accounting record maintenance such as books of accounts and financial statement.

**Table 4.11 How important it is to maintain Books of Accounts and Financial Statements?**

Accounting Practices	Not Important		Moderately Important		Important	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Cash Book	49	24.5	14	7.0	137	68.5
Sales Book	57	28.5	31	15.5	112	56.0
Purchase Book	67	33.5	66	33.0	67	33.5
Expense Book	53	26.5	24	12.0	123	61.5
Debtors Account	75	37.5	36	18.0	89	44.5
Creditors Account	110	55.0	68	34.0	22	11.0
Fixed Asset Register	158	79.0	35	17.5	7	3.5
Stock Book	152	76.0	36	18.0	12	6.0
Payroll records	153	76.5	29	14.5	18	9.0
Profit & Loss Account	71	35.5	8	4.0	121	60.5
Balance Sheet	128	64.0	54	27.0	18	9.0
Cash Flow Statement	172	86.0	23	11.5	5	2.5

**Source: Field Survey**

The data indicates varying levels of importance attributed to different accounting practices, highlighting areas where entrepreneurs may need to focus more attention or education to enhance their understanding and implementation of essential accounting procedures.

From Table 4.11, it is observed that 68.5% of the respondents consider that maintaining Cash Book is important whereas 24.5% believe that it is not important to maintain Cash Book and 7% attribute that maintaining Cash Book is moderately important.

With regards to maintaining Sales Book, majority of the respondents which accounts to 56% of the respondents believe that maintaining Sales Book is important, 28.5% said it is not important to maintain it and 15.5% consider that maintaining Sales Book is moderately important.

Table 4.11 also reveals the attitudes of the respondents regarding the maintenance of Purchase Book. It revealed that 33.5% respondents deemed it is important to maintain Purchase Book while another 33.5% believe it is not important to maintain Purchase Book and 33% accounts for respondents who deemed it is moderately important to maintain Purchase Book.

With regards to keeping of an Expense Book, majority of the respondents which accounts to 61.5% of the respondents believe that maintaining Sales Book is important, whereas 26.5% said that keeping one is not important and 12% consider that maintaining Sales Book is moderately important.

In terms of keeping a Debtors Account, it is observed that 44.5% of the respondents consider that maintaining Debtors Account is important whereas 37.5% believe that it is not important to maintain Debtors Account and 7% of the respondents finds it moderately important to keep a Debtors Account.

Table 4.11 further reveals that 55% respondents deemed it is not important to maintain Creditors Account while another 34% believe it is moderately important to maintain Creditors Account and only 11% accounts for respondents who deemed it is important to maintain Creditors Account.

In terms of maintaining a Fixed Asset Register, majority of the respondents (79%) consider that it is not important to maintain one and 17.5% feel that it is moderately important to maintain it while 3.5% believe it is important to maintain Fixed Asset Register.

With regards to maintenance of Stock Book, 76% of the respondents believe that it is not important to maintain a Stock Book, 18% of the respondents feel it is



moderately important to maintain one and only 6% consider it important to maintain it.

Table 4.11 also reveals that 76.5% respondents deemed it is not important to maintain Payroll Records while 14.5% believe it is moderately important to maintain Payroll Records and 9% accounts for respondents who deemed it is important to maintain one.

Table 4.11 further indicated the respondent's opinions regarding the maintenance of Profit & Loss Account. It indicated that 60.5% of the respondents believe maintaining Profit & Loss Account is important whereas 35.5% do not feel it important to maintain one and 4% of the respondents find it moderately important to maintain one.

In terms of maintaining a Balance Sheet, majority of the respondents (64%) consider that it is not important to maintain one and 27% feel that it is moderately important to maintain it while 9% believe it is important to maintain Balance Sheet.

With regards to maintenance of Cash Flow Statement, 86% of the respondents believe that it is not important to maintain one, 11.5% of the respondents deemed it is moderately important to maintain one and only 2.5% consider it important to maintain it.

#### **4.14 Attitude towards maintenance of Books of Accounts and Financial Statements**

An attempt was made to assess the attitude of entrepreneurs on maintenance of accounting records in their enterprises. A list of ten (10) statements with respect to attitudes of entrepreneurs with respect to maintenance of accounting records was presented to the respondents. The respondents were asked to rate on a scale of 1 to 10 to state their opinion about the statements concerning maintenance of accounting records. 10 indicates very strong positive attitude towards the statement and 1 indicates very weak and negative attitude towards the statement.

The response of the statements were analysed using descriptive statistics tools like mean, standard deviation (SD), frequencies and percentages. A mean score between 3.40 to 4.59 shows that the respondents have neutral attitude about the statement. A mean score below 3.40 indicates that the respondents have negative attitude about the statement. A mean score between 4.60 to 5.79 indicates a positive attitude of the respondents towards the statement and a mean score from 5.80 onwards shows a very positive attitude of the respondents towards the statement (Salmiah & Ungku, 2012).

As shown in Table 4.12 , the statement “I highly recommend entrepreneurs to practice good financial records and prepare financial reports” has the highest mean score of 8.03 (SD= 2.083) followed by the statement “I am compelled to record financial transaction” with a mean of 7.81 (SD = 2.456). The statement “I wish to continue preparing financial reporting in the future” has a mean of 7.78 (SD = 2.254) followed by “It is always good to keep record of all transactions in my business including those that did not go well for the business” with a mean score of 7.56 and Standard Deviation (SD) of 2.175. The statement “Accounting is the key to the success of a business” has a mean score of 7.34 (SD = 2.272). The statement “I am satisfied with the Financial reports I prepared” has a mean score of 7.25 (SD = 2.367). The statement “Accounting is a tedious activity & time consuming” has a mean of 6.91 (SD = 2.139). The statement “I feel happy when I prepare accounting records” has a mean score of 6.67 (SD = 2.63). The statement “I am willing to participate in Training/workshops on accounting practices” has the second least mean score of 6.19 and standard deviation is 2.574. The statement “Accounting adds unnecessary cost to my business” has the least mean score of 4.95 (SD = 2.282). It is observed from the results that almost all the means are above 6.0. This shows that the respondents had very positive attitude towards accounting practices.

**Table 4.12 Descriptive statistics on attitudes of the entrepreneurs on maintenance of accounting practices**

<b>Statements of attitudes on accounting practices</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
I am compelled to record financial transactions	200	7.81	2.456
Accounting is a tedious activity & time consuming	200	6.91	2.139
I am willing to participate in Training/workshops on accounting practices	200	6.19	2.574
I am satisfied with the Financial reports I prepared	200	7.25	2.367
I feel happy when I prepare accounting records	200	6.67	2.63
I wish to continue preparing financial reporting in the future	200	7.78	2.254
I highly recommend entrepreneurs to practice good financial records and prepare financial reports	200	8.03	2.083
Accounting is the key to the success of a business	200	7.34	2.272
Accounting adds unnecessary cost to my business	200	4.95	2.282
It is always good to keep record of all transactions in my business including those that did not go well for the business	200	7.56	2.175

**Source: Field Survey**

In summary, the study's findings indicate that micro enterprises have a very good attitude toward accounting processes but lack appropriate expertise. The majority of entrepreneurs responded that they definitely recommend employing an excellent accounting system and would continue to use appropriate financial reporting methods in the future. This suggested that they were aware of the significance of accounting records for a variety of reasons, and that accounting was the key to business success. Respondents also stated that they would particularly value the opportunity to receive training in accounting techniques, as well as learn more about record keeping and financial reporting. The results correspond with Muchira's (2012) findings indicating respondents had a favourable attitude toward record keeping. Similarly, Madurapperuma et al. (2016) found that the owners and managers of small and medium-sized businesses were eager to learn more about how to maintain reliable company records.

The findings of this study, however, do not confirm Sanga et al.'s (2014) conclusion that the majority of small and medium-sized business owners had a lack the knowledge on importance of record keeping. SMEs owners believe that keeping records in accordance with accounting standards is superfluous, time-consuming, and has no bearing on their company's poor performance. They did, however, state that poor education and training among SMEs' owners and staff had a significant role in shaping this impression.

#### **4.15 Compulsion to record financial transaction**

Table 4.13 indicates how the entrepreneurs in the present study responded to the statement “I am compelled to record financial transaction”.

**Table 4.13 I am compelled to record financial transaction**

<b>Scale</b>	<b>Frequency</b>	<b>Percentage</b>
1	8	4.0
2	6	3.0
3	2	1.0
4	4	2.0
5	14	7.0
6	8	4.0
7	27	13.5
8	34	17.0
9	29	14.5
10	68	34.0
Total	200	100

**Source: Field Survey**

About 34% gave a 10 on the 1 to 10 scale that maintaining accounting record is required to know the business financial position. 14.5% rated it a 9, 17% respondents gave an 8, 13.5% rated it a 7, a 6 rating was given by 4%, another 7% gave a 5 rating, a 4 rating was given by 2%, , a 3 was given by 1%, 3% respondents gave a 2 rating and the lowest rating on the scale, 1 is given by 4% respondents.

Overall, 79% of the respondents gave the statement “I am compelled to record financial transaction” a grade of 7 or higher. This implied that the majority of the respondents considered it is necessary to maintain accounting account to take business decisions for the future.

#### **4.16 Accounting is a tedious activity and time consuming**

Table 4.14 indicates how the entrepreneurs in the present study responded to the statement “Accounting is a tedious activity and time consuming”.

**Table 4.14 Accounting is a tedious activity and time consuming**

<b>Scale</b>	<b>Frequency</b>	<b>Percentage</b>
1	12	6.0
2	10	5.0
3	9	4.5
4	12	6.0
5	39	19.5
6	17	8.5
7	21	10.5
8	42	21.0
9	22	11.0
10	16	8.0
Total	200	100

**Source: Field Survey**

About 8% gave a 10 on the 1 to 10 scale that maintaining accounting record is a boring repetitive concept. 11% rated it a 9, 21% respondents gave an 8, 10.5% rated it a 7, a 6 rating was given by 8.5%, another 19.5% gave a 5 rating, a 4 rating was given by 6%, , a 3 was given by 4.5%, 5% respondents gave a 2 rating and the lowest rating on the scale, 1 is given by 6% respondents.

Overall, 50.5% of the respondents gave the statement “Accounting is a tedious activity and time consuming” a grade of 7 or higher. This implies that most of the respondents considered maintaining accounting records to be a tiresome, uninteresting and time consuming activity.

#### 4.17 Willingness to participate in Training/Workshop on accounting practices

Table 4.15 indicates how the entrepreneurs in the present study responded to the statement “I am willing to participate in Training/Workshop on accounting practices”.

**Table 4.15 I am willing to participate in Training/Workshop on accounting practices**

Scale	Frequency	Percentage
1	9	4.5
2	17	8.5
3	11	5.5
4	6	3.0
5	38	19.0
6	18	9.0
7	31	15.5
8	28	14.0
9	21	10.5
10	21	10.5
Total	200	100

**Source: Field Survey**

About 10.5% gave a 10 on the 1 to 10 scale on their willingness to participate in accounting trainings or workshops. 10.5% rated it a 9, 14% respondents gave an 8, 15.5% rated it a 7, a 6 rating was given by 9%, another 19% gave a 5 rating, a 4 rating was given by 3%, , a 3 was given by 5.5%, 8.5% respondents gave a 2 rating and the lowest rating on the scale, 1 is given by 4.5% respondents.

Overall, 49.5% of the respondents gave the statement “I am willing to participate in Training/Workshop on accounting practices” a grade of 7 or higher. This implies that respondents are willing to go and learn how to keep accounting records provided training or seminars are available.

#### **4.18 Satisfaction with the financial reports prepared**

Table 4.16 indicates how the entrepreneurs in the present study responded to the statement “I am satisfied with the financial reports I prepared”.

**Table 4.16 I am satisfied with the financial reports I prepared**

<b>Scale</b>	<b>Frequency</b>	<b>Percentage</b>
1	8	4.0
2	5	2.5
3	4	2.0
4	5	2.5
5	27	13.5
6	11	5.5
7	23	11.5
8	49	24.5
9	35	17.5
10	33	16.5
Total	200	100

**Source: Field Survey**

About 16.5% gave a 10 on the 1 to 10 scale that satisfied with the financial reports they prepared. 17.5% rated it a 9, 24.5% respondents gave an 8, 11.5% rated it a 7, a 6 rating was given by 5.5%, another 13.5% gave a 5 rating, a 4 rating was given by 2.5%, , a 3 was given by 2%, 2.5% respondents gave a 2 rating and the lowest rating on the scale, 1 is given by 4% respondents.

Overall, 70% of the respondents gave the statement “I am satisfied with the financial reports I prepared” a grade of 7 or higher.

#### **4.19 Contentment in preparing accounting records**

Table 4.17 indicates how the entrepreneurs in the present study responded to the statement “I feel happy when I prepare accounting records”.

**Table 4.17 I feel happy when I prepare accounting records**

Scale	Frequency	Percentage
1	8	4.0
2	8	4.0
3	10	5.0
4	21	10.5
5	26	13.0
6	14	7.0
7	17	8.5
8	35	17.5
9	28	14.0
10	33	16.5
Total	200	100

**Source: Field Survey**

About 16.5% gave a 10 on the 1 to 10 scale that they feel happy when I prepare accounting records. 14% rated it a 9, 17.5% respondents gave an 8, 8.5% rated it a 7, a 6 rating was given by 7%, another 13% gave a 5 rating, a 4 rating was given by 10.5%, , a 3 was given by 5%, 4% respondents gave a 2 rating and the lowest rating on the scale, 1 is given by 4% respondents.

Overall, 56.5% of the respondents gave the statement “I feel happy when I prepare accounting records” a grade of 7 or higher.

#### **4.20 Commitment to prepare financial report consistently**

Table 4.18 indicates how the entrepreneurs in the present study responded to the statement “I wish to continue preparing financial reporting in the future”.

About 28.5% gave a 10 on the 1 to 10 scale. 18% rated it a 9, 19.5% respondents gave an 8, 9.5% rated it a 7, a 6 rating was given by 6.5%, another 8.5% gave a 5 rating, a 4 rating was given by 2.5%, , a 3 was given by 3.5%, 2.5% respondents gave a 2 rating and the lowest rating on the scale, 1 is given by 1% respondents.



**Table 4.18 I wish to continue preparing financial reporting in the future**

Scale	Frequency	Percentage
1	2	1.0
2	5	2.5
3	7	3.5
4	5	2.5
5	17	8.5
6	13	6.5
7	19	9.5
8	39	19.5
9	36	18.0
10	57	28.5
Total	200	100

**Source: Field Survey**

Overall, 75.5% of the respondents gave the statement “I wish to continue preparing financial reporting in the future” a grade of 7 or higher.

#### **4.21 Recommend practicing good financial records and prepare financial reports**

Table 4.19 indicates how the entrepreneurs in the present study responded to the statement “I highly recommend entrepreneurs to practice good financial records and prepare financial reports”.

About 32.5% gave a 10 on the 1 to 10 scale which indicated that the entrepreneurs attitude on maintaining accounting records were very positive. 18% rated it a 9, 20.5% respondents gave an 8, 6.5% rated it a 7, a 6 rating was given by 7.5%, another 7.5% gave a 5 rating, a 4 rating was given by 4%, , a 3 was given by 1.5%, 1.5% respondents gave a 2 rating and the lowest rating on the scale, 1 is given by 0.5% respondents.

**Table 4.19 I highly recommend entrepreneurs to practice good financial records and prepare financial reports**

Scale	Frequency	Percentage
1	1	0.5
2	3	1.5
3	3	1.5
4	8	4.0
5	15	7.5
6	15	7.5
7	13	6.5
8	41	20.5
9	36	18.0
10	65	32.5
Total	200	100

**Source: Field Survey**

Overall, 77.5% of the respondents gave the statement “I highly recommend entrepreneurs to practice good financial records and prepare financial reports” a grade of 7 or higher. This implies that the respondents gave importance to maintaining proper accounting records and preparing of financial reports.

#### **4.22 Accounting is the key to the success of a business**

Table 4.20 indicates how the entrepreneurs in the present study responded to the statement “Accounting is the key to the success of a business”.

About 19% gave a 10 on the 1 to 10 scale. 18% rated it a 9, 20% respondents gave an 8, 11.5% rated it a 7, a 6 rating was given by 9.5%, another 9.5% gave a 5 rating, a 4 rating was given by 4%, , a 3 was given by 5%, 2.5% respondents gave a 2 rating and the lowest rating on the scale, 1 is given by 1% respondents.

Overall, 68.5% of the respondents gave the statement “Accounting is the key to the success of a business” a grade of 7 or higher. This suggests that the respondents were aware that excellent accounting methods may contribute to company success while bad accounting practices can harm their firm.

**Table 4.20 Accounting is the key to the success of a business**

Scale	Frequency	Percentage
1	2	1.0
2	5	2.5
3	10	5.0
4	8	4.0
5	19	9.5
6	19	9.5
7	23	11.5
8	40	20.0
9	36	18.0
10	38	19.0
Total	200	100

**Source: Field Survey**

#### **4.23 Accounting adds unnecessary cost**

Table 4.21 indicates how the entrepreneurs in the present study responded to the statement “Accounting adds unnecessary cost to my business”.

**Table 4.21 Accounting adds unnecessary cost to my business**

Scale	Frequency	Percentage
1	13	6.5
2	24	12.0
3	22	11.0
4	21	10.5
5	40	20.0
6	27	13.5
7	24	12.0
8	17	8.5
9	8	4.0
10	4	4.0
Total	200	100

**Source: Field Survey**

About 4% gave a 10 on the 1 to 10 scale suggesting that they do not spend extra money on accounting. 4% rated it a 9, 8.5% respondents gave an 8, 12% rated it a 7, a 6 rating was given by 13.5%, another 20% gave a 5 rating, a 4 rating was given by 10%, a 3 was given by 11%, 12% respondents gave a 2 rating and the lowest rating on the scale, 1 is given by 6.5% respondents.

Overall, 60% of the respondents gave the statement “Accounting adds unnecessary cost to my business” a grade of 5 or lower. This implies that the respondents do not take any costly efforts to assist their financial records, such as employing an accountant, etc.

#### **4.24 Promoting accountability and transparency**

Table 4.22 indicates how the entrepreneurs in the present study responded to the statement “It is always good to keep record of all transactions in my business including those that did not go well for the business”.

**Table 4.22 It is always good to keep record of all transactions in my business including those that did not go well for the business**

<b>Scale</b>	<b>Frequency</b>	<b>Percentage</b>
1	2	1.0
2	1	0.5
3	11	5.5
4	9	4.5
5	16	8.0
6	11	5.5
7	28	14.0
8	46	23.0
9	31	15.5
10	45	22.5
Total	200	100

**Source: Field Survey**

About 22% gave a 10 on the 1 to 10 scale suggesting that despite of business performance they find it important to keep good track of their financial transactions

15.5% rated it a 9, 23% respondents gave an 8, 14% rated it a 7, a 6 rating was given by 5.5%, another 8% gave a 5 rating, a 4 rating was given by 4.5%, , a 3 was given by 5.5%, 0.5% respondents gave a 2 rating and the lowest rating on the scale, 1 is given by 1% respondents.

Overall, 75% of the respondents gave the statement “It is always good to keep record of all transactions in my business including those that did not go well for the business” a grade of 7 or higher. This implies that the majority of the respondents will continue to maintain and keep track of their financial transactions regardless of their financial condition, even if things did not go smoothly.

#### **4.25 Cross sectional analysis of person responsible for maintaining accounting records across selected socio economic profile of the respondents**

In this subsequent section, cross-sectional analyses have been carried out to study the relationship between person responsible for maintaining accounting records with their gender, age and educational qualification. To draw meaningful relationship between person responsible for maintaining accounting records with their gender, age and educational qualification, Spearman Correlation Coefficients are obtained.

Table 4.23 shows the person responsible for maintaining accounting records across gender of the respondents.

**Table 4.23 Person responsible for maintaining accounting records with socio-economic profile of the respondents**

Person responsible for keeping accounting records		Owner	Accountant	Manager	Sales personnel	Not prepared	Total
Gender	Male	70	1	10	1	36	118
	Percentage	59.3%	0.8%	8.5%	0.8%	30.5%	100%
	Female	49	0	12	1	20	82
	Percentage	59.8%	0%	14.6%	1.2%	24.4%	100%
	Total	119	1	22	2	56	200
	Percentage	59.5%	0.5%	11%	1%	28%	100%
Age (in years)	Up to 20	0	0	0	0	2	2
	Percentage	0%	0%	0%	0%	100%	100%
	21-40	55	0	12	2	16	85
	Percentage	64.7%	0%	14.1%	2.4%	18.8%	100%
	41-60	57	1	8	0	31	97
	Percentage	58.8%	1%	8.2%	0%	32%	100%
	Above 60	7	0	2	0	7	16
	Percentage	43.8%	0%	12.5%	0%	43.8%	100%
	Total	119	1	22	2	56	200
	Percentage	59.5%	0.5%	11%	1%	28%	100%
Educational Qualification	Matriculate	25	0	4	0	31	60
	Percentage	41.7%	0%	6.6%	0%	51.7%	100%
	Higher Secondary	30	0	5	1	11	47
	Percentage	63.8%	0%	10.6%	2.1%	23.4%	100%
	Under Graduate	42	1	8	1	9	61
	Percentage	68.9%	1.6%	13.1%	1.6%	14.8%	100%
	Post Graduate	22	0	4	0	5	31
	Percentage	71%	0%	12.9%	0%	16.1%	100%
	MPhil/PhD	0	0	1	0	0	1
	Percentage	0%	0%	100%	0%	0%	100%
	Total	119	1	22	2	56	200
	Percentage	59.5%	0.5%	11%	1%	28%	100%

**Source: Field Survey**

Among the male respondents, 85.4% accounted for the respondents who did the record of accounting transaction by the business owner themselves. Few entities have managers who did the role of maintaining accounting records (12.2%), 1.2% had qualified accountants who do the financial record keeping and 1.2% had sales personnel who were in charge of maintaining accounting records.

Among the female respondents, 79% of the respondents did the record of accounting transaction by the business owner themselves. Few entities had managers who did the role of maintaining accounting records (19%), and 2% had sales personnel who do the financial record keeping.

Among the respondents less than 20 years, 83.3% accounted for the respondents who did the record of accounting transaction by the business owner themselves. Few entities had managers who did the role of maintaining accounting records (16.7%).

Among the 21-40 years respondents, 85.6% of the respondents did the record of accounting transaction by the business owner themselves. Few entities had managers who did the role of maintaining accounting records (7.7%), 3.8% had qualified accountants who do the financial record keeping and a little over 2.9% had sales personnel who performed the task of maintaining accounting records.

Among the respondents of 41-60 years, 89.7% did the record of accounting transaction by the business owner themselves. 6.9% had managers who perform the role of recording financial transactions and 3.4% had qualified accountants who did the task of maintaining accounting records.

Among the respondents who were above 60 years, it came to light that the business owner themselves were in charge of maintaining accounting records.

Among the matriculates, the business owner themselves were exclusively in charge of maintaining accounting records.

Among the respondents passing higher secondary, almost all enterprises i.e., 95.6% of the respondents did the record of accounting transaction by the business owner themselves. Few entities (4.4%) assigned the role of maintaining accounting records to their managers.

Among the Under Graduate respondents, 84.4% did the record of accounting transaction by the business owner themselves. 6.3% had managers who perform the role of recording financial transactions and another 6.3% had qualified accountants who did the task of maintaining accounting records. Few entities (3%) assigned the role of maintaining accounting records to their sales personnel.

Among the Post Graduate respondents, it came to light that the majority business owner themselves were in charge of maintaining accounting records (77.8%), 15.6% had managers who perform the role of recording financial transactions and 4.4% had qualified accountants who did the task of maintaining accounting records. Few entities only around 2.2% assigned the role of maintaining accounting records to their sales personnel.

### **Correlation of person responsible for maintaining accounting records with socio-economic profile of the respondents**

To know correlation between person responsible for maintaining accounting records and gender of the respondents, Spearman correlation is applied with the following hypothesis.

H<sub>0</sub>: There is no significant relationship between person responsible for maintaining accounting records with socio-economic profile of the respondents

A correlation analysis was conducted to draw meaningful relationships between the 3 socio-economic profile of respondents, viz., gender, age and educational qualification of the respondents. Results of Spearman Correlation analysis reveals that statistically significant relationship was observed between person responsible for accounting records and educational qualification of the respondents ( $p=0.000<0.05$ ).



**Table 4.24 Test of correlation between person responsible for maintaining accounting records with socio-economic profile of the respondents**

	Gender	Age	Qualification	Accounting Records
Gender	1			
Age	0.135	1		
Qualification	-.180*	-.362**	1	
Accounting Records	-0.026	0.101	-.265**	1

There is a widely held belief that an entrepreneurs' level of education are connected with their knowledge on accounting practices. There was a weak and negative relationship between person responsible for accounting records and educational qualification of the respondents ( $r = -.265$ ).

#### **4.26 Conclusion**

This chapter delves into the awareness and attitudes of micro entrepreneurs in Mizoram regarding the maintenance of books of accounts. It emphasizes the importance of proper accounting records for sound decision-making, cash flow management, and understanding the financial position of a business. The lack of proper maintenance of accounting records is identified as a significant constraint to the development of small business entities. The chapter highlights that micro enterprises in Mizoram follow different accounting systems, with limited knowledge on accounting practices and maintenance of financial records being observed. The study also reveals that the majority of micro entrepreneurs are aware of accounting practices, but their knowledge is limited, potentially due to a lack of education in accounting. The chapter further explores the method used for recording financial transactions, the basis for recording, and the preparation of financial reports. It is observed that a large majority of micro entrepreneurs maintain proper records of financial transactions, indicating their awareness of the importance of maintaining books of accounts. The method used for recording financial transactions is predominantly manual, with a majority of business owners choosing traditional methods over ICT for accounting-related tasks. The study also highlights the

significance of technology in improving accessibility and efficiency in accounting for micro-enterprises. The findings indicate that micro enterprises have a very good attitude toward accounting processes but lack appropriate expertise. The majority of entrepreneurs responded that they definitely recommend employing an excellent accounting system and would continue to use appropriate financial reporting methods in the future. This suggested that they were aware of the significance of accounting records for a variety of reasons, and that accounting was the key to business success. Respondents also stated that they would particularly value the opportunity to receive training in accounting techniques, as well as learn more about record keeping and financial reporting. The results correspond with Muchira's (2012) findings indicating respondents had a favourable attitude toward record keeping. Similarly, Madurapperuma et al. (2016) found that the owners and managers of small and medium-sized businesses were eager to learn more about how to maintain reliable company records. The findings of this study, however, do not confirm Sanga et al.'s (2014) conclusion that the majority of small and medium-sized business owners had disregarded the importance of record keeping. SMEs owners believe that keeping records in accordance with accounting standards is superfluous, time-consuming, and has no bearing on their company's poor performance. They did, however, state that poor education and training among SMEs' owners and staff had a significant role in shaping this impression

In conclusion, the study on micro entrepreneurs in Mizoram regarding the maintenance of books of accounts highlights a mix of attitudes towards accounting practices. The study indicates that there is an overall positive attitude towards maintaining accounting records among micro entrepreneurs in Mizoram. Respondents recognize the importance of proper financial management for their businesses, highlighting a fundamental understanding of the value of accounting practices in business operations. Despite the positive attitudes, the study identifies challenges related to limited knowledge and expertise in accounting among the respondents. This suggests a gap in understanding accounting principles and practices, which can potentially hinder effective financial management and decision-making within micro enterprises.

The reluctance towards adopting computerized accounting systems and the preference for manual record-keeping methods point to a resistance towards embracing technological advancements in financial management. This reluctance may stem from concerns about fraud, financial disclosure, or a perceived lack of benefits associated with digital accounting tools. The study underscores the importance of addressing the challenges faced by micro entrepreneurs through targeted education and training programs. By enhancing accounting knowledge and skills among small business owners, they can overcome barriers to effective financial management, make informed decisions, and improve the overall sustainability and success of their enterprises.

The study highlights an opportunity for improvement in enhancing the accounting capabilities of micro entrepreneurs in Mizoram. By investing in educational initiatives and providing resources for skill development in accounting practices, small businesses can strengthen their financial management processes, leading to better business outcomes and long-term sustainability. In essence, it emphasizes the need for continuous learning and skill development in accounting practices among micro entrepreneurs to overcome challenges, embrace technological advancements, and drive business growth and success in the competitive business landscape.

**CHAPTER 5**  
**TYPES OF ACCOUNTING RECORDS MAINTAINED AND THE**  
**CHALLENGES FACED**

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## **CHAPTER 5**

### **TYPES OF ACCOUNTING RECORDS MAINTAINED AND THE CHALLENGES FACED**

This chapter highlights the books of accounts and financial statements prepared by the micro enterprises in Mizoram along with the accounting practices to monitor and track financial position, reasons for incomplete and improper accounting records, challenges to keep proper and complete accounting records, impact of incomplete and improper accounting records, performance of accounting records, functions and necessity to keep accounting records and performance of micro enterprises post covid pandemic. Furthermore, this chapter highlights the results of the research hypotheses and their analysis.

#### **5.1 Types of books of accounts prepared by micro enterprises**

The importance of maintaining a good and complete records of accounting cannot be overlooked. It is crucial for every business to keep track of their financial transactions and prepare a good accounting system to project their financial performance over the years. Preparing accounting records is crucial for small scale enterprises as it has a significant effect on their financial performance. Good record keeping practices, such as using receipts, invoices, and payment vouchers, help reduce operating costs, improve efficiency, and ultimately impact the performance of SMEs positively. Improper book keeping is due to the lack of knowledge in accounting education among the small business owner. If there are no proper maintenance of accounting records, the management itself would not be able to monitor the financial status of the business thus affect the sustainability of the business.

Good records provide the financial data that help the business operate more efficiently, thus increasing the profitability. Accurate and complete records allow the business manager and accountant to identify all business assets, liabilities, income and expenses. That information helps to identify both the strong and weak phases of the business operations. Nelson & Onias (2011) concluded that keeping accurate

accounting records creates a profitable business. Madurapperuma et al (2016) found that SMEs keep complete set of accounts to capture sales and cost of sales and results confirmed that preparing accounting records positively influence on the performance of SMEs. However, few numbers of SMEs are keeping primary entries to record information. Some small and medium-sized entrepreneurs have kept primary entries to record information. Muchira (2012) investigated extent to which the owners or managers of Micro and Small Enterprises keep records in their businesses, focusing on 84 SMEs. Findings revealed that, some of the Medium Sized Enterprise owners/managers kept various records which included the purchase day or order records, the receipt book, the expenditure or bills book, the payroll records and the assets register. Further investigation revealed that the MSEs do not keep complete accounting records because of lack of accounting knowledge and the cost of hiring professional accountants. As a result, there is inefficient use of accounting information to support financial performance measurement by SMEs. This made it difficult for the entrepreneurs to calculate their business profit efficiently.

Majority of SMEs do not keep proper records of their businesses, hence, inability to measure financial performance and position of their businesses. SMEs operators are keeping improper records like note books, writing on walls and papers. Only few of SMEs are keeping proper records such as cash book, sales day book, petty cash book, purchase day book, income statement and statement of financial position, Dawuda and Azeko (2015). Also they confirmed that SMEs owners are ignorant of the value of keeping proper financial records and have perception that it is waste of time and resources to Establishment of a Department of Finance and Accounting with qualified staff taking into account. Further they emphasized lack of education and high cost of hiring qualified staff made it very difficult for the owners to keep proper books of accounts. Some also failed to keep proper books of accounts in order to avoid tax. According to Maseko and Manyani (2011) found that there was a positive relationship between the preparation of accounting records and the financial performance of SMEs.

According to Amoako (2013), he investigated the record keeping strategies utilized by SMEs in Kumasi (Ghana) through data based on responses to a structured

questionnaire from 210 SMEs in Kumasi. The results revealed that SMEs do not maintain proper books of accounts because owners do not appreciate the need to keep accounting records, lack the necessary accounting knowledge and blame the cost of hiring accounting professional. Consequently, the application of accounting information to support assessment of financial performance by SMEs in Ghana is inefficient. Rahamon and Adejare (2014) investigated the impact of Accounting Records Keeping on the Performance of the Small Scale Enterprises and data collected were analysed using both the qualitative and quantitative methods. Findings revealed that majority of the respondents keep business accounting records. Records are kept on cash basis. Sales purchases, creditors and debtors, receipts, invoices, payment vouchers are used as record keeping documents which help to reduce operating costs and improve efficiency and productivity. Further they revealed that, there is a strong positive relationship between accounting record keeping and performance of small scale enterprises. This implies that accounting record keeping affects performance of small scale enterprises. Bookkeeping practices serves as the basis for proper planning and management of business activities and allows managers and owners to determine whether they are making profits or loss. Abdul-Rahamon & Adejare (2014) argued that the general objectives of bookkeeping include improving efficiency and productivity, to control creation and growth to reduce operating costs, to ensue regulatory requirement.

For good financial record keeping practices, an entity must keep records on purchases, sales, earnings, receipts and payments. The following books must therefore be kept; Purchases Journal/ Ledger, Sales Journal/Ledger, General Journal/Ledger, Debtors and Creditors Account, Cash/Bank Account (Mintah, E.K., Adjei, H., Mintah, C.O., & Okofo, C.A., 2014). A study was conducted to identify the books of accounts prepared by the micro enterprises in Mizoram.

With regards to preparing a Cash Book, Table 5.1 indicated that 72% of the respondents kept Cash Book to keep track of their cash inflows and outflows while 28% of the respondents did not maintain a Cash Book. This inferred that majority of the respondents are giving importance to record the cash receipts and payments made



from their business transactions. Goods records helps the entrepreneurs to identify the incomes and expenses of the business and assist them to have control on utilization of their funds.

**Table 5.1 Types of books of accounts maintained by micro enterprises**

Books of Accounts	Prepare		Do not Prepare	
	Frequency	Percentage	Frequency	Percentage
Cash Book	144	72.0	56	28.0
Sales Book	106	53.0	94	47.0
Purchase Book	63	31.5	137	68.5
Expense Book	122	61.0	78	39.0
Debtor's Account	94	47.0	106	53.0
Creditor's Account	23	11.5	177	88.5
Fixed Asset Register	10	5.0	190	95.0
Stock Book	15	7.5	185	92.5
Payroll Records	22	11.0	178	89.0

**Source: Field Survey**

A sales book is a book of account that records all of the business's credit sales. In this book, only the credit sales made by the enterprises will be documented, hence no cash transactions or sales will be recorded, as they were in the cash books. The sales book is a crucial document since it allows the organization to monitor credit sales on a daily basis. As a result, the book is an important resource for small and medium-sized organizations. Because these enterprises rely on credit sales to generate cash, this document meets the requirement to account for all financial transactions that occur on a daily basis. In terms of maintaining Sales Book, the findings revealed that around 53% of the respondents kept a record of their sales transactions in the business whereas around 47% did not maintain Sales Book. The findings showed that more than fifty percent of the respondents were aware of the importance to record their credit sales since they rely on credit sales to generate cash.

The findings depicts that around 68.5% of the respondents failed to maintain Purchase Book and failed to keep invoices and receipts of their purchase and around 31.5% maintained a Purchase Book. Purchase book maintains clear and organized

records of all purchases made by the business. It ensures accountability in the procurement process by recording supplier transactions. Purchase Book helps to keep accurate financial records, and facilitates account reconciliation. However, the findings inferred that more than half of the respondents failed to keep purchase records and this may be because they were unaware of the importance of maintaining Purchase book or they do not find it necessary to maintain it. In this context, it is critical to raise awareness among micro entrepreneurs about the need of keeping a purchase book and urge them to do so.

Recording and keeping track of the expenditure or cost relating to their business is essential for all entrepreneurs regardless of how small or large the amount is. Specifically with regards to manufacturing businesses, it is important to record all the expenditure relating to production of goods as proper record will help them to determine cost of production and thus it will help them to fix the selling price to have profitability and for cost control as well. With regards to keeping an Expense Book, the data shows that 61% of the respondents keep an Expense Book while 39% failed to keep one. The findings revealed that more than half of the respondents were aware of the importance to keep track of their expenses and adopt necessary control, if possible.

Debtors Account contains the accounts of consumers to whom goods were sold on credit. The findings of the study revealed that the micro enterprises adopted both Cash and Accrual basis which permitted them to sell goods on credit. The study further showed that over 53% of the respondents did not keep Debtor's book while around 47% of the respondents maintained a Debtor's Book. While the business accepted credit sales, around fifty percent of the micro enterprises do not record their debtors' particulars and it is found from observations that they keep track of their debtors by memorizing them and also, they are familiar with their customers and their have trust and confidence in them to pay back their debts. However, in other circumstances, bad debts were prevalent, and they were often the reason of business shutdown. As a result, entrepreneurs or keeper of records must be extremely precise

while managing debtors' books. It is usually advisable to maintain track of credit sales in order to ensure accountability and avoid bad debts.

Creditors Account contains the accounts of suppliers or creditors from whom goods have been purchased on credit or money had been borrowed. Creditors are often set up as a liability in the business's balance sheet and it is important to maintain a Creditors Account to keep complete and accurate financial statements. However, with regards to maintaining Creditors Account, it is observed that 88.5% of the respondents did not keep it whereas 11.5% of the respondents maintain Creditor's Account. With incomplete accounting records, it is impossible for the business to comply with accounting principles and maintain accurate and complete financial reports and statements. So, this adds to why many micro enterprises failed to prepare financial statements. In this regard, micro entrepreneurs should be encouraged to keep a Creditors Account so that they can accurately record the financial status of their companies in a well-prepared financial report.

The study revealed that over 95% of the respondents failed to keep Fixed Asset Register whereas only 5% of the respondents maintained it. The findings inferred almost all respondents in this study did not have a record of their assets viz., plant, machinery and equipment. The main purpose of fixed asset register is to enable an organisation to accurately record and maintain both financial and non-financial information pertaining to each asset and to easily identify and verify an asset when required. In the absence of these records, the business will be unable to locate the location of their assets, become oblivious of the status and condition of their assets and will be unable to detect thefts and losses. Furthermore, it is helpful in matching fixed assets value with Balance Sheet, so in the absence preparation of balance sheet become impossible.

It is important to have a detailed stock records of all the goods and materials acquired by the business. A good stock record keeping allows the owners or managers to make effective purchases, it will ease the circulation of products, and enormous amounts of cash that stand idle may be avoided. The study showed that almost all respondents (92.5%) failed to maintain a Stock Book while only around 7.5% of the

respondents kept a stock book. From the findings of the study, it can be understood that the entrepreneurs failed to recognize the importance to maintain a stock record which will help them to control the cost of materials and increase their profitability and productivity.

Payroll records contain valuable data about wages and taxes that can help businesses create better budgets and manage labor expenses. In terms of keeping Payroll Records, the data shows that 89% of the respondents failed to keep Payroll records whereas 11% of the respondents maintained it.

The findings inferred that all the micro enterprises under study had kept some sort of financial records. However, no entity kept complete records of financial records or books of accounts which are required to be prepared by them for their sustainability. As a result, preparing financial reports for proper company evaluation is extremely challenging, given that accurate record keeping is the cornerstone of financial reporting. The most popular or common book of accounts prepared by the micro enterprises in Mizoram were Cash Book followed by Expense Book. Even though it is important to maintain and keep complete accounting records, micro enterprises can be an exception since their turnover and revenues were very small as compared to other forms of business. So, having a bare minimum record may suffice to assist them in taking financial decisions. Besides, they might think these incomplete records are sufficient for them to carry on their business.

It is also clear that incomplete and improper accounting records can lead to a lack of financial clarity, hinder decision-making processes, increase the risk of financial losses, and impede the overall performance and growth of micro enterprises. Maintaining accurate and complete accounting records is essential for ensuring financial stability, making informed decisions, and demonstrating transparency to stakeholders. To enhance accounting practices, micro enterprises in Mizoram should consider investing in accounting software for streamlined record-keeping, hiring professionals for system setup and training, implementing clear procedures, providing staff education, segregating duties, organizing financial documents, conducting

regular reconciliations, monitoring cash flow, and seeking professional advice for improved record-keeping practices.

## **5.2 Financial Statements Prepared by the Micro Enterprises**

Financial statements refer to formal and original statements which are prepared to disclose financial health in the terms of profits, position, and prospects as on a certain date. Madurapperuma et al (2016), concluded that most SMEs do not prepare a complete set of financial statements. An organization may fail to prepare financial statements, even with well-maintained account books, as accounting knowledge/skills are required to prepare financial statements. Financial statements provide the most basic and important information in decision making. Good financial decisions are predicted based on the ability to trust reliable financial information and financial statements. Inefficient decisions can lead to poor financial management and ultimately lead to misery / failure. Efficient use of financial statements in decision making can improve financial management and keep the company viable.

Amoako et al (2014) concluded that the income statement is the mostly prepared financial report of SMEs. Some of SMEs prepare statements on incomes, statement of cash flow, statement of change in equity and statement of financial position. Some of the enterprises however do not keep any records of their business transactions and they do not prepare the accounting statements. As a result, there is inefficient use of accounting information to support financial performance measurement by SMEs. This made it difficult for the entrepreneurs to calculate their business profit efficiently, Muchira (2012). According to Maseko and Manyani (2011) investigated accounting record keeping practices for performance measurement employed by SMEs in Zimbabwe by using target population comprised of 100 SMEs. The results confirmed that most SMEs do not prepare a complete set of financial statements with some not preparing any financial statement at all. This is supported by only 27% of SMEs preparing financial statements to report financial performance. An entity may fail to prepare financial statements even with well-maintained books of accounts because the preparation of financial statements requires accounting skills.

It is mandatory for an entrepreneur who wants to borrow loans from banks to submit a detailed project report which includes financial projections along with balance sheet, profit and loss statement, cash flow statement, fund flow statement and break-even point. Distinguishing between sales and net profit derived from operations is crucial for firms. In addition to understanding these distinctions, it's critical to comprehend the methodology used by companies to determine their net profit, which enables owners to assess the present state of their enterprise's finances.

**Table 5.2 Types of financial statement maintained by the micro enterprises**

<b>Financial Statements</b>	<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Profit &amp; Loss Account</b>	Yes	116	58
	No	84	42
	Total	200	100
<b>Balance Sheet</b>	Yes	20	10
	No	180	90
	Total	200	100
<b>Cash Flow Statement</b>	Yes	5	2.5
	No	195	97.5
	Total	200	100

**Source: Field Survey**

Table 5.2 depicts the financial statement preparation status of the Micro enterprises. The study revealed that 58% of the micro enterprises prepared a Profit & Loss Account while 42% failed to prepare one. The findings further indicates that 90% of the respondents failed to prepare a Balance sheet while 10% prepared a Balance Sheet. Furthermore, the study shows that 97.5% of the respondents did not prepare Cash Flow Statement while 2.5% prepared a Cash Flow Statement.

The findings indicated that Profit & Loss Account was the mostly prepared financial statements by the micro enterprises in Mizoram and the failure to prepare financial statements by most of the micro enterprises was a result of incomplete account records maintained by the entrepreneurs. Preparing financial statements is essential for micro enterprises as it allows them to assess their financial performance, track profitability, attract potential investors or lenders, comply with tax regulations,

make informed business decisions, and ultimately enhance the long-term sustainability and success of the business. The micro entrepreneurs are advised to ensure that they keep a complete accounting records which will enable them to prepare an accurate and reliable financial statements.

Above all, the preparation of financial reports for the businesses is undeniable very important in determining the business performance and financial position. The owner of the business would be able to identify any weaknesses of the business and subsequently able to take the appropriate actions to improve the overall financial position. This could ultimately sustain the operation of the business for a long time. Companies make many transactions on a daily basis in order to run and engage in their businesses. They have to prepare many statements in this regard. These statements reveal the financial health of the business and enable internal and external users to make sound evaluations. Recognised accounting bodies establish accounting standards, resulting in a unified accounting concept for corporations to follow.

The primary goal of Accounting Standards is to standardise various accounting principles and processes. Ind AS, or Indian Accounting Standards, control the accounting and recording of financial transactions, as well as the presentation of statements like as balance sheets and profit and loss accounts for Indian companies. In India, the Institute of Chartered Accountants of India reports that, for the purpose of applicability of accounting standards, enterprises are classified into four categories, namely, level I, level II, level III and level IV non-company entities. Level I non-company entities are large entities that are required to apply all the standards. Level IV, level III and level II non-company entities are considered to be MSMEs and have been granted certain exceptions from accounting standards applicable for larger entities.

### **5.3 Accounting Practices used to Monitor and Track Financial Position**

Accounting system provides the business with a tool to analyze their financial position and to understand their financial performance. Again, it is crucial for the enterprises to maintain accounting records and have an accurate record of their

financial transactions to enable them to monitor and keep track of their financial health. Financial performance of a business is measured using profitability, liquidity, gearing, efficiency and return on capital employed. The appropriate tool to measure these performances is the financial report (Mintah et al., 2014).

**Table 5.3 Accounting practices used to monitor and track financial position by the micro enterprises**

<b>Particulars</b>	<b>Frequency</b>	<b>Percentage</b>
Cash & Bank Balance	82	41.0
Profit & Loss Ac only	95	47.5
Profit & Loss Ac & Balance Sheet	18	9.0
Profit & Loss Ac & Cash Flow Statement	3	1.5
Balance Sheet & Cash Flow Statement	2	1.0
Total	200	100.0

**Source: Field Survey**

Table 5.3 depicts the accounting instruments used by micro enterprises to monitor and track their financial status. According to the findings, 41% of micro firms relied entirely on their Cash & Bank Balance to know their financial condition, while 47.5% utilized Profit & Loss Account to monitor and manage their financial position. It also shows that 9% of respondents prepared a Profit & Loss Account in addition to a Balance Sheet to keep track of their financial position, 1.5% used a Profit & Loss Account in addition to a Cash Flow Statement to track and monitor their financial position, and the remaining 1% prepared both Balance Sheet and a Cash Flow Statement to know their financial position. The findings of the study support and is in line with the suggestions given by Mintah et al (2014), indicating that financial report is the correct and appropriate tool to measure financial position and performance of a business.

Essential accounting tools and practices for efficient financial management in micro enterprises comprise using accounting software for automation and organization, creating cash flow statements to oversee liquidity, formulating budgets and forecasts for goal-setting, evaluating financial ratios for performance assessment,



performing bank reconciliations for accuracy, setting up inventory tracking for optimization, monitoring expenses for cost control, implementing internal controls for security, generating financial reports for stakeholders, and undertaking routine financial reviews for strategic decision-making.

#### **5.4 Necessity to Maintain Proper Books of Accounts**

It is not arguable that every business must maintain proper records of their financial transactions and have a good bookkeeping system in order to predict their financial status and health. Even though some of micro enterprises owners acknowledge the importance of maintaining proper books of accounts for their sustainability, several studies around the globe had found that many of the small and micro enterprises failed to keep proper accounting records as well as do not have proper financial reporting practices. These were mainly attributed by the entrepreneur's lack of accounting knowledge and skills and lack of funds to hire to hire experts to maintain their accounting system.

No business can succeed in the long term without knowing exactly where its profits come from, what its expenses are and how much it is making and spending --it needs financial statements. The importance of good accounting records and financial statements to a small business cannot be over emphasized. Keeping good accounting records and financial statements are even more important for a small business than for other businesses. But most small- business or home-based-business entrepreneurs neglect any sort of financial statement, believing that their businesses are too small to need it. Without financial statements, decisions and daily activities of enterprises are based on guesses--not facts and thereby lead to the collapse of the enterprise.

**Table 5.4 Is it necessary to maintain proper books of accounts?**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	154	77.0
No	46	23.0
Total	200	100.0

**Source: Field Survey**

The findings from the study indicated that 77% of the respondents find it necessary to maintain proper or complete set of accounting records and they constitute the vast majority of the total respondents. Only 23% response that it is not necessary to maintain proper books and complete set of accounting records. This inferred that majority of the respondents were aware of the importance of keeping and maintaining complete and accurate accounting records as it is essential to the success of small business.

### **5.5 Challenges to keep proper and complete accounting records**

Sibanda and Manda (2016) described problems in accounting procedures as gaps, interruptions, or hurdles to their implementation. The disruption of accounting rules, procedures, and systems throughout the process of documenting and publishing business transactions is also considered a difficulty in accounting. They also stated that most research finds reasons that collectively indicate accounting or financial issues and poor management as "internal" variables (factors that are specific to the company in concern). Enterprises have a variety of challenges when implementing accounting processes since they are time intensive, challenging to manage, need technical expertise, and disclose the enterprise to taxpayers. However, the breadth of the problem is not confined to cash flow alone; it also includes the proper application of an appropriate array of skills, the use of efficient accounting systems, and a lack of honest business information (Okoli, B.E. 2011).

According to Musah (2017), some of the problems that SMEs encounter include the lack of specific regulations for bookkeeping and accounting records, fear of discouragement in the event of a loss, insufficient education and training abilities, and cost and time restrictions. Maseko and Manyani (2011) suggested that numerous major SMEs with a certain level of accounting competence and practical feasibility appear to make the best use of accounting information, but this is unusual for small enterprises. Improved accounting information would allow SMEs to operate their operations more effectively and have easier access to finance.

According to a McMahon (1999) study, the majority of SMEs' financial reporting practices do not adhere to recommended standards. The study also indicated that SMEs' managers and owners are generally reluctant to submit financial reports because they are not readily available to external parties, whether they are regulatory bodies or not. Muteti et al. (2018) noted that most businesses fail to submit and prepare accurate accounting records in order to avoid disclosing their financial condition to taxpayers and competition. While Mutambanengwe (2012) highlighted that SMEs think that the practice of preserving such accounting records is such a waste of time, money, and effort, as well as doing different ways of erasing the records of transactions done by the owner in the case of any surprise examination of any government agency. According to Osuala (1993), many firms record their transactions at random without adhering to any defined accounting standards, making it impossible to follow cash flows in the enterprises.

Accounting records and financial reporting has enormous benefits to small scale enterprises as it provides quick and relatively simple means of assessing the financial health of a business. Yet very few entities practice it and even those who practice it do so only when it is required or when they are requested to present their financial statements for tax assessment or for acquiring loans from financial institutions. Absence of proper and accurate accounting records and financial reports can impact the micro enterprises owner's ability to assess their financial performance accurately. The study by Lalrinsangi. C & Fanai (2020) focuses on the record-keeping practices of micro-enterprises in Lunglei, Mizoram. Only 23.3% of the respondents prepared financial statements or reports to support their financial position, with 6.7% preparing balance sheets and 16.6% preparing profit and loss accounts with balance sheets. Reasons for incomplete and improper records of financial transactions by the micro-enterprises in Lunglei were identified, including the need for expertise and knowledge, time constraints, and cost considerations.

The findings from the research on financial reporting practices of micro enterprises in Mizoram by Lalrinsangi. C & Fanai (2022) indicate that while the majority of respondents are familiar with basic accounting practices, they often fail to

maintain complete or proper books of accounts due to a lack of required skills and knowledge. Owners themselves tend to record financial transactions, resulting in low-quality and inaccurate reports because of a lack of understanding of complex accounting systems. Micro enterprises in Mizoram face challenges such as insufficient skills to handle assets and liabilities for financial statements, a distrustful attitude of owners, the high cost of hiring professionals, and fear of tax implications. Additionally, small businesses in Mizoram, especially micro enterprises, struggle with poor record-keeping practices, concerns about exposing business information, high financial reporting costs, and a lack of financial and accounting education. These findings underscore the importance of addressing skill and knowledge gaps in accounting practices among micro enterprises in Mizoram to enhance their financial reporting capabilities and overall business performance. The study revealed a number of challenges hindering micro enterprises from preparing proper and complete accounting records.

#### ***5.5.1 Cost and time constraints***

Cost and time constraints are interconnected to each other. Busy schedules and multiple responsibilities can limit the time for proper record-keeping, resulting in incomplete or delayed documentation. Learning and navigating complex accounting software can be time-consuming and may require training, especially for small businesses with limited resources. Cost constraint is a concept in financial management that indicates the financial limitations or boundaries that an individual, organization, or project must function within. This constraint is a crucial aspect of the decision-making and planning process. Because majority of the small and micro enterprises owners do not trust trained accountants, they do not hire their services. This erroneous impression about accounts is a big challenge to the financial reporting practices among micro enterprises.

In the present study, cost and time constraints, one of the challenges to keep proper and complete accounting records had three (3) statements. In this section, an attempt is made to analyse the statements relating to cost and time constraints.

#### *5.5.1.1 It is time consuming*

The study had taken into consideration the challenges faced by the micro enterprises in Mizoram in keeping proper and complete records. Table 5.5 indicates how the entrepreneurs in the present study responded to the statement “It is time consuming”. Over 38% disagreed with the statement, about 21% moderately agreed with the statement, around 39% agreed that it is time consuming to prepare accounting records and only around 2% strongly agreed with the statement.

**Table 5.5 It is time consuming**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	76	38.0
Moderately agreed	42	21.0
Agreed	78	39.0
Strongly agreed	4	2.0
Total	200	100.0

**Source: Field Survey**

Overall, 62% of the entrepreneurs expressed that time constraint is one of the biggest challenges they faced in preparing accounting records. This indicated the micro enterprises felt that preparing financial records is a time-consuming activity.

#### *5.5.1.2 High Cost of hiring accountants*

The cost of hiring an experienced and professional accountants can be relatively high and for business like micro enterprises with having very little turnover cannot afford to hire such accountants. Table 5.6 shows the response of the entrepreneurs with the statement “High cost of hiring accountants” as a factor posing a challenge to maintain accounting records. The findings showed that around 57.5% agreed to the statement, over 18.5% moderately agreed with the statement and only about 1.5% strongly agreed to the statement. On the other hand, around 4% of the respondents strongly disagreed that high cost of hiring an accountant posed as a challenge for them in maintaining accounting system and about 18.5% disagreed with the statement.

**Table 5.6 High cost of hiring accountants**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagreed	8	4.0
Disagreed	37	18.5
Moderately agreed	37	18.5
Agreed	115	57.5
Strongly agreed	3	1.5
Total	200	100.0

**Source: Field Survey**

Overall, 77.5% of the respondents expressed that high cost of hiring professional and trained accountants posed a challenge for them to adopt good accounting system. This indicates that challenge the small businesses face in financial reporting is inability to pay for the service of a trained personnel to do the work. This also implies that accounting did not add extra cost to their business and they were content with doing the recording of financial transactions on their own.

#### *5.5.1.3 It requires more staffs*

Table 5.7 indicates the response of the entrepreneurs to the statement ‘it requires more staff’. The respondents were asked whether the said factor had posed a challenge on the record keeping of their financial transactions, over 25% moderately agreed with the statement, about 39.5% agreed with the statement and another 20.5% strongly agreed. On the other hand, roughly 15% disagreed that increase in the requirement of number of human resources is not an excuse for their failure to prepare a complete accounting record.

**Table 5.7 It requires more staffs**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	30	15.0
Moderately agreed	50	25.0
Agreed	79	39.5
Strongly agreed	41	20.5
Total	200	100.0

**Source: Field Survey**

In an overall analysis, over 85% of the respondents felt that the requirement for more staffs to dedicate to recording and maintaining accounting records posed a challenge as it will add to more cost for the business.

#### ***5.5.2 Lack of expertise and knowledge on accounting***

The majority of micro businesses do not make full use of their accounting information due to a lack of business expertise and accounting skills. Several studies have shown that due to these primary reasons, many micro businesses were incapable to prepare and maintain comprehensive accounting records [Mbroh & Attom (2011), Muteti et al (2018), Danford, S., John, K., & Lazaro, K. (2014), Musah (2017), Mutambanengwe (2012), Everaert, P., G. Sarens, and J. Rommel (2006), McMahon (1999)] and the expense of hiring professionals and qualified accountants. Lack of expertise because accounting responsibilities need not just knowledge of widely known accounting principles or tax regulations, but also the ability to apply the laws in a specific business situation. As a result, Amaoko (2013) discovered that most organizations that do not employ good accounting standards have trouble documenting daily business transactions, making it difficult to determine the business's costs and earnings at the conclusion of operations. He also revealed that the majority of small and micro enterprises failed to preserve a full accounting record because they believed it was unnecessary to keep accounting records and report their financial situation. According to a study conducted by Lalrinsangi and Fanai (2022), the majority of micro enterprises struggled to maintain accounting records due to a lack of expertise and knowledge on the part of the owners, who were responsible for recording and preparing accounting records and financial statements.

The challenges keep proper and complete accounting records factor “Lack of expertise and knowledge on accounting” comprises two statements. In this section, an attempt is made to analyse the statements related to lack of expertise and knowledge on accounting of entrepreneurs.

#### 5.5.2.1 It requires technical skill and knowledge

Numerous studies have found that the failure of small businesses, particularly microenterprises, is mostly due to a lack of entrepreneurial skills [Arasti, Zandi, & Bahmani (2014), Aziz (2003), Baumann & Bonner (2017)]. Accounting practices are a significant entrepreneurial ability that may assist microenterprise operations to thrive [Rajaram & C. O'Neill (2009), Brigham & M. Ehrhardt (2013), Drexler, Fischer & Schoar (2014), Gaskill, Auken & Kim (2015), Hoglund & Sundvik (2016)]. A effective accounting preparation necessitates enough knowledge and ability to complete accounting procedures. As a result, a lack of accounting skills and understanding constituted a significant obstacle for businesses, particularly micro enterprises, who were unable to engage accountants due to low funding.

Table 5.8 indicates the response to the statement “it requires technical skills & knowledge”. Out of the total respondents, around 25% moderately agreed to the statement, about 39.5% agreed with the statement and another 20.5% strongly agreed to the statement. On the other hand, around 15% of the respondents disagreed that requirement of technical skill and knowledge posed as a challenge in preparation financial information of their business.

**Table 5.8 It requires technical skill and knowledge**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	30	15.0
Moderately agreed	50	25.0
Agreed	79	39.5
Strongly agreed	41	20.5
Total	200	100.0

**Source: Field Survey**

Overall, over 85% of respondents stated that a lack of accounting knowledge, as well as a lack of competence and expertise in preparing accounting information, posed a major challenge in maintaining and preparing accurate accounting records.



This indicates that the entrepreneurs lack the necessary accounting knowledge and skills to compile a suitable accounting record.

#### *5.5.2.2 It is difficult to maintain the system*

Lack of expertise and knowledge on accounting results in fear and distrustful attitude of the owners to maintain accounting records. They are often intimidated to adhere to certain accounting norms and fail to prepare financial reports. Table 5.9 indicates the response of the micro enterprises to the statement “it is difficult to maintain the system”. The respondents were asked whether the said factor had an impact on the record keeping of their financial transactions and roughly around 19.5% moderately agreed with the statement, about 19.5% responded they have difficulty in maintaining accounting records and another over 13% strongly agreed that they were struggling to maintain accounting system. On the other hand, around 48% responded that they have no difficulty in maintaining accounting system.

**Table 5.9 It is difficult to maintain the system**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	96	48.0
Moderately agreed	39	19.5
Agreed	39	19.5
Strongly agreed	26	13.0
Total	200	100.0

**Source: Field Survey**

In an overall analysis, 52% of the respondents faced challenge in accounting practices as they were not acquainted with proper skill and knowledge and there is an absence of specific guidelines for record keeping and financial reporting and they did not receive any training and workshop on accounting.

#### *5.5.3 Erroneous perceptions about accounting*

Fear of exposing the business to danger if business information, primarily accounting records and financial statements, is made public, as well as fear of paying

more taxes if complete and accurate accounting records and financial reports are maintained, are indicators of why small businesses, primarily micro enterprises, do not prepare financial reports. This fear can stem from concerns about competition or potential risks associated with disclosing financial data. Further, the entrepreneurs have a fear of discouragement in the face of potential losses and it can indeed be a common challenge when it comes to maintaining accurate accounting reports. However, it's important to remember that accurate financial reporting is crucial for understanding the financial health of a business and making informed decisions. Addressing these challenges is crucial for improving financial reporting practices. Ultimately, maintaining transparency and accuracy in accounting reports will help the entrepreneurs make informed decisions and work towards achieving their business goals effectively.

In the present study, erroneous perceptions about accounting, one of the challenges to keep proper and complete accounting records had three (3) statements. In this section, an attempt is made to analyse the statements relating to erroneous perceptions of the entrepreneurs about accounting.

#### *5.5.3.1 Fear of exposing business information*

This erroneous perception about accounting posed a significant challenge for the entrepreneurs in pursuing complete and proper accounting records. Table 5.10 indicates the response of the respondents to the statement “fear of exposing business information”. The respondents were asked whether the said factor had an impact on the record keeping of their financial transactions and only 1% of the respondents strongly disagreed with the statement, over 38% disagreed with the statement, while about 14.5% moderately agreed to the statement, over 40% agreed that fear of exposing business’s financial position is the reason they do not keep proper accounting records and another 6.5% strongly agreed to the statement.

**Table 5.10 Fear of exposing business information**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagreed	2	1.0
Disagreed	76	38.0
Moderately agreed	29	14.5
Agreed	80	40.0
Strongly agreed	13	6.5
Total	200	100.0

**Source: Field Survey**

Overall, 61% of the respondents regarded that the transparency and exposure of financial performance and position as a result of maintaining accounting records/reports posed a challenge for them, and they did not opt to expose their financial position.

#### *5.5.3.2 Tax burden*

Some entrepreneurs based on the assumption that maintenance of proper accounting reports significantly leads to tax compliance. An attempt was made to study whether the entrepreneurs under study see the statement “it makes your enterprise to pay more tax” as a challenge to prepare accounting records. The findings indicated that only about 2.5% of the respondents strongly disagreed with the statement, around 86.5% disagreed with the statement and on the other hand about 8.5% moderately agreed with the statement, only about 1% agreed with the statement and about 1.5% strongly agreed with the statement.

**Table 5.11 It makes your enterprise to pay more tax**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagreed	5	2.5
Disagreed	173	86.5
Moderately agreed	17	8.5
Agreed	2	1.0
Strongly agreed	3	1.5
Total	200	100.0

**Source: Field Survey**

Overall, 89% of the respondents disagreed with the statement “it makes your enterprise to pay more tax”. This implies that tax burden had nothing or less to do with challenge of maintaining accounting practices.

#### 5.5.3.3 *Fear of discouragement in case of loss*

Table 5.12 indicates how the micro entrepreneurs in the present study responded to the statement ‘Fear of discouragement in case of loss’ as a challenge for maintaining accounting records.

**Table 5.12 Fear of discouragement in case of loss**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagreed	19	9.5
Disagreed	31	15.5
Moderately agreed	42	21.0
Agreed	81	40.5
Strongly agreed	17	13.5
Total	200	100.0

**Source: Field Survey**

The study found that over 9.5% strongly disagreed with the statement, about 15.5% disagreed with the statement and on the other hand around 21% moderately agreed with the statement, over 40.5% agreed with the statement and another 13.5% strongly agreed with the statement. Overall, 75% of the respondents felt that the fear of discouragement in case of loss attributed their reason for non-compliance with proper accounting practices. This supported the findings of Musah (2017) that revealed that majority of small business particularly micro enterprises’ owners did not maintain proper accounting records due to fear of discouragement in case of loss and it attributed the third among the five challenges they faced in keeping proper records.

#### ***5.5.4 Absence of guidelines for record keeping and financial reporting***

Several studies across the globe indicate that absence of guidelines for record keeping and financial reporting particularly for micro enterprises results in errors and inefficiencies in maintaining accounting records. Without standardized guidelines, businesses may struggle to maintain accurate and consistent accounting reports, leading to financial mismanagement, errors, and inconsistencies in financial data. Lack of standardized guidelines can hinder the comparability of financial reports across businesses, impeding transparency and making it challenging to assess the financial health and performance of different entities. The absence of clear guidelines can result in non-compliance with regulatory standards, exposing businesses to potential penalties, legal risks, and reputational damage. Absence of clear guidelines for accounting report preparation can hinder informed economic decision-making at both micro and macro levels, affecting resource allocation, investment strategies, and overall economic stability (Musah, 2017).

Table 5.13 indicates how the micro entrepreneurs in the present study responded to the statement ‘Absence of guidelines for record keeping and financial reporting’ as a challenge for maintaining accounting records. Around 4% cited they strongly disagreed with the statement and about 11.5% disagreed with the statement. On the other hand, around 15% moderately agreed with the statement, over 42.5% believe that absence of guidelines for record keeping and financial reporting contributed to challenges they faced in accounting records keeping and another 28% strongly agreed with the statement.

**Table 5.13 Absence of guidelines for record keeping and financial reporting**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagreed	8	4.0
Disagreed	21	11.5
Moderately agreed	30	15.0
Agreed	85	42.5
Strongly agreed	56	28.0
Total	200	100.0

**Source: Field Survey**

In an overall analysis, 85.5% of the respondents felt that the absence of guidelines for record keeping and financial reporting is their reason for non-compliance with proper accounting practices.

## **5.6 Impact of Accounting Practices on the Performance of Micro Enterprises in Mizoram**

Businesses are obligated to keep accurate accounting records and generate financial reports that provide a true and fair picture of their financial standing. Proper records and financial reports supply essential information about the company's financial status, the profitability of business operations, the efficacy of initiatives and strategies, and projections for future performance. Though financial reporting standards have costs and obstacles, the benefits far exceed them. Businesses who fail to recognize the value of adequate record keeping and financial reporting pay a high price for doing so. Lack of keeping complete accounting records leads to minimum utilization of accounting information to support the measurement for financial performance by the small and micro enterprises. Also lack of keeping proper accounting records lead to difficulty in calculating business profit efficiently for the entrepreneurs (Madurapperuma, Thilakerathne & Manawadu, 2016). The consequences of not preparing proper and complete accounting records have five (5) statements. This research analyzed the statement regarding the consequences of neglecting to prepare financial reports.

### ***5.6.1 Inefficient, improper and untimely decision making***

The study had taken into consideration the consequences of errors and inefficiencies of accounting practices on the performance of micro enterprises in Mizoram. The following Table 5.14 indicates the response of the entrepreneurs to the first statement which was “inefficient, improper and untimely decision making”. Around 30% disagreed with the statement indicating that their lack of proper financial reports does not have an impact on their business decision making and they can go on their business smoothly.

On the other hand, around 44.5% agreed with the statement and another 5.5% strongly agreed with the statement which inferred that those inconsistencies and inefficiencies in accounting practices had caused the business to have inefficient, improper and untimely decision making and it affects their flow of productivity and profitability. Around 20% moderately agreed with the statement.

**Table 5. 14 Inefficient, improper and untimely decision making**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	60	30.0
Moderately agreed	40	20.0
Agreed	89	44.5
Strongly agreed	11	5.5
Total	200	100.0

**Source: Field Survey**

An overall analysis of the responses shows that improper accounting practices have an impact on the performance of the entrepreneurs under study's businesses, with over 70% of the respondents agreeing that 'inefficient, improper, and untimely decision making' is a result of a lack of proper accounting practices.

### ***5.6.2 Difficulty in assessing credit/finance and loans from financial institutions***

Financial reports play a crucial role in securing financial assistance for small businesses. Lenders prioritize the business's ability to generate profits and repay the loan, as demonstrated in audited financial reports. Collateral security and guarantors are also important factors, but financial accountability through comprehensive financial statements is key in obtaining financial support from both private and government institutions (Mintah et al., 2014).

Table 5.15 indicates the response of the entrepreneurs with the statement “Difficulty in assessing credit/finance and loans from financial institutions” as a consequence of inconsistency in accounting records. Around 17% disagreed with the statement and on the other hand 42.5% moderately agreed with the statement, over 37.5% agreed with the statement and another 3% strongly agreed with the statement.

**Table 5.15 Difficulty in assessing credit/finance and loans from financial institutions**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	34	17.0
Moderately agreed	85	42.5
Agreed	75	37.5
Strongly agreed	6	3.0
Total	200	100.0

**Source: Field Survey**

Overall, 83% of the respondents agreed that “Difficulty in assessing credit/finance and loans from financial institutions” is a result of their company's lack of basic accounting records. The inability of the micro enterprises to access credit from the banks and other financial institutions could affect the growth of the business. If the business seeks alternative financial means such as a bank loan, the bank would want to view the accounts to see if the business could pay back the loan in full within the agreed timescale. If the accounts are up to date and are positive, then the business would probably be accepted for the loan.

### ***5.6.3 Difficulty in determining the results of operation of their business***

Failure to keep accurate and up-to-date accounting records can indeed lead to difficulty in determining the results of business operations. Without proper accounting records, businesses may struggle to accurately report their financial performance. This can result in misleading financial statements that do not reflect the true results of business operations. Effective financial record-keeping allows businesses to track their income, expenses, and overall financial health. Without this data, businesses may not be able to monitor their performance effectively and make informed decisions to improve operations (Mintah et al., 2014).

Table 5.16 indicates how the micro entrepreneurs in the present study responded to the statement ‘Difficulty in determining the results of operation of their business’ as a lack of proper accounting practices. Around 3% of the respondents disagreed with the statement, while over 46.5% agreed with the statement and another



20% strongly agreed that improper accounting practices leads to difficulty to determine the results of their business operations. Around 30.5% of the respondents moderately agreed with the statement.

**Table 5.16 Difficulty in determining the results of operation of their business**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	6	3.0
Moderately agreed	61	30.5
Agreed	93	46.5
Strongly agreed	40	20.0
Total	200	100.0

**Source: Field Survey**

Overall, around 97% of respondents, or the majority of respondents, thought that the lack of good accounting processes had made it difficult to determine the results of their business's operations, which hampered their decision-making process. Owner-managers must know whether their business is profitable or loss has been suffered during a particular accounting period in addition to availability of cash and they must understand the position of assets and liabilities to be able to devise a strategy and make certain alteration on their business. Generally, maintaining accurate accounting records is essential for businesses to assess their financial performance, make informed decisions, and demonstrate transparency to stakeholders. Failure to keep proper records can hinder a business's ability to understand its results of operations and may lead to various operational and financial challenges

#### ***5.6.4 Difficulty in determining the financial position of the business***

Inadequate accounting records can result in a lack of clarity regarding the assets and liabilities of a business. This can result in an unclear picture of the financial resources and obligations of the business, making it challenging to assess its overall financial position. Proper accounting records are essential for tracking revenue streams and expenses accurately. Inadequate records can lead to uncertainties about the business's income sources, costs incurred, and overall profitability, leading to uncertainties about their financial position. Table 5.17 indicates how the micro entrepreneurs in the present study responded to the statement

‘Difficulty in determining the financial position of the business’ as an absence of proper accounting practices.

**Table 5.17 Difficulty in determining the financial position of the business**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	8	4.0
Moderately agreed	44	22.0
Agreed	94	47.0
Strongly agreed	54	27.0
Total	200	100.0

**Source: Field Survey**

Out of the total respondents, only 4% disagreed with the statement and around 30.5% moderately agreed with the statement. On the other hand, over 46.5% agreed with the statement and another 20% strongly agreed with the statement. Generally, almost all of the entrepreneurs felt that absence of proper accounting practices had made it difficult to determine the financial position of their business. Overall, maintaining proper accounting records is essential for businesses to have a clear understanding of their financial position, make informed decisions, and demonstrate financial stability to stakeholders. Inadequate records can lead to uncertainties and challenges in assessing the true financial health and position of a business.

#### ***5.6.5 Inability to detect losses and thefts in the business***

Table 5.18 indicates how the micro entrepreneurs in the present study responded to the statement ‘Inability to detect losses and thefts in the business’ as an absence of proper accounting practices. Among the respondents only 1.5% disagreed that incomplete and improper accounting records result in inability to detect losses and thefts in the business. Around 30.5% of the respondents moderately agreed with the statement, while over 46.5% agreed with the statement and another 20% strongly agreed with the statement.

**Table 5.18 Inability to detect losses and thefts in the business**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	3	1.5
Moderately agreed	48	24.0
Agreed	104	52.0
Strongly agreed	45	22.5
Total	200	100.0

**Source: Field Survey**

In an overall analysis, nearly all of the respondents in the present study agreed inadequate accounting practices had resulted in an inability to identify losses and thefts in their firm, and that they were unable to track any losses or thefts in the business.

### **5.7 Reasons for preparing accounting records and financial statements**

One cannot overstate how crucial accurate financial statements and accounting records are to a small business. For small enterprises, maintaining accurate financial statements and accounting records is even more crucial than it is for larger companies. Accounting records are maintained by micro enterprises to track financial transactions, determine profitability, make informed decisions, access financial assistance, and enhance business sustainability.

The purpose of preparing accounting records and financial records by micro enterprises in Mizoram have five (5) statements. The statements prepared were intended exclusively for the micro enterprises who maintain any accounting records or financial statements in any form, regardless of how inadequate or inconsistently they are prepared. In this section, an attempt is made to analyze the statement regarding the purpose of preparing accounting records and financial records.

#### **5.7.1 *Determining profitability***

Micro enterprises are able to monitor their revenue, costs, assets, and liabilities by keeping a record of all their financial actions. This promotes fiscal transparency and aids in comprehending the movement of funds throughout the company. Micro

enterprises are able to compute their earnings with accuracy owing to accurate accounting records. Businesses may evaluate their financial performance and pinpoint opportunities for development to increase profitability through analysing financial data (Mintah et al., 2014).

On the subject of purpose of preparing accounting records and financial statements, Table 5.19 indicates how the entrepreneurs responded to the statement “To determine the profitability of the business”. The study found that about 4.2% disagreed with the statement and on the other hand around 4.9% moderately agreed with the statement, over 41% agreed with the statement and another 51.4% strongly agreed with the statement.

**Table 5.19 To determine the profitability of the business**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	6	4.2
Moderately agreed	7	4.9
Agreed	59	41.0
Strongly agreed	74	51.4
Total	144	100.0

**Source: Field Survey**

The results indicated that determining business profitability contributes significantly to the purpose of preparing financial statements and accounting records. The findings of Seman et al., (2019) is in line with the result of the present study, in which they concluded determine business’ profitability, tax purposes, and obtaining loans from financial institution were the main reasons why microenterprises prepared those financial statements

### ***5.7.2 Performance evaluation***

Accounting records facilitate the evaluation of business performance, aiding in emphasizing advantages and disadvantages as well as opportunities for development (Musah, 2017). They further aid in monitoring the financial performance and financial health of the business and assist them to make strategic planning. Accounting records

give small enterprises the capacity to assess their performance through profitability, cost control, and revenue creation analysis. Financial data comparisons across time are useful for monitoring developments and pinpointing areas in need of improvement.

With regards to the purpose of preparing accounting records and financial statements, Table 5.20 presents the response of the entrepreneurs to the statement “To determine the financial position of the business”. Roughly about 4.9% disagreed with the statement and on the other hand, over 46.5% agreed with the statement and another 45.8% strongly agreed with the statement. Around 4.2% moderately agreed with the statement.

**Table 5.20 To determine the financial position of the business**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	7	4.9
Moderately agreed	6	4.2
Agreed	67	46.5
Strongly agreed	66	45.8
Total	144	100.0

**Source: Field Survey**

The findings of the present indicated that performance evaluation specifically determining financial position and financial performance is the main reason why micro enterprises choose to prepare accounting practices. The result of this study is similar with the study of Micabalo et al. (2022), they concluded that accounting records helps in monitoring financial position of the business and is it the main reason why the entrepreneurs perform accounting practices.

### **5.7.3 Tax compliance**

Adherence to appropriate accounting procedures ensures microenterprises' compliance to tax laws and their proper presentation of financial data to tax authorities. Preparing tax returns and fulfilling tax responsibilities are made easier by keeping thorough records of income, expenditure, and deductions (Seman et al., 2019). For small businesses to guarantee compliance with tax regulations, calculate tax liabilities,

prepare and file accurate tax returns, and claim deductions, they must maintain accurate accounting records.

Table 5.21 presents the response of the entrepreneurs to the statement “To comply with tax obligations” regarding the purpose of preparing accounting records and financial statement. The study found that about 68.8% disagreed with the statement and on the other hand around 22.2% moderately agreed with the statement, 8.3% agreed with the statement and only 2.1% strongly agreed with the statement.

**Table 5.21 To comply with tax obligations**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	99	68.8
Moderately agreed	32	22.2
Agreed	12	8.3
Strongly agreed	3	2.1
Total	144	100.0

**Source: Field Survey**

The result of this study inferred that tax obligations and compliance with tax regulations merely had a connection to the reasons for preparing accounting records and financial statements by the micro enterprises. The finding of this study contradicts with the findings of Seman et al., (2019), in which they concluded tax purposes as one of the main reasons why microenterprises prepared those financial statements

#### ***5.7.4 Access to credit and finance***

Well-maintained accounting records enhance the credibility of micro enterprises when seeking financial assistance from banks, investors, or government agencies. Lenders and investors rely on financial data to evaluate the business's creditworthiness and potential for repayment (Lalrinsangi & Fanai, 2022). Proper accounting records are vital for SMEs to access credit and finance. Financial institutions often review the accounts to assess the business's ability to repay loans, making accurate and up-to-date records crucial for obtaining financial support (Zotorvie, 2017). Lenders and investors often require financial statements and

accounting records to evaluate the creditworthiness and financial stability of microenterprises. Maintaining proper accounting records increases the credibility of the business and enhances its ability to secure loans or attract potential investors (Seman et al., 2019).

Table 5.22 presents the response of the entrepreneurs to the statement “To access financial assistance” regarding the purpose of preparing accounting records and financial statements. The study found that 28.5% disagreed with the statement and on the other hand around 47.2% moderately agreed with the statement, over 23.6% agreed with the statement and only 2.1% strongly agreed with the statement.

**Table 5.22 To access financial assistance**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	41	28.5
Moderately agreed	68	47.2
Agreed	34	23.6
Strongly agreed	3	2.1
Total	144	100.0

**Source: Field Survey**

The result of the study indicated that access to credit and finance also contributes to the purpose of maintaining accounting records by the respondents as it has been mentioned that financial institutions and potential investors request the financial statements and accounting records to ensure their creditworthiness and accountability when they seek for financial assistance.

#### ***5.7.5 Enhancing business sustainability***

Microenterprises may make well-informed choices concerning inventory control, debt avoidance, and cash flow management by having meticulous and precise financial records. Owners can evaluate the success of their businesses, determine areas for advancement, and establish arrangements for potential growth when they have access to reliable financial information. Accounting records track revenue, expenditure, assets, and debts and help entrepreneurs manage their finances more

efficiently. This information is crucial for monitoring financial performance and making informed decisions.

Effective financial management, facilitated by proper accounting records, contributes to the long-term sustainability of micro enterprises. Businesses can enhance their operations and ensure continued success by monitoring financial performance, identifying trends, and planning for the future, (Mintah et al., 2014).

Table 5.23 indicates the response of the entrepreneurs to the statement “To make informed decision and enhance sustainability” regarding the purpose of preparing accounting records and financial statements.

**Table 5.23 To make informed decision and enhance sustainability**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	10	6.9
Moderately agreed	14	9.7
Agreed	72	50.0
Strongly agreed	50	34.7
Total	144	100.0

**Source: Field Survey**

About 6.9% disagreed with the statement and on the other hand, over 50% agreed with the statement and another 34.7% strongly agreed with the statement. Only around 9.7% moderately agreed with the statement. This inferred that majority of the entrepreneurs prepare accounting records and financial statements to enhance their sustainability, to make effective and efficient decisions and to plan their future.

## **5.8 The functions of accounting practices on micro enterprises performance and growth**

Business performance relates to a company's capacity to fulfil needed standards, expand market share, enhance facilities, ensure profitability returns, and reduce total costs; once this is accomplished, a company is said to be functioning successfully (Flolick, 2006). Olatunji (2013) concluded that the adoption of sound



accounting system would significantly enhance the performance of micro, small and medium scale enterprises. He underscores the importance of sound accounting systems indicating that it contributes to the overall success of small businesses by promoting accountability, enhancing financial reporting, facilitating decision-making, and improving corporate performance. By customizing accounting systems to the needs and capacities of small enterprises, accounting professionals can play a crucial role in supporting the growth and sustainability of small and medium scale enterprises

The function of accounting practices on micro enterprises performance and growth consists of six (6) statements. In this section, an attempt was made to assess the function of accounting practices on the performance and growth of micro enterprises in Mizoram.

#### ***5.8.1 Planning the future strategies, tactics & operations***

Effective accounting practices play a crucial role in enabling microenterprises to efficiently manage their finances by tracking income, expenses, and cash flow. By maintaining accurate records of financial transactions, microenterprises can gain valuable insights into their financial health, identify sources of revenue, monitor expenses, and track the movement of cash within the business. This tracking of income, expenses, and cash flow allows microenterprises to make informed decisions regarding cost control, pricing strategies, resource allocation, and overall financial management. Ultimately, effective accounting practices empower microenterprises to optimize their financial performance and ensure sustainable growth and success in the competitive business environment.

Table 5.24 shows the opinions given by the entrepreneurs to the statement “It helps in planning the future strategies, tactics and operations” regarding the function of accounting practices on performance and growth of their business.

**Table 5.24 It helps planning the future strategies, tactics & operations**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagreed	2	1.0
Disagreed	43	21.5
Moderately agreed	87	43.5
Agreed	57	28.5
Strongly agreed	11	5.5
Total	200	100.0

**Source: Field Survey**

The findings shows that around 1% only strongly disagreed with the statement and around 21.5% disagreed with the statement. In other words, around 22.5% of the entrepreneurs felt that accounting practices do not have an association with their decision making relating to their business operations. On the other hand, about 28.5% and about 5.5.% agreed and strongly agreed to the statement indicating that accounting practices had helps in planning future strategies and decision-making process of their business operations. Meanwhile, around 43.5% moderately agreed to the statement.

### ***5.8.2 Controlling the current activities of the business***

Accounting records serves as an information to the management regarding the financial health of the business. Efficient management accounting can be adopted with the help of good accounting system and control on activities can be done effectively and efficiently. Table 5.25 indicates the response of the entrepreneurs to the statement “It helps in controlling current activities” regarding the function of accounting practices on the micro enterprises’ performance and growth.

Around 2% only strongly disagreed with the statement and around 23.5% disagreed with the statement. On the other hand, about 37.5% and about 0.5.% agreed and strongly agreed to the statement indicating that accounting practices had helped the management in controlling the current activities of the organization. Meanwhile, around 36.5% moderately agreed to the statement. The findings inferred that

accounting practices had a role of controlling the business operations and assist them in their performance and growth.

**Table 5.25 It helps in controlling current activities**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagreed	4	2.0
Disagreed	47	23.5
Moderately agreed	73	36.5
Agreed	75	37.5
Strongly agreed	1	0.5
Total	200	100.0

**Source: Field Survey**

### ***5.8.3 Increase the chances of achieving success for business***

A multitude of studies have demonstrated that insufficient entrepreneurial abilities were the primary reason of small business failure, including microenterprises. However, one of the most important entrepreneurial skill that can help microenterprise business operation to become a successful is accounting practice (Seman et al., 2019). Table 5.26 indicates the response of the entrepreneurs to the statement “It increases the chances of achieving success for business” regarding the function of accounting practices on the micro enterprises’ performance and growth. Around 2% only strongly disagreed with the statement and around 23.5% disagreed with the statement. On the other hand, about 37.5% and about 0.5.% agreed and strongly agreed to the statement. Meanwhile, around 36.5% somewhat agreed to the statement.

**Table 5.26 It increase the chances of achieving success for business**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagreed	9	4.5
Disagreed	42	21.0
Moderately agreed	75	37.5
Agreed	70	35.0
Strongly agreed	4	2.0
Total	200	100.0

**Source: Field Survey**

Overall, around 75% of the respondents understood that preparation of good accounting information and proper maintenance of accounting records can increase the possibility of achieving success in their business. This indicates that the entrepreneurs were conscious of the advantages and functions of accounting practices for their business.

#### ***5.8.4 Measuring & evaluating performance***

According to Mbroh and Attom (2011), companies that are interested in assessing their profitability should incorporate suitable accounting ideas, principles, and standards to guarantee measurement consistency. Furthermore, accounting records may aid in enhancing business performance, and as Abdul-Rahamon and Adejare (2014) have demonstrated, there is a substantial positive correlation between the maintenance of accounting records and the expansion of SMEs. In summary, SMEs that neglect to keep accurate books of accounts would be unable to assess the state of their companies (Ademola, Samuel & Ifedolapo, 2017).

Table 5.27 indicates the response of the entrepreneurs to the statement “It helps in measuring & evaluating performance” regarding the function of accounting practices on the micro enterprises’ performance and growth. Around 60.5% and about 27.5.% agreed and strongly agreed to the statement. Meanwhile, around 12% somewhat agreed to the statement.

**Table 5.27 It helps in measuring & evaluating performance**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Moderately agreed	24	12.0
Agreed	121	60.5
Strongly agreed	55	27.5
Total	200	100.0

**Source: Field Survey**

The findings inferred that all the entrepreneurs felt that accounting practices assist in evaluating and measuring the performance of their business.

### ***5.8.5 Optimizing the use of firm's resources***

Table 5.28 presents how the entrepreneurs responded to the statement “It helps in optimizing the use of firm’s resources” regarding the function of accounting practices on the micro enterprise’s performance and growth. Around 37.5% agreed to the statement and only 2.5 strongly agreed to the statement. Meanwhile, around 36.5% moderately agreed to the statement. On the other hand, the respondents who disagreed with the statement consists of 23.5%.

**Table 5.28 It helps in optimizing the use of firm's resources**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	47	23.5
Moderately agreed	73	36.5
Agreed	75	37.5
Strongly agreed	5	2.5
Total	200	100.0

**Source: Field Survey**

Overall, over 75% of the entrepreneurs felt that an adequate accounting practice has a role of helping the business to have optimum utilization of their resources while about 23.5% expressed the opposite feeling.

### ***5.8.6 Improving internal & external communication***

Internal control in micro, small and medium scale enterprises may not be as detailed as those of large companies but it should comprehensively cater to the needs of the enterprises and users of its reports such that it provides reasonable assurance of truth and fairness (Mbroh, 2013). Accounting reports serves as an important tool to provide information to the internal management for controlling the operations of the firm as well as to the external users for see whether they are accountable and adhere to regulations, creditworthy and trustworthy when seeking financial assistance, etc. Table 5.29 reveals how the entrepreneurs responded to the statement “It improves internal and external communication” regarding the function of accounting practices on the micro enterprises’ performance and growth.

**Table 5.29 It improves internal & external communication**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Disagreed	43	21.5
Moderately agreed	87	43.5
Agreed	57	28.5
Strongly agreed	11	5.5
Total	200	100.0

**Source: Field Survey**

Around 28.5% agreed to the statement and only 5.5 strongly agreed to the statement indicating that the entrepreneurs do not feel that accounting practices had improved their internal and external communications. Meanwhile, around 43.5% fairly agreed to the statement. On the other hand, the respondents who disagreed with the statement consists of 21.5%.

### **5.9 Performance of the firm during last three years**

In this section, the level of performance of responding firms was investigated. As considered by Ahmad, K (2012) two dimensions of organizational performance (financial and non-financial measures) were considered. Financial measures cover business performance which used sales growth rate; operating profit growth rate; and cash flow growth rate. At the same time non-financial measures cover operational performances which are level of productivity and product quality. Respondents were required to indicate their perceptions of changes in their firm's performance over the past three years on a five-point Likert scale (1 is decreased significantly to 5 increased significantly). Table 5.30 summarizes the findings.

**Table 5.30 Opinion of the respondents on their firm's performance**

During the last three years, which of the following option is applicable to your firm	Response	Decreased Significantly	Decreased	No Change	Increased	Increased Significantly	Total
Level of productivity	Frequency	17	139	27	16	1	200
	Percentage	8.5	69.5	13.5	8.0	0.5	100.0
Product quality	Frequency	2	4	125	65	4	200
	Percentage	1.0	2.0	62.5	32.5	2.0	100.0
Sales growth rate	Frequency	20	121	23	36	0	200
	Percentage	10.0	60.5	11.5	8.0	0.0	100.0
Operating profit growth rate	Frequency	13	125	25	37	0	200
	Percentage	6.5	62.5	12.5	18.5	0.0	100.0
Cash flow growth rate	Frequency	13	129	22	36	0	200
	Percentage	6.5	64.5	11.0	18.0	0.0	100.0

**Source: Field Survey**

Table 5.30 indicates the response of the entrepreneurs to the financial and non-financial measures to understand the performance of their business during the past three years. The findings inferred that level of productivity declined during the past three years i.e., during 2019-2022, around 69.5% and 8.5% reporting the level of productivity decreased and decreased significantly. However, the level of productivity does not have an influence on the product quality as shown in Table 5.30, where about 62.5% of the respondents stated that there is no change in the product quality and on the other hand, about 32.5% responded that the quality of the products they manufactured had improved. With regards to sales growth rate, operating profit growth rate and cash flow growth rate, around 60.5%, around 62.5% and around 64.5% of the respondents reported a decline respectively. Over the last three years, the business's performance has declined significantly according to an overall analysis of the data.

## 5.10 Hypotheses Testing

Accounting practices may depend on demographic, attitudes and type of sectors of the enterprises. Mann-Whitney U Test was used to test a difference between 2 independent samples (manufacturing and service sector). The Ranks table provides information regarding the output of the Mann-Whitney U Test and indicates which group has have higher number of respondents preparing the books of accounts.

In order to test the given hypotheses, the study also involved association analysis, employing cross-tabulation with a chi-square test, to assess the relationship between each independent variable and the dependent variable individually. From the Tables, Pearson's chi-squares and Phi & Cramer's V values were determined. Phi & Cramer's V values were compared to determine the strength of association of the dependent and the independent variable.

**Table 5.31: Interpretation of Phi & Cramer's V values**

Phi & Cramer's V	Interpretation
> 0.25	Very strong
> 0.15	Strong
> 0.10	Moderate
> 0.05	Weak
> 0	No or very weak

Source: Akoğlu, H. (2018)

### **1. H<sub>0</sub>: There is no significant difference in the number of respondents following accounting practices among manufacturing and service units**

A hypothesis was framed as “There is no significant difference in the number of respondents following accounting practices among manufacturing and service units” and the tables present the output of the Mann-Whitney U Test.

The Ranks Table indicates that maintenance of accounts in manufacturing sector is higher in comparison to the services sector as the manufacturing sector has higher mean rank.



**Table 5.32: Ranks**

	Type of sectors	N	Mean Rank	Sum of Ranks
Proper records of Financial Information	Manufacturing	100	111.50	11150.00
	Service	100	89.50	8950.00
	Total	200		

**Table 5.33: Mann-Whitney U Test to measure the significant difference in the number of respondents following accounting practices among manufacturing and service units**

Mann-Whitney U Test	3900.000
Wilcoxon W	8950.00
Z	-3.456
Asymp. Sig (2-tailed)	.001

The Mann-Whitney U Test table shows that preparation of accounts by manufacturing sector was statistically significantly higher than the service sector group since the p value is less than 0.05 and thus the study rejects the null hypothesis. So, it can be concluded that there is a statistically significant difference in the number of respondents following accounting practices among manufacturing and service units.

## **2. H<sub>0</sub>: There is no significant association between respondents' attitude on accounting practices and their application**

The association between the respondents' attitude on accounting practices and their application was dealt with under this section. A hypothesis was framed as "There is no significant association between attitude on accounting practices and their application" and Pearson Chi-square test was used to study the association between the variables.

The test of association conducted between respondents' attitude on accounting practices and their application indicated that there is a statistically significant association between the tested variables since all the p value is less than 0.05 and thus the study rejects the null hypothesis.

**Table 5.34: There is no significant association between respondents' attitude on accounting practices and their application**

S. No	Accounting Practices	Asymp Sig (2 tailed)	Phi & Cramer's Value
1.	Cash Book	.000	0.921
2.	Sales Book	.000	0.941
3.	Purchase Book	.000	0.910
4.	Expense Book	.000	0.969
5.	Debtor's Account	.000	0.904
6.	Creditor's Account	.000	0.875
7.	Fixed Asset Register	.000	0.888
8.	Stock Book	.000	0.831
9.	Payroll Records	.000	0.895
10.	Profit & Loss Account	.007	0.888
11.	Balance Sheet	.000	0.944
12.	Cash Flow Statement	.000	1.000

The Phi and Cramer's V value indicates a very strong association between the respondents' attitude on accounting practices and their application. The effect size calculated was all higher than 0.80 as shown in Table 5.34. Therefore, the test of relationship conducted shows a strong or perfect and significant association between the respondents' attitude on accounting practices and their application.

### **3. H<sub>0</sub>: There is no significant association between gender of the respondents and awareness about accounting tools and techniques**

In order to test the given hypothesis, cross-tabulation with a chi-square test were employed to assess the association between the independent variable (gender) and the dependent variable individually (awareness).

Among the male respondents, 85.6% responded they were aware of accounting practices while 14.4% were not aware of accounting practices. With regards to the female respondents, more than two thirds, 95% were aware of accounting practices while 5% were not aware of accounting practices. The result shows that the number of

respondents who were aware of accounting practices was relatively much higher than the respondents were not aware of accounting practices.

**Table 5.35 Cross tabulation on awareness of accounting practices across gender of the respondents**

Gender of the respondents	Awareness on accounting practices		
	Aware	Not aware	Total
Male	101 (85.6%)	17 (14.4 %)	118
Female	78 (95%)	4 (5%)	82
Total	179	21	200

Source: Field Survey

To know association between awareness on accounting tools and techniques with gender of the respondents, Chi square test is applied with the following hypothesis “There is no significant association between gender of the respondents and awareness about accounting tools and techniques”.

**Table 5.36 Test of association between gender of the respondents and awareness about accounting tools and techniques**

	Value	df	Asymp. Significance (2-sided)
Pearson Chi-Square	4.674 <sup>a</sup>	1	0.031
Continuity Correction <sup>b</sup>	3.715	1	0.054
Likelihood Ratio	5.11	1	0.024
Fisher's Exact Test			
Linear-by-Linear Association	4.651	1	0.031
No of Valid Cases	200		

Test of association conducted between gender of the respondents and awareness about accounting tools and techniques indicated that there is a statistically

significant association between the two variables (Pearson Chi-square = 4.674 and p value = 0.031<0.05) and thus the study rejects the null hypothesis.

**Table 5.37 Effect size**

	Value	Approx. Significance
Phi	-0.153	0.031
Cramer's V	-0.153	0.031
No of Valid cases	200	

The Cramer's V value indicates a strong association between gender of the respondents and awareness about accounting tools and techniques. The effect size is calculated at -0.153 as shown in Table 5.71. Therefore, the test of relationship conducted shows a strong and significant association between gender of the respondents and awareness about accounting tools and techniques.

#### **4. H<sub>0</sub>: There is no significant association between age group of the respondents and awareness about accounting tools and techniques**

In order to test the given hypothesis, cross-tabulation with a chi-square test were employed to assess the association between the independent variable (age) and the dependent variable individually (awareness).

Among the respondents with age group below 20 years, 100% were aware of accounting practices. Among the age group 21-40 years, 90.6% were aware of accounting practices and 9.4% were not aware of accounting practices. Among the age group 41-60 years, 86.6% were aware of accounting practices and 13.4% were not aware of accounting practices. Among the respondents above 60 years, all the respondents (100%) were aware of accounting practices.

**Table 5.38 Cross tabulation on awareness of accounting practices across age group of the respondents**

Age of the respondents	Awareness on accounting practices		
	Aware	Not aware	Total
Less than 20 years	2 (100%)	0	0
21-40 years	77 (90.6%)	8 (9.4%)	85
41-60 years	84 (86.6%)	13 (13.4%)	97
Above 60 years	16 (100%)	0	16
Total	179	21	200

**Source: Field Survey**

To know association between awareness on accounting tools and techniques and age of the respondents, Chi square test is applied with the following hypothesis “There is no significant association between age group of the respondents and awareness about accounting tools and techniques”.

**Table 5.39 Test of association between age group of the respondents and awareness about accounting tools and techniques**

	Value	df	Asymp. Significance (2-sided)
Pearson Chi-Square	3.088 <sup>a</sup>	3	0.378
Likelihood Ratio	4.911	3	0.178
Linear-by-Linear Association	.014	1	0.904
No of Valid Cases	200		

Test of association conducted between age group of the respondents and awareness about accounting tools and techniques indicated that there is no statistically significant association between the two variables (Likelihood Ratio = 4.911 and p value = 0.178 > 0.05) and thus the study failed to reject the null hypothesis.

**5. H<sub>0</sub>: There is no significant association between marital status of the respondents and awareness about accounting tools and techniques**

In order to test the given hypothesis, cross-tabulation with a chi-square test were employed to assess the association between the independent variable (marital status) and the dependent variable individually (awareness). Table 5.74 indicates the awareness on accounting practices across marital status of the respondents.

**Table 5.40 Cross tabulation on awareness of accounting practices across marital status of the respondents**

Marital status of the respondents	Awareness on accounting practices		
	Aware	Not aware	Total
Married	132 (91%)	13 (9%)	145
Single	34 (87.2%)	5 (12.8%)	39
Divorcee	7 (70%)	3 (30%)	10
Widow	6 (100%)	0 (0%)	6
Total	179	21	200

**Source: Field Survey**

Among the married respondents, 91% were aware of accounting practices and 9% were not aware of accounting practices. With regards to the unmarried respondents, 87.2% were aware of accounting practices and 12.8% were not aware of accounting practices. Among the divorcee respondents, 70% were aware of accounting practices and 30% were not aware of accounting practices. Among the widow respondents, all the respondents (100%) were aware of accounting practices.

To know association between awareness on accounting tools and techniques and age of the respondents, Chi square test is applied with the following hypothesis “There is no significant association between marital status of the respondents and awareness about accounting tools and techniques”.

**Table 5.41 Test of association between marital status of the respondents and awareness about accounting tools and techniques**

	<b>Value</b>	<b>df</b>	<b>Asymp. Significance (2-sided)</b>
Pearson Chi-Square	5.337 <sup>a</sup>	3	0.149
Likelihood Ratio	4.780	3	0.189
Linear-by-Linear Association	.870	1	0.351
No of Valid Cases	200		

An effort was made to test of association conducted between marital status of the respondents and awareness about accounting tools and techniques indicated that there is no statistically significant association between the two variables (Likelihood Ratio = 4.780 and p value = 0.189>0.05) and thus the study failed to reject the null hypothesis.

**6. H<sub>0</sub>: There is no significant association between educational qualification of the respondents and awareness about accounting tools and techniques**

In order to test the given hypothesis, cross-tabulation with a chi-square test were employed to assess the association between the independent variable (educational qualification) and the dependent variable individually (awareness). Table 5.76 indicates the awareness on accounting practices across educational qualification of the respondents.

**Table 5.42 Cross tabulation on awareness of accounting practices across educational qualification of the respondents**

Educational qualification of the respondents	Awareness on accounting practices		
	Aware	Not aware	Total
Matriculate	53 (88.3%)	7 (11.7%)	60
Higher secondary	41 (87.2%)	6 (12.8%)	47
Under Graduate	60 (98.4%)	1 (1.6%)	61
Post Graduate	24 (77.4%)	7 (22.6%)	31
MPhil/Ph.D.	1 (100%)	0 (0%)	1
Total	160	40	200

**Source: Field Survey**

Among the respondent who were matriculates, 88.3% were aware of accounting practices while 11.7% were not aware of accounting practices. Among the respondents who passed Higher secondary, 87.2% were aware of accounting practices and 12.8% were not aware of accounting practices. Among the Under Graduate respondents, 98.4% were aware of accounting practices and 1.6% were not aware of accounting practices. Among the respondents who were Post Graduates, 77.4% were aware of accounting practices and 22.6% were not aware of accounting practices. Among the MPhil/Ph.D. completed respondents, all the respondents were aware of accounting practices. The study's findings indicate that entrepreneurs' educational backgrounds have a significant influence on their understanding of accounting tools and practices. However, it is observed that perceived understanding of accounting practices does not appear to have a major impact on the implementation and execution of accounting records and financial reporting.

To know association between awareness on accounting tools and techniques and age of the respondents, Chi square test is applied with the following hypothesis



“There is no significant association between marital status of the respondents and awareness about accounting tools and techniques”.

**Table 5.43 Test of association between educational qualification of the respondents and awareness about accounting tools and techniques**

	Value	df	Asymp. Significance (2-sided)
Pearson Chi-Square	10.372 <sup>a</sup>	4	0.035
Likelihood Ratio	11.922	4	0.018
Linear-by-Linear Association	0.052	1	0.819
No of Valid Cases	200		

An effort was made to test significant association between educational qualification of the respondents and awareness about accounting tools and techniques. The results indicated that there is a statistically significant association between the two variables (Likelihood Ratio = 11.922 and p value = 0.018<0.05) and thus the study rejects the null hypothesis.

**Table 5.44 Effect size**

	Value	Approx. Significance
Phi	0.228	0.035
Cramer's V	0.228	0.035
No of Valid cases	200	

The Cramer's V value indicates a strong association between educational qualification of the respondents and awareness about accounting tools and techniques. The effect size is calculated at 0.228 as shown in Table 5.78. Therefore, the test of relationship conducted shows a strong and significant association between educational qualification of the respondents and awareness about accounting tools and techniques.

### 5.11 Conclusion

The study found that many micro enterprises do not maintain important financial records like sales books, purchase books, and debtor's account. These records are important for accountability, financial reporting, cost control, and decision making. Not keeping proper financial records can negatively impact a micro enterprise's ability to prepare complete financial statements, make efficient financial decisions, and measure financial performance. Cash book, expense book and sales book were the most popular books of accounts prepared by the micro enterprises. 72% of the respondents kept Cash Book to keep track of their cash inflows and outflows, 61% of the respondents prepared an Expense Book and 53% of the respondents kept a record of their sales transactions in the form of Sales Book. Around 30% only maintained a Purchase Book, while around 47% of the respondents maintained a Debtor's Account and 11.5% of the respondents maintain Creditor's Account. Only 5% of the respondents maintained Fixed Asset Register, while only around 7% of the respondents kept a stock book and 11% of the respondents maintained Payroll records.

Financial statements refer to formal and original statements which are prepared to disclose financial health in the terms of profits, position, and prospects as on a certain data. Financial statements provide the most basic and important information in decision making. Good financial decisions are predicted based on the ability to trust reliable financial information and financial statements. Inefficient decisions can lead to poor financial management and ultimately lead to misery / failure. Efficient use of financial statements in decision making can improve financial management and keep the company viable.

The study highlights that Over 95% of the respondents failed to keep Fixed Asset Register whereas only 5% of the respondents maintained it. The study showed that almost all respondents (92.5%) failed to maintain a Stock Book while only around 7.5% of the respondents kept a stock book. In terms of keeping Payroll Records, the data shows that 89% of the respondents failed to keep Payroll records whereas 11% of the respondents maintained it.

The findings indicated that Profit & Loss Account was the mostly prepared financial statements by the micro enterprises in Mizoram and the failure to prepare financial statements by most of the micro enterprises was a result of incomplete account records maintained by the entrepreneurs. Preparing financial statements is essential for micro enterprises as it allows them to assess their financial performance, track profitability, attract potential investors or lenders, comply with tax regulations, make informed business decisions, and ultimately enhance the long-term sustainability and success of the business. The micro entrepreneurs are advised to ensure that they keep a complete accounting records which will enable them to prepare an accurate and reliable financial statements.

Financial performance of a business is measured using profitability, liquidity, gearing, efficiency and return on capital employed. The appropriate tool to measure these performances is the financial report (Mintah et al., 2014). According to the findings, 41% of micro firms relied entirely on their Cash & Bank Balance to know their financial condition, while 47.5% utilized Profit & Loss Account to monitor and manage their financial position. It also shows that 9% of respondents prepared a Profit & Loss Account in addition to a Balance Sheet to keep track of their financial position, 1.5% used a Profit & Loss Account in addition to a Cash Flow Statement to track and monitor their financial position, and the remaining 1% prepared both Balance Sheet and a Cash Flow Statement to know their financial position. The findings of the study support and is in line with the suggestions given by Mintah et al (2014), indicating that financial report is the correct and appropriate tool to measure financial position and performance of a business.

The study also looked at how improper accounting practices affect micro enterprise performance in Mizoram. Many respondents said they do not comply with proper accounting practices because they fear failure and loss. Additionally, the lack of guidelines for record keeping and financial reporting was a major challenge. Neglecting to prepare financial reports can lead to inefficient, improper, and untimely decision making, difficulty assessing finances and loans, and an inability to detect losses or theft in the business.

The study delves into the critical role of accounting practices in micro enterprises, emphasizing the significance of maintaining accurate financial records for effective decision-making and sustainable growth. It highlights the challenges faced by micro enterprises in keeping complete financial records, such as stock books and payroll records, which are essential for cost control, profitability, and overall business performance evaluation. One key aspect discussed is the importance of preparing comprehensive financial statements to provide insights into the financial health of micro enterprises. Despite the challenges in maintaining complete records, the study underscores the value of financial statements in disclosing profits, financial position, and prospects, essential for informed decision-making and strategic planning.

Furthermore, the study emphasizes the role of accounting tools and practices in optimizing financial management in micro enterprises. It discusses the use of accounting software for automation and organization, cash flow statements for monitoring liquidity, budgets and forecasts for goal-setting, financial ratios for performance assessment, and bank reconciliations for accuracy. These tools enable micro enterprises to track income, expenses, and cash flow, make informed decisions, control costs, and allocate resources effectively. The study also highlights the importance of internal controls, inventory tracking, and expense monitoring in enhancing financial management practices. By establishing internal controls for security, tracking inventory for optimization, and monitoring expenses for cost control, micro enterprises can improve operational efficiency, mitigate risks, and ensure financial stability.

Moreover, the study underscores the significance of preparing financial reports for stakeholders and conducting regular financial reviews for strategic decision-making. Effective communication of financial information through reports builds trust and credibility with stakeholders, while regular financial reviews help identify areas for improvement, address financial challenges, and make informed decisions to drive sustainable growth.

Tests were conducted to examine relationships between variables. The Mann-Whitney U Test shows that there is a statistically significant difference in the number

of respondents following accounting practices among manufacturing and service units. The output indicated that preparation of accounts by manufacturing sector was statistically significantly higher than the service sector group. Furthermore, significant associations were observed between respondents' attitudes towards accounting practices and their application. This indicates a positive attitude is important for accounting practices in micro enterprises. Statistically significant associations also existed between gender, educational qualification, and awareness of accounting tools and techniques. The study provides valuable insights into record keeping challenges faced by micro enterprises and the importance of proper accounting practices for their effective performance.

In conclusion, the study emphasizes that by adopting and implementing sound accounting tools and practices, micro enterprises can strengthen their financial management processes, optimize performance, and navigate the complexities of the business environment with resilience and confidence. It underscores the transformative impact of effective financial management on the success and sustainability of micro enterprises, positioning them for long-term growth and prosperity.

## CHAPTER 6

### SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSIONS

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## **CHAPTER 6**

### **SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSIONS**

This chapter provides the overall summary of the present study and aims to provide suggestions based on the major findings of the study. This chapter also deals with the scope for further research for prospective researchers in the field of accounting practices.

#### **6.1 Introduction**

Chapter 1 gives an overview of the concept of accounting practices, the challenges and implementation by entrepreneurs. It takes into account the concept of micro enterprises and their application of accounting practices with the significance of accounting practice for micro enterprises for their sustainability and economic growth. The chapter also highlights the concept of entrepreneurship, entrepreneurs and their importance for economic development.

Chapter 1 also presents the review of the relevant literature by following thematic approach and the themes are: definition of accounting practices and micro enterprises, application of accounting practices in general and micro enterprises, importance of accounting practices and challenges on application of accounting practices. The relevant studies which were conducted in India and abroad are reviewed in this chapter to identify their main findings, the research gap, research problems, and formulate the appropriate methods for the survey.

The existing literature highlights the general concept of accounting practices, application, adoption, importance and challenges of application of accounting practices and the profile of entrepreneurs in MSMEs in different parts of India and foreign countries. However, these studies may not be adequate to explain the real application of accounting practices by micro enterprises in Mizoram. There are very few studies of entrepreneurship in India which focused on their accounting practices. Though the studies conducted by Lalhunthara (2013, 2019), Rama Ramswamy (2010,2013), Lalnunthara. R, Jyoti Kumar & Laldinliana (2023) elaborated different

dimensions of entrepreneurship, their studies did not confine to the accounting practices of micro enterprises. Therefore, there exists a serious gap in the existing literature which prompted the researcher to take up the study with reference to accounting practices of the micro enterprises in Mizoram.

This chapter also presents the statement of the problem, the objectives of the study, methodology and limitations along with the hypotheses to be tested. The study was conducted among the women entrepreneurs in Aizawl district and Lunglei district. The micro enterprises from manufacturing and service sectors who registered their units at District Industries Center, Aizawl and Lunglei since 2008-2009 under two registration systems, i.e., Entrepreneurship Memorandum – II (EM-II) and Udyog Aadhaar Memorandum (UAM) set up under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 come under the study. The present study relies on primary and secondary data. The primary data were collected using the structured questionnaire for the micro entrepreneurs. The secondary data was collected from journals, websites, Government records (published and unpublished), books and relevant reports. The data collected were analysed and interpreted using SPSS and applied statistical tools such as percentage, Chi-square test, and Spearman Correlation.

## **6.2 Micro, Small and Medium Enterprises in India with reference to Mizoram**

Chapter 2 provides a comprehensive overview of the Micro, Small and Medium Enterprises (MSMEs) sector in Mizoram, shedding light on the state's economic landscape, historical background, and challenges faced in entrepreneurship development. Mizoram's strategic geographical location, with international borders with Myanmar and Bangladesh, presents opportunities for cross-border trade and economic growth. The state's historical reliance on agriculture and cottage industries has shaped its economy, but barriers such as limited infrastructure and lack of industrial development hinder the growth of enterprises. While the Ministry of MSME has introduced initiatives to promote entrepreneurship in Mizoram, there is a clear need for increased support and involvement from the state government to address these challenges and foster sustainable economic development. By leveraging its unique position and implementing targeted policies to support MSME growth, Mizoram has



the potential to emerge as a hub for small and medium enterprises, contributing to the overall economic prosperity of the region.

The chapter also highlights the performance of MSMEs in India in general, the role and importance of MSMEs in India for achieving inclusive and sustainable economic development. MSMEs enable individuals to overcome the cycle of poverty and hardships by creating ample opportunities to entrepreneurs. It also presents the major schemes targeted at a) providing credit and financial assistances b) skill development training, c) infrastructure development, d) marketing assistance, e) technological and quality upgradation and f) Other Services for the MSMEs across the country. The chapter also shows problems and challenges faced by the entrepreneurs and the institutional support for the MSMEs in Mizoram.

### **6.3 Socio-Economic Profile of Micro Entrepreneurs and Profile of Micro Enterprises in Mizoram**

Chapter 3 presents the socio-economic profile of micro entrepreneurs and business profile of micro enterprises in Mizoram. The demographic profile includes age, gender, marital status, educational qualification and average monthly income. The business profile of the women entrepreneurs includes forms of business organization, annual sale turnover, about the workers hired by the business, year of operation, DIC/MSME registration or permit acquirement, place of business establishment and GST registration.

#### **Socio-Economic profile of micro entrepreneurs**

- With regard to the gender composition among the entrepreneurs, it was found that 59% of the entrepreneurs were male entrepreneurs and the remaining 41% were female entrepreneurs.
- In terms of marital status, around 72.5% of the entrepreneurs were married while about 19% were unmarried/single. 5% are divorced and 3% female entrepreneurs were widowed

- With regards to age, 48.5% were in the age group 41-60 years, the second largest group consisted of 21-40 years which constitutes 43.5% and 8% were in the age group above 60 years. The age group less than 20 years constituted 1% only.
- Education-wise, around 30% of the entrepreneurs were undergraduates, followed by around 30% were matriculates, 23.5% accounted for respondents completing Higher Secondary, 15.5% accounted for Post Graduates and only 0.5% accounted for respondents having MPHIL/PHD degree.
- Regarding the annual income of other family members, 49% were having annual income less than ₹ 5 lakhs and 35.5% were having annual income ₹ 5 lakhs to ₹ 10 lakhs. 12.5% accounted for respondents having annual between ₹ 10 lakhs to ₹ 15 lakhs and 3% % accounted for respondents having annual income more than ₹ 15 lakhs.

### **Business profile of micro enterprises**

- In respect of forms of organization, it is observed that there were 54% sole proprietors out of the total respondents and family-owned business accounted for 46%.
- With respect to the annual sales turnover of the enterprises, it is found that 39% enterprises were having annual sales turnover between ₹ 11 lakhs to ₹ 20 lakhs, this account for the highest number of respondents. It further shows that 38% enterprises had an annual sales turnover below ₹ 10 lakhs and 22.5% had annual sales between ₹ 21 lakhs to ₹ 40 lakhs while only 0.5% had annual sales of more than ₹ 40 lakhs.
- Employment of workers wise, 20% enterprises were having workers less than 2 employees, 43.5% respondents were employing 2 to 5 workers. Thus, a considerable proportion of the enterprises that is 32.5% accounted for enterprises employing workers between 6 to 10. More than 10 workers were employed by 4% respondents in their business enterprise.
- The biggest proportion of the micro enterprises i.e., 47% were in business for at least 5 to 10 years. The second biggest proportion of them which account to

25.5% were in business for 16 to 20 years. The percentage of the micro enterprises who were established for 11 to 15 years accounts to 20.5% of the total respondents and the table also shows that the sample who were in business for more than 20 years was 7% only.

- With regards to place of establishment, 61% were on a rented property, the number of respondents having their own place of establishment accounted for 38.5% and only 0.5% micro enterprise was on a lease property.
- 56% respondents had GST registration while 31.5% were without GST registration and the remaining 12.5% were on the process of GST registration.
- With regards to the investment in plant and machinery by manufacturing enterprises, 87% invested not exceeding ₹10 lakhs and 13% invested more than ₹10 lakhs but not exceeding ₹50 lakhs. There were no micro enterprises under study who invested more than ₹50 lakhs but not exceeding ₹1 crore and more than ₹1 crore.
- With regards to the investment in plant and machinery by service enterprises given in Table 3.25, 78% accounted for micro enterprises invested not exceeding ₹10 lakhs, 20% invested more than ₹10 lakhs but not exceeding ₹50 lakhs and another 2% invested more than ₹50 lakhs but not exceeding ₹1 crore. There were no micro enterprises under study who invest more than ₹1 crore.
- In terms of business activity of manufacturing enterprises 35% were engaging in garments/handloom production, 21% were engaging in food products like bakery, ice cream making, pickle making, etc., 15% were engaging in furniture manufacturing like sofa, cabinets, beds, tables, chairs, etc., 14% were engaging in steel fabricated products, 5% were engaging in soap and candle production, another 5% were engaging in leather products, 3% produced packaged drinking water and 2% engaged in plastic syntax production.
- In terms of business activity of service enterprises 22% were engaging in mobile & computer repairing and servicing, 20% were engaging in automobile repairing and servicing, another 20% were engaging in printing, screen printing, DTP, xerox, etc., 18% were providing service in hotels and

restaurants, 10% were engaging in beauty parlour and spa and another 10% were engaging in computer consultancy.

#### **6.4 Awareness, Knowledge and Attitudes of Micro Entrepreneurs Regarding the Maintenance of Books of Accounts**

Chapter 4 highlights the awareness of accounting practices and the extent to which record keeping and basic accounting procedures have been implemented by the micro enterprises in Mizoram. This chapter further highlights the method used for recording financial transactions, their method of recording, basis of recording, financial reporting basis, person responsible for recording financial transactions and preparation of financial reports, accounting basis, payment method used and the perception of micro entrepreneurs regarding the need of maintaining accounts and their attitudes with regards to accounting.

##### **Awareness, knowledge and pattern of accounting practices**

- Nearly 90% were aware of accounting practices.
- The study revealed that almost all entrepreneurs i.e., 96% were not aware of basic rules of accounting while 4% were aware of basic rules of accounting.
- It is observed that entrepreneurs who keep records of financial transactions account for 72% of all businesses, while those who don't keep such records (28%) account for the remaining fraction.
- Around 60% of business owners opted for manual/register methods, while 12% of micro entrepreneurs were adopting computerized method for recording and 28% business owners did not record financial transactions at all.
- Nearly 60% of the micro entrepreneurs used the double entry method to record financial transactions, while 6% of micro entrepreneurs utilised the single entry method. 7% of business owners maintain all financial records in a single book and surprisingly 28% of entrepreneurs rely on memory to track sales and trade creditors.

- Around 53% of respondents prepared financial reports on a monthly basis, whereas 5.5% did so on an annual basis. The data also showed that 41% of respondents do not prepare financial statements or reports.
- Nearly 60% of businesses revealed that their owners themselves were in charge of this task. However, 11% of respondents have managers who handle the financial record keeping, compared to 0.5% who hired an accountant to do so. Only 1% of responses mention salespeople maintaining the records.
- 43% of respondents used the cash basis of accounting while 57% used the hybrid basis. Table also showed that no respondents were exclusively using accrual-based accounting.
- It is observed that a significant portion of micro enterprises accept cash as the primary payment method (16.5%), while a majority opt for a combination of cash, cards and online payments (56.5%). Additionally, 27% of micro enterprises accept a combination of cash, cheque, cards and online payments. Notably, none of the respondents exclusively accepted cheque, cards or online payments.

### **Perceptions of Micro Entrepreneurs on the Importance of Accounting Record Maintenance**

- Around 69% of the respondents consider that maintaining Cash Book is important whereas 24.5% believe that it is not important to maintain Cash Book and 7% attribute that maintaining Cash Book is moderately important.
- With regards to maintaining Sales Book, majority of the respondents which accounts to 56% of the respondents believe that maintaining Sales Book is important, 28.5% said it is not important to maintain it and 15.5% consider that maintaining Sales Book is moderately important.
- Nearly 35% respondents deemed it is important to maintain Purchase Book while another 33.5% believe it is not important to maintain Purchase Book and 33% accounts for respondents who deemed it is moderately important to maintain Purchase Book.

- 44.5% of the respondents consider that maintaining Debtors Account is important whereas 37.5% believe that it is not important to maintain Debtors Account and 7% of the respondents finds it moderately important to keep a Debtors Account.
- Around 79% consider that it is not important to maintain Fixed Asset Register and 17.5% feel that it is moderately important to maintain it while 3.5% believe it is important to maintain Fixed Asset Register.
- 76% of the respondents believe that it is not important to maintain a Stock Book, 18% of the respondents feel it is moderately important to maintain one and only 6% consider it important to maintain it.
- 76.5% respondents deemed it is not important to maintain Payroll Records while 14.5% believe it is moderately important to maintain Payroll Records and 9% accounts for respondents who deemed it is important to maintain one.
- It indicated that 60.5% of the respondents believe maintaining Profit & Loss Account is important whereas 35.5% do not feel it important to maintain one and 4% of the respondents find it moderately important to maintain one.
- In terms of maintaining a Balance Sheet, 64% consider that it is not important to maintain one and 27% feel that it is moderately important to maintain it while 9% believe it is important to maintain Balance Sheet.
- With regards to maintenance of Cash Flow Statement, 86% of the respondents believe that it is not important to maintain one, 11.5% of the respondents deemed it is moderately important to maintain one and only 2.5% consider it important to maintain it.

#### **Attitudes of the entrepreneurs on maintenance of accounting records**

- 79% of the respondents gave the statement “I am compelled to record financial transaction” a grade of 7 or higher.
- Around 50% of the respondents gave the statement “Accounting is a tedious activity and time consuming” a grade of 7 or higher. This implies that most of the respondents considered maintaining accounting records to be a tiresome, uninteresting and time-consuming activity.

- Nearly 50% of the respondents gave the statement “I am willing to participate in Training/Workshop on accounting practices” a grade of 7 or higher. This implies that respondents are willing to go and learn how to keep accounting records provided training or seminars are available.
- 70% of the respondents gave the statement “I am satisfied with the financial reports I prepared” a grade of 7 or higher.
- About 56% of the respondents gave the statement “I feel happy when I prepare accounting records” a grade of 7 or higher.
- Around 76% of the respondents gave the statement “I wish to continue preparing financial reporting in the future” a grade of 7 or higher.
- 77.5% of the respondents gave the statement “I highly recommend entrepreneurs to practice good financial records and prepare financial reports” a grade of 7 or higher.
- About 70% of the respondents gave the statement “Accounting is the key to the success of a business” a grade of 7 or higher.
- 60% of the respondents gave the statement “Accounting adds unnecessary cost to my business” a grade of 5 or lower.
- 75% percent of the respondents gave the statement “It is always good to keep record of all transactions in my business including those that did not go well for the business” a grade of 7 or higher.

#### **Descriptive statistics on attitudes of the entrepreneurs on maintenance of accounting practices**

- The statement “I highly recommend entrepreneurs to practice good financial records and prepare financial reports” has the highest mean score of 8.03 (SD= 2.083)
- It is followed by the statement “I am compelled to record financial transaction” with a mean of 7.81 (SD = 2.456).
- The statement “I wish to continue preparing financial reporting in the future” has a mean of 7.78 (SD = 2.254)

- It is again followed by “It is always good to keep record of all transactions in my business including those that did not go well for the business” with a mean score of 7.56 and Standard Deviation (SD) of 2.175.
- The statement “Accounting is the key to the success of a business” has a mean score of 7.34 (SD = 2.272).
- The statement “I am satisfied with the Financial reports I prepared” has a mean score of 7.25 (SD = 2.367).
- The statement “Accounting is a tedious activity & time consuming” has a mean of 6.91 (SD = 2.139).
- The statement “I feel happy when I prepare accounting records” has a mean score of 6.67 (SD = 2.63).
- The statement “I am willing to participate in Training/workshops on accounting practices” has the second least mean score of 6.19 and standard deviation is 2.574.
- The statement “Accounting adds unnecessary cost to my business” has the least mean score of 4.95 (SD = 2.282).
- It is observed from the results that almost all the means are above 6.0. This shows that the respondents had very positive attitude towards accounting practices.

## **6.5 Types of Accounting Records Maintained and the Challenges Faced**

Chapter 5 highlights the books of accounts and financial statements prepared by the micro enterprises in Mizoram along with the accounting practices used to monitor and track financial position, reasons for incomplete and improper accounting records, challenges to keep proper and complete accounting records, impact of incomplete and improper accounting records, performance of accounting records, functions and necessity to keep accounting records and performance of micro enterprises post covid pandemic. Furthermore, this chapter highlights the results of the research hypotheses and their analysis.



### **Types of books of accounts prepared by micro enterprises**

- With regards to preparing a Cash Book, it is indicated that 72% of the respondents kept Cash Book to keep track of their cash inflows and outflows while 28% of the respondents did not maintain a Cash Book.
- In terms of maintaining Sales Book, the findings revealed that around 53% of the respondents kept a record of their sales transactions in the business whereas around 47% did not maintain Sales Book.
- The findings depicts that around 68.5% of the respondents failed to maintain Purchase Book and failed to keep invoices and receipts of their purchase and around 31.5% maintained a Purchase Book.
- With regards to keeping an Expense Book, the data shows that 61% of the respondents keep an Expense Book while 39% failed to keep one.
- 53% of the respondents did not keep Debtor's book while around 47% of the respondents maintained a Debtor's Book.
- With regards to maintaining Creditors Account, it is observed that 88.5% of the respondents did not keep it whereas 11.5% of the respondents maintain Creditor's Account.
- Over 95% of the respondents failed to keep Fixed Asset Register whereas only 5% of the respondents maintained it.
- The study showed that almost all respondents (92.5%) failed to maintain a Stock Book while only around 7.5% of the respondents kept a stock book.
- In terms of keeping Payroll Records, the data shows that 89% of the respondents failed to keep Payroll records whereas 11% of the respondents maintained it.

### **Financial Statements Prepared by the Micro Enterprises**

- The study revealed that 58% of the micro enterprises prepared a Profit & Loss Account while 42% failed to prepare one.
- 90% of the respondents failed to prepare a Balance sheet while 10% prepared a Balance Sheet.

- 97.5% of the respondents did not prepare Cash Flow Statement while 2.5% prepared a Cash Flow Statement.

### **Accounting Practices Used to Monitor and Track Financial Position**

- 41% of micro firms relied entirely on their Cash & Bank Balance to know their financial condition
- While 47.5% utilized Profit & Loss Account to monitor and manage their financial position.
- It also shows that 9% of respondents prepared a Profit & Loss Account in addition to a Balance Sheet to keep track of their financial position
- 1.5% used a Profit & Loss Account in addition to a Cash Flow Statement to track and monitor their financial position
- 1% prepared both Balance Sheet and a Cash Flow Statement to know their financial position.

### **Necessity to Maintain Proper Books of Accounts**

- 77% of the respondents find it necessary to maintain proper or complete set of accounting records and they constitute the vast majority of the total respondents.
- Only 23% response that it is not necessary to maintain proper books and complete set of accounting records.

### **Challenges faced to keep proper and complete accounting records**

This section is divided into 4 parts namely *cost and time constraints, lack of expertise and knowledge on accounting, erroneous perceptions about accounting and absence of guidelines for record keeping and financial reporting*

#### ***Cost and time constraints***

- *It is time consuming:* Over 38% disagreed with the statement, about 21% moderately agreed with the statement, around 39% agreed that it is time

consuming to prepare accounting records and only around 2% strongly agreed with the statement.

- *High cost of hiring accountants:* The findings showed that around 57.5% agreed to the statement, over 18.5% moderately agreed with the statement and only about 1.5% strongly agreed to the statement. On the other hand, around 4% of the respondents strongly disagreed that high cost of hiring an accountant posed as a challenge for them in maintaining accounting system and about 18.5% disagreed with the statement.
- *It requires more staff:* Over 25% moderately agreed with the statement, about 39.5% agreed with the statement and another 20.5% strongly agreed. On the other hand, roughly 15% disagreed that increase in the requirement of number of human resources is not an excuse for their failure to prepare a complete accounting record.

#### ***Lack of expertise and knowledge***

- *It requires technical skill and knowledge:* Around 25% moderately agreed to the statement, about 39.5% agreed with the statement and another 20.5% strongly agreed to the statement. On the other hand, around 15% of the respondents disagreed that requirement of technical skill and knowledge posed as a challenge in preparation financial information of their business.
- *It is difficult to maintain the system:* Around 19.5% moderately agreed with the statement, about 19.5% responded they have difficulty in maintaining accounting records and another over 13% strongly agreed that they were struggling to maintain accounting system. On the other hand, around 48% responded that they have no difficulty in maintaining accounting system.

#### ***Erroneous perceptions about accounting***

- *Fear of exposing business information:* Only 1% of the respondents strongly disagreed with the statement, over 38% disagreed with the statement, while about 14.5% moderately agreed to the statement, over 40% agreed that fear of

exposing business's financial position is the reason they do not keep proper accounting records and another 6.5% strongly agreed to the statement.

- *Tax burden:* About 2.5% of the respondents strongly disagreed with the statement, around 86.5% disagreed with the statement and on the other hand about 8.5% moderately agreed with the statement, only about 1% agreed with the statement and about 1.5% strongly agreed with the statement.
- *Fear of discouragement in case of loss:* Over 9.5% strongly disagreed with the statement, about 15.5% disagreed with the statement and on the other hand around 21% moderately agreed with the statement, over 40.5% agreed with the statement and another 13.5% strongly agreed with the statement.

#### ***Absence of guidelines for record keeping and financial reporting***

- Around 4% cited they strongly disagreed with the statement and about 11.5% disagreed with the statement. On the other hand, around 15% moderately agreed with the statement, over 42.5% believe that absence of guidelines for record keeping and financial reporting contributed to challenges they faced in accounting records keeping and another 28% strongly agreed with the statement.

#### **Impact of Accounting Practices on the Performance of Micro Enterprises in Mizoram**

- *Inefficient, improper and untimely decision making:* Around 30% disagreed with the statement. On the other hand, around 44.5% agreed with the statement and another 5.5% strongly agreed with the statement. Around 20% moderately agreed with the statement.
- *Difficulty in assessing credit/finance and loans from financial institutions:* Around 17% disagreed with the statement and on the other hand 42.5% moderately agreed with the statement, over 37.5% agreed with the statement and another 3% strongly agreed with the statement.
- *Difficulty in determining the results of operation of their business:* Around 3% of the respondents disagreed with the statement, while over 46.5% agreed with

the statement and another 20% strongly agreed that improper accounting practices leads to difficulty to determine the results of their business operations. Around 30.5% of the respondents moderately agreed with the statement.

- *Difficulty in determining the financial position of the business:* only 4% disagreed with the statement and around 30.5% moderately agreed with the statement. On the other hand, over 46.5% agreed with the statement and another 20% strongly agreed with the statement.
- *Inability to detect losses and thefts in the business:* only 1.5% disagreed that incomplete and improper accounting records result in inability to detect losses and thefts in the business. Around 30.5% of the respondents moderately agreed with the statement, while over 46.5% agreed with the statement and another 20% strongly agreed with the statement.

### **Reasons for preparing accounting records and financial statements.**

The purpose of preparing accounting records and financial records by micro enterprises in Mizoram have five (5) statements. The statements prepared were intended exclusively for the micro enterprises who maintain any accounting records or financial statements in any form, regardless of how inadequate or inconsistently they are prepared. In this section, an attempt is made to analyse the statement regarding the purpose of preparing accounting records and financial records.

- *Determining profitability:* On the subject of purpose of preparing accounting records and financial statements about 4.2% disagreed with the statement and on the other hand around 4.9% moderately agreed with the statement, over 41% agreed with the statement and another 51.4% strongly agreed with the statement.
- *Performance evaluation:* With regards to the purpose of preparing accounting records and financial statements, about 4.9% disagreed with the statement and on the other hand, over 46.5% agreed with the statement and another 45.8%

strongly agreed with the statement. Around 4.2% moderately agreed with the statement

- *Tax compliance:* The study found that about 68.8% disagreed with the statement and on the other hand around 22.2% moderately agreed with the statement, 8.3% agreed with the statement and only 2.1% strongly agreed with the statement.
- *Access to credit and finance:* With respect to the response of the entrepreneurs to the statement “To access financial assistance” regarding the purpose of preparing accounting records and financial statements, 28.5% disagreed with the statement and on the other hand around 47.2% moderately agreed with the statement, over 23.6% agreed with the statement and only 2.1% strongly agreed with the statement.
- *Enhancing business sustainability:* About 6.9% disagreed with the statement and on the other hand, over 50% agreed with the statement and another 34.7% strongly agreed with the statement. Only around 9.7% moderately agreed with the statement.

### **The functions of accounting practices on micro enterprises performance and growth**

The function of accounting practices on micro enterprises performance and growth consists of six (6) statements. In this section, an attempt was made to assess the function of accounting practices on the performance and growth of micro enterprises in Mizoram.

- *It helps planning the future strategies, tactics & operations:* 1% only strongly disagreed with the statement and around 21.5% disagreed with the statement. about 28.5% and about 5.5.% agreed and strongly agreed to the statement indicating that accounting practices had helps in planning future strategies and decision-making process of their business operations. Meanwhile, around 43.5% moderately agreed to the statement.

- *It helps in controlling current activities:* Around 2% only strongly disagreed with the statement and around 23.5% disagreed with the statement. On the other hand, about 37.5% and about 0.5.% agreed and strongly agreed to the statement indicating that accounting practices had helped the management in controlling the current activities of the organization. Meanwhile, around 36.5% moderately agreed to the statement.
- *It increases the chances of achieving success for business:* Around 2% only strongly disagreed with the statement and around 23.5% disagreed with the statement. On the other hand, about 37.5% and about 0.5.% agreed and strongly agreed to the statement. Meanwhile, around 36.5% somewhat agreed to the statement.
- *It helps in measuring & evaluating performance:* Around 60.5% and about 27.5.% agreed and strongly agreed to the statement. Meanwhile, around 12% somewhat agreed to the statement.
- *It helps in optimizing the use of firm's resources:* Around 37.5% agreed to the statement and only 2.5 strongly agreed to the statement. Meanwhile, around 36.5% moderately agreed to the statement. On the other hand, the respondents who disagreed with the statement consists of 23.5%.
- *Improving internal & external communication:* Around 28.5% agreed to the statement and only 5.5 strongly agreed to the statement indicating that the entrepreneurs do not feel that accounting practices had improved their internal and external communications. Meanwhile, around 43.5% fairly agreed to the statement. On the other hand, the respondents who disagreed with the statement consists of 21.5%.

#### **Performance of the firm during last three years.**

- Level of productivity declined during the past three years i.e., during 2019-2022, around 69.5% and 8.5% reporting the level of productivity decreased and decreased significantly.

- 62.5% of the respondents stated that there is no change in the product quality and on the other hand, about 32.5% responded that the quality of the products they manufactured had improved.
- With regards to sales growth rate, operating profit growth rate and cash flow growth rate, around 60.5%, around 62.5% and around 64.5% of the respondents reported a decline respectively.

### Testing of Hypotheses

**Table 6.1 Test of Hypotheses**

Hypotheses	Tool used	Asymp Sig (2-Tailed) p value	Status
There is no significant difference in the number of respondents following accounting practices among manufacturing and service units	Mann-Whitney U Test	0.001	Rejected
There is no significant association between respondents' attitude on accounting practices and their application	Chi-Square Test	0.000	Rejected
There is no significant association between gender of the respondents and awareness about accounting tools and techniques	Chi-Square Test	0.031	Rejected
There is no significant association between age group of the respondents and awareness about accounting tools and techniques	Chi-Square Test	0.378	Not rejected
There is no significant association between marital status of the respondents and awareness about accounting tools and techniques	Chi-Square Test	0.149	Not rejected
There is no significant association between educational qualification of the respondents and awareness about accounting tools and techniques	Chi-Square Test	0.035	Rejected

### 6.6 Suggestions

This section gives the suggestions based on empirical study and general study for the entrepreneurs and the stakeholders such as different Government agencies,



various supporting agencies and academic institutions who are interested in the development of entrepreneurs' accounting practices:

#### **6.6.1 Suggestions to the entrepreneurs**

- **Education and Training Programs:** Since a significant percentage of micro entrepreneurs lack awareness of basic accounting rules (Table 4.2), there is a need for targeted education and training programs to enhance their accounting knowledge and skills. Accounting knowledge has become a necessity, since it is one of the potential skills needed to increase entrepreneurial skills. For micro entrepreneurs in Mizoram not keeping records of financial transactions, it is recommended to seek education and training in basic accounting principles, consider using accounting software for automation, consult with professionals for guidance, establish a systematic record-keeping system, and conduct regular reviews for financial analysis. These actions may assist the growth and sustainability of businesses, strengthen accounting procedures, and boost financial management.
- **Encouraging Regular Financial Reporting:** With a notable percentage of entrepreneurs not preparing financial reports (Table 5.2), there is a need to emphasize the benefits of regular financial reporting for business decision-making. Offering support in creating financial statements and reports can help entrepreneurs track their financial performance and make informed decisions. Preparation of financial statements is essential for micro enterprises as it allows them to assess their financial performance, track profitability, attract potential investors or lenders, comply with tax regulations, make informed business decisions, and ultimately enhance the long-term sustainability and success of the business. The micro entrepreneurs are advised to ensure that they keep a complete accounting records which will enable them to prepare an accurate and reliable financial statements.
- **Utilization of Technology for recording financial transactions:** Micro entrepreneurs in Mizoram commonly use manual methods, such as registers or paper, for recording financial transactions. According to a field survey, 59.5%

of business owners opted for manual/register methods. The preference for manual recording may stem from concerns about fraud, financial disclosure, or perceived lack of benefits associated with digital accounting tools. By understanding the prevalent methods used for recording financial transactions, micro entrepreneurs can explore opportunities to enhance their accounting practices and improve financial management processes. Training sessions on accounting software usage can enhance efficiency in maintaining accounts. The Mizos are fast to learn and embrace new things, thus it is probable that the micro companies in the current research that use conventional methods of recording, i.e. manual, may soon integrate ICT for accounting-related tasks. The researcher also recommends that micro enterprises improve their knowledge and skills in using digital accounting or computerized accounting systems, and that the authorities of the Government of Mizoram regarding MSMEs raise awareness about the importance of digitalised accounting systems and conduct training and education to MSMEs on ICT tasks related to accounting.

- **Encouraging the adoption of digital payment methods:** The preference for cash payments in the present study indicates a reliance on traditional payment methods (Table 4.10), which may pose challenges in terms of security, record-keeping, and scalability and the low adoption of online payment methods suggests a potential gap in leveraging digital payment solutions that offer convenience, efficiency, and security. This reluctance to embrace online payments may hinder businesses from benefiting from the advantages offered by digital transactions, such as streamlined processes, enhanced customer experience, and improved financial management. Addressing this gap and encouraging the adoption of online payment methods can help micro enterprises stay competitive, cater to evolving customer preferences, and enhance their overall operational effectiveness in an increasingly digital business environment. Encouraging micro enterprises to diversify their payment options by embracing digital payment solutions such as mobile wallets, online payment gateways, and Unified Payment Interface (UPI) can help cater to a broader customer base and enhance convenience. Providing

training and resources to educate micro entrepreneurs on the benefits and usage of digital payment platforms is essential to ensure their comfort with adopting and integrating these technologies into their business operations. Offering incentives or discounts for customers who choose digital payment methods can encourage the shift towards cashless transactions and promote a culture of digital payments within micro enterprises.

- **Peer Learning and Networking:** Facilitating peer learning opportunities and networking events among micro entrepreneurs can create a platform for sharing experiences and best practices in accounting. Peer support can be valuable in addressing common challenges and learning from each other's accounting methods.

#### 6.6.2 Suggestions to Stakeholders

- **Workshops, trainings, seminar on accounting education:** There is a need to organize workshops, trainings and seminars to the entrepreneurs on accounting education on the state and district level on a regular basis. Government and academic institutions can collaborate to design and offer accounting training programs tailored to the needs of micro entrepreneurs. These programs can cover basic accounting principles, financial management, and the use of accounting software.
- **Provide Access to Accounting Resources:** Establish resource centres or online platforms where micro entrepreneurs can access accounting guides, templates, and tools to help them maintain proper accounting records and financial reports. These centres ensure that accounting resources are easily accessible to micro entrepreneurs regardless of their location or financial resources, enabling businesses in remote areas or with limited means to access valuable accounting guidance. Tailored accounting guides and templates provided by these centres assist micro enterprises in maintaining proper accounting records and preparing accurate financial reports, covering areas such as financial statements, budgeting, cash flow projections, and tax compliance. Access to accounting software and tools simplifies accounting

processes for micro entrepreneurs by automating tasks like bookkeeping, invoicing, and financial analysis, facilitating effective financial management. Resource centres can offer personalized support and guidance to micro entrepreneurs based on their specific accounting needs and challenges. This tailored assistance can address individual concerns and help businesses implement effective accounting practices.

- **Promotion of Record-Keeping Practices:** Given that a considerable portion of entrepreneurs do not keep proper records of financial transactions, there should be initiatives to promote the importance of record-keeping. The findings inferred that all the micro enterprises under study had kept some sort of financial records. However, no entity kept complete records of financial records or books of accounts which are required to be prepared by them for their sustainability. As a result, preparing financial reports for proper company evaluation is extremely challenging, given that accurate record keeping is the cornerstone of financial reporting. It is also clear that incomplete and improper accounting records can lead to a lack of financial clarity, hinder decision-making processes, increase the risk of financial losses, and impede the overall performance and growth of micro enterprises. Maintaining accurate and complete accounting records is essential for ensuring financial stability, making informed decisions, and demonstrating transparency to stakeholders. To enhance accounting practices, the Government being the significant regulatory body for micro enterprises should promote record-keeping practices and they are encouraged not to offer subsidy and financial assistance to the enterprises who failed to follow sound accounting practices.
- **Offer Subsidized Accounting Services:** Government initiatives can provide subsidies or grants to micro enterprises to access professional accounting services, such as bookkeeping, financial statement preparation, and tax compliance assistance. These subsidies aim to make professional accounting expertise financially accessible to micro enterprises, ensuring compliance with regulations, enhancing financial management practices, supporting business growth, and contributing to economic development.

- **Promote Financial Literacy:** To enhance the accounting knowledge and skills of micro entrepreneurs the Government is encouraged to incorporate financial literacy education into academic curricula and government-sponsored workshops. This initiative aims to empower entrepreneurs, enhance understanding of financial concepts, develop accounting skills, manage risks, provide access to resources, ensure business sustainability, and contribute to community development.
- **Collaborate with Industry Partners:** Collaborating with industry partners involves fostering relationships between government entities, academic institutions, and industry stakeholders to create internship opportunities, practical training programs, and knowledge-sharing initiatives aimed at improving accounting practices within micro enterprises. By working together, these partners can leverage their respective expertise and resources to provide valuable learning experiences for students, support the development of small businesses, and contribute to the overall growth of the economy. Government agencies can provide support and funding for such initiatives, academic institutions can offer educational resources and guidance, and industry stakeholders can share their practical knowledge and insights with students and entrepreneurs. Through this collaborative approach, all parties involved can benefit from the exchange of ideas, skills, and experiences, ultimately leading to improved accounting practices, increased business success, and a more skilled workforce in the accounting field.
- **Establish Mentorship Programs:** Create mentorship programs where experienced accountants or financial professionals can mentor micro entrepreneurs on accounting best practices, financial planning, and business decision-making. Establishing mentorship programs involves setting up structured relationships between experienced accountants or financial professionals and micro entrepreneurs. The purpose of these programs is to provide guidance and support to the entrepreneurs in areas such as accounting best practices, financial planning, and business decision-making. Through these mentorship relationships, micro entrepreneurs can benefit from the

knowledge, expertise, and practical insights of their mentors, helping them navigate financial challenges, improve their accounting processes, and make informed decisions to enhance the overall financial health and sustainability of their businesses. Mentorship programs create opportunities for personalized learning, skill development, and networking, ultimately contributing to the growth and success of micro enterprises.

- **Support Research on Accounting Practices:** The Governments are encouraged to support academic research on the impact of accounting practices on micro enterprises' performance and growth to generate insights and recommendations for policy development and educational initiatives. Supporting research on accounting practices in the context of micro enterprises entails encouraging academic investigations into the ways in which accounting methods impact the performance and expansion of these small businesses. By conducting such research, valuable insights can be gained regarding the effectiveness of various accounting practices in enhancing the financial health and overall success of micro enterprises. The findings from these studies can offer recommendations for policymakers to develop more tailored and effective policies that support the growth of micro enterprises. Additionally, the research outcomes can inform educational initiatives aimed at equipping micro entrepreneurs with the necessary accounting knowledge and skills to improve their business operations. Ultimately, by fostering research in this area, stakeholders can better understand the role of accounting practices in driving the performance and growth of micro enterprises, leading to more targeted support and strategies for this sector.
- **Inclusion of accounting and financing training in school curricula at an earlier stage:** Introducing accounting and finance training in school curricula at an earlier stage involves incorporating educational modules or courses that cover basic accounting principles, financial literacy, and money management skills into the curriculum of schools at the primary or secondary level. By integrating these topics at an early stage of education, students can develop a foundational understanding of financial concepts, budgeting, and financial decision-making, which can help them build essential skills for managing

personal finances and potentially spark an interest in pursuing accounting or finance-related careers in the future. This early exposure to accounting and finance can contribute to fostering financial literacy, promoting responsible financial behavior, and preparing students for real-world financial challenges they may encounter later in life.

- **Create internship programs for commerce students to gain practical experience and exposure to accounting practices within micro enterprises:** Establishing internship programs for commerce students with micro enterprises provides an opportunity for students to apply theoretical knowledge in real-world settings and gain hands-on experience in accounting practices. These programs allow students to work closely with professionals in the field, learn about day-to-day accounting operations, and understand the challenges and opportunities faced by micro enterprises. By immersing themselves in the work environment of these small businesses, students can develop practical skills, enhance their understanding of financial processes, and improve their problem-solving abilities. Additionally, internships offer students a chance to network, build relationships with industry professionals, and explore potential career paths in accounting and finance. Overall, these internship programs bridge the gap between academic learning and practical application, preparing students for future roles in the accounting field and contributing to the growth and development of micro enterprises.

## **6.7 Scope for future research**

The prospective researchers may undertake their research in the following related areas:

- Financial management practices of micro enterprises
- A comparative analysis of accounting practices of micro enterprises and small/medium enterprises
- A comparative analysis of accounting practices of micro enterprises in Mizoram and other states of the country

- Accounting practices of Non-For-Profit organizations

## 6.8 Conclusion

Accounting is often described the art of recording, classifying, and summarizing money transactions and events which are, in part at least, of financial character in a significant manner and interpreting the results thereof. An accounting practice is planned for the enforcement of a firm's accounting guidelines and policies. Keeping accurate accounting records is critical for businesses to track the health of the firm, make informed decisions, manage cash flows, and understand the company's financial status. Keeping accurate records and creating financial accounts has huge benefits for all businesses, large and small. They are a crucial management tool for any firm since they accurately represent the company's financial performance. They also act as a tool for tracking performance and determining the correctness of revenue and spending. Several studies have also found that one of the most significant barriers to small business growth is a lack of adequate accounting. Failure to maintain complete accounting records results in inefficient use of accounting information to assist financial performance measurement by small and micro firms. Furthermore, the entrepreneurs' inability to keep good accounting records made it impossible for them to accurately measure their firm profit.

Micro enterprises, as a type of entrepreneurship, have been identified as one of the key drivers of job creation and economic growth, with their contribution mostly determined by their success. According to Kushnir (2019), microenterprises are the smallest type of enterprise in terms of size, as defined by investment, employment, or total firm assets. It was also said that microenterprises have the flexibility to easily start and depart. Micro enterprises have limited influence when assessed individually since their yearly turnover is not comparable to that of major and multinational corporations; nevertheless, when viewed together, their impact may be enormous and should not be overlooked. One of the reasons for this increased attention is that these enterprises have been found to have the potential to generate employment while also contributing to poverty alleviation in most countries, including India, where social



environments have deteriorated over time due to rising unemployment and widening income disparities.

The fact that micro enterprises have played and continue to play a significant role in economies across the globe cannot be overemphasized. Micro sector with 630.52 lakh estimated enterprises provides employment to 1076.19 lakh persons, which accounts for around 97% of total employment in the MSME sector. Despite their limited resources and capacity to implement elaborate accounting systems, the importance of adopting sound accounting practices in micro enterprises cannot be overstated. By embracing and enhancing proper accounting procedures, these small businesses can effectively manage their financial resources, monitor sales activities, optimize production processes, and streamline human resource management. Improving accounting skills and knowledge within micro enterprises can lead to better financial management, informed decision-making, and overall enhancement of business performance eventually supporting their expansion and viability in the cutthroat commercial environment. Accounting system design must take into account the special requirements of small businesses. The great majority of firms in the economy's primary and intermediate sectors are micro enterprises. These businesses have a significant influence on the health and welfare of the country by creating jobs, generating national outputs and revenues, and serving as a supply of raw materials for big businesses. Even though they might not be sophisticated enough to implement the intricate accounting procedures, many organizations nonetheless greatly benefit from accounting systems.

The socio-economic profile of micro entrepreneurs in Mizoram is characterized by a high proportion of male entrepreneurs and female entrepreneurs, a high percentage of married entrepreneurs, a high percentage of undergraduates, a high percentage of postgraduates, and a high percentage of family members with annual incomes less than ₹5 lakhs. The study reveals that 54% of micro enterprises are sole proprietors, with family-owned businesses accounting for 46%. The majority of these enterprises have an annual sales turnover between ₹ 11 lakhs to ₹ 20 lakhs, with 38% below ₹ 10 lakhs and 22.5% between ₹ 21 lakhs to ₹ 40 lakhs. Only 0.5% have annual

sales exceeding ₹ 40 lakhs. The employment of workers is also a significant factor, with 20% employing less than two employees and 43.5% employing 2 to 5 workers. A significant proportion of these enterprises employ workers between 6 to 10. The majority of micro enterprises (47%) have been in business for at least 5 to 10 years, while 25.5% have been in business for 16 to 20 years.

The study reveals that 61% of respondents had their place of establishment on rented property, while 38.5% had their own place of establishment. 56% had GST registration, while 31.5% were without it. Manufacturing enterprises invested 87% in plant and machinery, while service enterprises invested 78%. Manufacturing enterprises engaged in garments/handloom production, 21% in food products, 15% in furniture manufacturing, 14% in steel fabricated products, 5% in soap and candle production, 5% in leather products, 3% in packaged drinking water, and 2% in plastic syntax production. Service enterprises engaged in mobile and computer repairing and servicing, 20% in automobile repairing and servicing, 20% in printing, screen printing, DTP, xerox, 18% in hotels and restaurants, 10% in beauty parlours and spas, and 10% in computer consultancy. No micro enterprises invested more than ₹1 crore. The study also found that there were no micro enterprises investing more than ₹1 crore.

The study reveals that nearly 90% of micro entrepreneurs are aware of accounting practices, with 96% not being aware of basic rules. Entrepreneurs who keep records of financial transactions account for 72% of all businesses, while 28% do not. Around 60% of business owners opt for manual/register methods, 12.5% adopt computerized methods, and 28% do not record financial transactions at all. Most micro entrepreneurs use the double entry method to record financial transactions, while 6% use the single entry method. 7% of business owners maintain all financial records in a single book, and 28% rely on memory to track sales and trade creditors.

Around 53% of respondents prepare monthly financial reports, while 5.5% do so on an annual basis. 41% do not prepare financial statements or reports. Nearly 60% of businesses report that their owners themselves are in charge of this task. However, 11% have managers who handle financial record keeping, compared to 0.5% who hired an accountant. Only 1% mention salespeople maintaining the records. 43% of

respondents use the cash basis of accounting, while 57% use the hybrid basis. No respondents were exclusively using accrual-based accounting. A significant portion of micro enterprises accept cash as the primary payment method (16.5%), while a majority opt for a combination of cash, cards, and online payments (56.5%). Additionally, 27% of micro enterprises accept a combination of cash, cheque, cards, and online payments.

Perceptions of micro entrepreneurs on the importance of accounting record maintenance vary. 69% of respondents consider maintaining a cash book important, while 24.5% believe it is not important. The majority of respondents believe that maintaining a sales book is important, while 28.5% think it is not important. The majority of respondents believe that maintaining a purchase book is important, while 33% think it is not important. In terms of maintaining a stock book, 64% of respondents find it not important, while 27% feel it is moderately important. The majority of respondents believe that maintaining a profit and loss account is important, while 64% find it not important. Finally, 86% of respondents believe it is not important to maintain a cash flow statement.

The study reveals that 79% of entrepreneurs consider themselves compelled to record financial transactions, with 50% describing it as tedious and time-consuming. Nearly 50% are willing to participate in training or workshops on accounting practices, indicating their willingness to learn. 70% of respondents are satisfied with the financial reports they prepare, and 56% feel happy when they do so. 76% wish to continue preparing financial reports in the future, and 77.5% highly recommend entrepreneurs practice good financial records and prepare financial reports. About 70% believe accounting is the key to the success of a business, while 60% find it unnecessary. 75% believe it is always good to keep records of all transactions, including those that did not go well for the business. The highest mean score for the statement "I highly recommend entrepreneurs to practice good financial records and prepare financial reports" is 8.03. The statement "I am compelled to record financial transactions" has a mean of 7.81, followed by "I wish to continue preparing financial reporting in the

future" at 7.78. The statement "Accounting adds unnecessary cost to my business" has the least mean score of 4.95 (SD = 2.282).

The study reveals that 72% of micro enterprises maintain books of accounts and with 53% keeping sales books. Expense books are maintained by 61% of respondents, while debtor's account are maintained by 47%. Creditor's accounts are maintained by 11.5%, while fixed asset registers are maintained by 5%. Stock books are maintained by 7.5%, while payroll records are maintained by 11%. A Profit & Loss Account is prepared by 58% of micro enterprises, while Balance Sheet is prepared by 10%, but 2.5% only do prepare a Cash Flow Statement. 41% of micro firms rely on their Cash & Bank Balance for financial condition, while 47.5% use a Profit & Loss Account to monitor their financial position.

Maintaining proper books of accounts is considered necessary by 77% of respondents. Challenges include cost and time constraints, lack of expertise and knowledge on accounting, erroneous perceptions about accounting, and absence of guidelines for record keeping and financial reporting. Cost and time constraints include the high cost of hiring accountants, the need for more staff, technical skill and knowledge, and difficulty in maintaining the system. Erroneous perceptions include fear of exposing business information, tax burden, and fear of discouragement in case of loss.

The impact of accounting practices on the performance of micro enterprises in Mizoram was examined. The study found that around 70% of respondents agreed with the statement that improper accounting practices led to inefficient, improper, and untimely decision making. Around 80% agreed with the statement that improper accounting practices led to difficulties in assessing credit/finance and loans from financial institutions. Around 70% of respondents agreed with the statement that improper accounting practices led to difficulty in determining the results of their business operations. More than two-thirds of the entrepreneurs felt that absence of proper accounting practices had made it difficult to determine the financial position of their business. And nearly all of the respondents in the present study agreed inadequate

accounting practices had resulted in an inability to identify losses and thefts in their firm, and that they were unable to track any losses or thefts in the business.

The purpose of preparing accounting records and financial statements by micro enterprises in Mizoram was to determine profitability which is agreed by about 90%, evaluate performance again agreed by nearly all entrepreneurs and enhance business sustainability which is agreed by about 80%. The functions of accounting practices on micro enterprises performance and growth were assessed.

Accounting practices helped in planning future strategies, controlling current activities, increasing the chances of achieving success for business, measuring and evaluating performance, optimizing the use of firm's resources, and improving internal and external communication. However, only 28.5% agreed with the statement that accounting practices improved their internal and external communications.

During the past three years, productivity declined significantly, with 69.5% and 8.5% reporting a decrease in productivity during 2019-2022. 62.5% of respondents stated that there was no change in product quality, while 32.5% reported that the quality of the products they manufactured had improved. Regarding sales growth rate, operating profit growth rate, and cash flow growth rate, 60.5%, 62.5%, and 64.5% of respondents reported a decline respectively.

Based on the findings of the study, various suggestions are given to the entrepreneurs, Government and academic institutions. Some of the suggestions to the entrepreneurs are: education and training programs to enhance the accounting knowledge and skills of micro entrepreneurs in Mizoram, promoting record keeping practices, encouraging regular financial reporting, utilization of technology for accounting practices, access to financial resources and tools, encouraging the adoption of digital payment methods and facilitating peer learning opportunities and networking events among micro entrepreneurs. Lastly, the Government and academic institutions are advised to organize workshops, trainings and seminars to the entrepreneurs on accounting education, establish resource centres or online platforms where micro entrepreneurs can access accounting guides, templates, and tools to help them maintain

proper accounting records and financial reports, offer subsidized accounting services, incorporate financial literacy education into academic curricula and government-sponsored workshops, collaborate with industry partners, establish mentorship programs, introducing accounting and financing training in school curricula at an earlier stage, create internship programs for commerce students to gain practical experience and exposure to accounting practices within micro enterprises and support research on accounting practices.

## ***APPENDIX***

### **A STUDY OF ACCOUNTING PRACTICES OF MICRO ENTERPRISES IN MIZORAM**

#### **QUESTIONNAIRE**

##### **Part I: Socio-Economic Profile of Respondents**

##### **1. Marital Status of the respondent:**

- a) Married
- b) Unmarried
- c) Divorced
- d) Widowed

##### **2. Gender of the respondent:**

- a) Male
- b) Female
- c) Others

##### **3. Educational qualification of the respondent:**

- a) Matriculate
- b) Higher Secondary
- c) Under Graduate
- d) Post Graduate
- e) M.Phil./Ph.D.

##### **4. Age group of the respondent:**

- a) Less than 20 years
- b) 21-40 years
- c) 41-60 years

- d) Above 60 years

**5. Annual income of other family members (₹ in Lakhs)**

- a) Below 5
- b) 5-10
- c) 10-15
- d) Above 15

**Part II: Profile of Micro Enterprises**

**6. Name of the enterprise:** \_\_\_\_\_

**7. Address** : \_\_\_\_\_

**8. Form of organization of the enterprise:**

- a) Sole proprietor
- b) Family-owned business

**9. Annual sales turnover (₹ in Lakhs)**

- a) Below 10
- b) 11-20
- c) 21-40
- d) Above 40

**10. Total number of workers employed:**

- a) Less than 2
- b) 2 to 5
- c) 6 to 10
- d) More than 10

**11. Place of business establishment:**

- a) Rented



- b) On lease
- c) Own property

**12. Year of operation:**

- a) 5-10 years
- b) 10-15 years
- c) 16-20 years
- d) More than 20 years

**13. GST Registration**

- a) With GST Registration
- b) Without GST Registration
- c) On-going process

**14. Please specify your investment in Plant/Machinery (if you are Manufacturing enterprise)**

- a) Not exceeding 10 lakhs
- b) More than 10 lakhs but not exceeding 50 lakhs
- c) More than 50 lakhs but not exceeding 1 crore
- d) More than 1 crore

**15. Please specify your investment in Equipment (if you are Service enterprise)**

- a) Not exceeding 10 lakhs
- b) More than 10 lakhs but not exceeding 50 lakhs
- c) More than 50 lakhs but not exceeding 1 crore
- d) More than 1 crore

**16. Line of activity of the enterprise (Please Tick)**

MANUFACTURING		SERVICES	
Garments/Handloom		Beauty parlours & Spa	
Food products		Automobile repairing & servicing	
Furniture		Computer consultancy	
Steel fabricated products		Printing & Xerox	
Soap & Candle		Mobile Repairing & servicing	
Leather products		Hotels & Restaurants	
Plastic Syntax			
Packaged drinking water			

**Part III: Accounting Practices**

**17. Are you aware of accounting practices/tools?**

- a) Aware
- b) Not aware

**18. Are you aware of the basic rules of accounting?**

- a) Aware
- b) Not aware

**19. Do you keep a record of financial transactions from your enterprise?**

- a) Keep
- b) Do not keep

**20. What method do you use for recording financial transactions?**

- a) Manual/Register
- b) Computerized method
- c) Neither

**21. Method of recording financial transactions**

- a) Single entry system
- b) Double entry system
- c) Keeping in one book
- d) With the help of memory

**22. On what basis are the financial transactions recorded?**

- a) Daily basis
- b) Weekly basis
- c) Monthly basis
- d) Not prepared

**23. How often are financial reports prepared?**

- a) Monthly
- b) Annually
- c) Not prepared

**24. Who is the person responsible for keeping accounting records?**

- a) Owner
- b) Accountant
- c) Manager
- d) Sales personnel
- e) Not prepared

**25. Accounting basis adopted by the micro entrepreneur:**

- a) Cash basis
- b) Accrual basis
- c) Hybrid basis

**26. Payment method adopted by the micro enterprises:**

- a) Cash only
- b) Cheque only
- c) Cards only (Debit/Credit cards)
- d) Online payment only (Gpay/Paytm/YONO, etc)
- e) Cash, Cards & Online Payment
- f) Cash, Cheque, Cards & Online Payment

**27. Accounting records kept by Micro enterprises:**

Perceptions			Accounting records kept by the firm	Mark a tick on the appropriate box of your choice
NI	MI	I		
			Cash book	
			Sales book	
			Purchase book	
			Expense book	
			Fixed asset register	
			Debtor's account	
			Creditor's account	
			Stock book for materials	
			Payroll records	

*NI: Not Important=1, MI: Moderately Important=2, I: Important=3*

**28. Financial statements (or accounts) prepared by the Micro enterprises:**

Perceptions			Financial statement prepared by the firm	Mark a tick on the appropriate box of your choice
NI	MI	I		
			Profit and Loss Account	
			Balance Sheet	
			Cash Flow Statement	
			None	

*NI: Not Important=1, MI: Moderately Important=2, I: Important=3*

**29. Accounting tools used to monitor /track financial position and performance.**

Accounting records kept by the firm	Mark a tick on the appropriate box of your choice
Cash & Bank balance	
Profit & Loss Account only	
Profit & Loss Ac & Balance Sheet	
Profit & Loss Account & Cash Flow Statement	
Balance Sheet & Cash Flow Statement	

**30. In your opinion, is it necessary for entrepreneurs to maintain proper books of accounts?**

- a) Yes
- b) No

**31. What are the challenges of using and keeping accounting records?**

	SD	D	MA	A	SA
It is time consuming					
High cost of hiring accountants					
It requires more staff					
It requires technical skills & knowledge					
It is difficult to maintain the system					
Fear of exposing business information					
It makes your enterprise to pay more tax					
Fear of discouragement in case of loss					
Absence of guidelines for record keeping and financial reporting					

### 32. Impact of Accounting Practices on the Performance of Micro Enterprises in Mizoram

	SD	D	MA	A	SA
Inefficient, improper & untimely decision making					
Difficulty in assessing credit/finance and loans from financial institutions					
Difficulty in determining the results of operations of their business					
Difficulty in determining the financial position of the business					
Inability to detect losses and theft in the business					

### 33. Reasons for preparing accounting records and financial statements.

	SD	D	MA	A	SA
To determine profitability of the business					
To determine financial position of the business					
To comply with tax obligations					
To access financial assistance					
To make informed decision & business sustainability					

### 34. The functions of accounting practices on micro enterprises performance and growth

In your business, accounting practices have helped management in:	What is your opinion?				
	SD	D	MA	A	SA
Planning the future strategies, tactics & operations					
Controlling current activities					
Measuring & evaluating performance					
Optimizing the use of firm's resources					
Improving internal & external communication					

*Note:* Values are given to each scale

*SA= 5 points A= 4 points MA=3 points D=2points SD=1point*

HERE, SA= Strongly Agree, A= Agree, MA= Moderately Agree, D=Disagree, SD=Strongly Disagree

### 35. Perception of firm's performance

During the last 3 years, in your opinion have the following	What is your opinion?				
	S1	S2	S3	S4	S5
Level of productivity					
Product quality					
Sales growth rate					
Operating profit growth rate					
Cash flow growth rate					

Note: Values are given to each scale S1= Decreased Significantly (1), S2= Decreased (2), S3= No Change (3), S4= Increased (4), S5= Increased Significantly (5)

### 36. Attitude towards maintenance of Books of Accounts and Financial Statements

Note: Please give a number value between 1 to 10 for your answers. Higher number indicates higher value.

VARIABLES (Attitude)	Score
I record financial transaction because I have to	
It is a boring repetitive concept	
It is necessary to maintain proper records	
I am willing to participate in account Trainings/Workshops	
I am satisfied with the financial reports I prepared	
I feel happy when I prepare accounting records	
I wish to continue to prepare financial reporting in the future	
I highly recommend entrepreneurs to maintain good financial reports and prepare financial report	
Accounting is the key to the success of a business	
Accounting is a tedious activity & time consuming	
Accounting adds unnecessary cost to my business	
It is always good to keep record of all transactions in my business including those that did not go well for the business	

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**DEPARTMENT OF COMMERCE**  
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**INFORMATION SCIENCE**

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**A STUDY OF ACCOUNTING PRACTICES OF MICRO ENTERPRISES IN  
MIZORAM**

**BY  
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Submitted  
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## **INTRODUCTION**

Accounting practices have been integral to business transactions since as far back as 10,000 B.C., serving as a means of recording and recalling financial activities. Initially, these records aided memory, but as businesses grew, the need for systematic and consistent accounting became essential for decision-making and performance evaluation. Modern accounting practices have evolved to encompass detailed recording, classification, and analysis of financial transactions, using advanced technologies to enhance accuracy and efficiency.

Micro enterprises, defined as the smallest business entities, play a crucial role in job creation and economic growth. Despite their limited individual impact, collectively, they significantly contribute to employment and poverty alleviation. The sector has shown notably higher growth rates than other industrial sectors, particularly in the North Eastern Indian states, which collectively host over 4,024 lakh MSMEs employing approximately 13.27 lakh people.

The importance of sound accounting practices in micro enterprises cannot be overstated. Although these businesses often lack the resources for elaborate accounting systems, adopting effective accounting procedures can lead to improved financial management, better decision-making, and enhanced business performance. Given their unique challenges, tailored accounting systems for micro enterprises are necessary to harness their full potential and impact on the economy.

### **Chapter Plan**

The present study has been structured and presented in the form of the following six chapters:

- Chapter 1: Introduction
- Chapter 2: Micro, Small and Medium Enterprises in India with reference to Mizoram

- Chapter 3: Socio-Economic Profile of Entrepreneurs and Profile of Micro Enterprises in Mizoram
- Chapter 4: Awareness, Knowledge and Attitudes of Micro Entrepreneurs Regarding the Maintenance of Books of Accounts
- Chapter 5: Types of Accounting Records Maintained and the Challenges Faced
- Chapter 6: Summary of Findings, Suggestions and Conclusions

The chapters in the study are summarised as follows:

## **Chapter 1: Introduction**

The introduction chapter highlights various aspects related to the present study, such as concept of accounting practices, micro enterprises, entrepreneurship and entrepreneurs. The study's background, the study's aims, significance and scope of the study, statement of the problem, the objectives of the study, hypotheses and research methodology for the study are discussed in this chapter. It also presents the review of the relevant literature by following thematic approach and the themes are: definition of accounting practices and micro enterprises, application of accounting practices in general and micro enterprises, importance of accounting practices and challenges on application of accounting practices.

### ***1.1 Significance and Scope of the Study***

The significance of the study stems from its exploration of the challenges encountered by micro enterprises in implementing effective accounting practices, emphasizing the importance of sound financial management for their growth and sustainability. The study sheds light on the barriers hindering proper accounting procedures in these small businesses and provides valuable insights that can inform policy interventions, training programs, and support initiatives aimed at enhancing the financial literacy and capabilities of micro entrepreneurs. Ultimately, addressing these challenges can lead micro enterprises to improved business performance, better decision-making, and increased competitiveness, contributing to their overall success and economic impact.

The present study aims to examine the accounting practice of micro enterprises in Mizoram. Thus, the study was conducted among Mizo entrepreneurs operating micro enterprises who registered their units at District Industries Centre, Aizawl and Lunglei since 2008-2009 under two registration systems, i.e., Entrepreneurship Memorandum – II (EM-II) and Udyog Aadhaar Memorandum (UAM) set up under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. The researcher chose Aizawl District and Lunglei District because of the thrive of the micro enterprises economy in both the places.

### ***1.2 Review of Literature***

This section presents the review of the relevant literature of over 90 research studies by following thematic approach and the themes are: definition of accounting practices and micro enterprises, application of accounting practices in general and micro enterprises, importance of accounting practices and challenges on application of accounting practices. The relevant studies which were conducted in India and abroad are reviewed in this chapter to identify their main findings, the research gap, research problems, and formulate the appropriate methods for the survey.

### ***1.3 Statement of the problem***

The necessity for researching the accounting practices of micro enterprises in Mizoram stems from the evident deficiencies in financial management and accounting proficiency among micro entrepreneurs in the area. Prior studies have revealed that many micro enterprises in Mizoram struggle to maintain sufficient accounting records, leading to obstacles in ascertaining their net profit and making well-informed economic choices. Similar challenges faced by SMEs in comparable settings include difficulties in recording daily transactions and preparing financial reports due to skill shortages, concerns about divulging business information, and the high costs linked with financial reporting.

Furthermore, the scarcity of official enterprise data and the absence of comprehensive records present notable hurdles for researchers and policymakers. It is



imperative to grasp the current landscape of accounting practices in Mizoram's micro enterprises to pinpoint the specific barriers they encounter and devise precise interventions to enhance their financial knowledge and capabilities. Through an exploration of the awareness, adoption, and challenges associated with financial accounting practices in micro enterprises, this study has the potential to offer valuable insights for enhancing financial management, decision-making processes, and overall performance within these businesses. Consequently, undertaking a study on the accounting practices of micro enterprises in Mizoram is crucial for bridging knowledge gaps, fostering improved financial management practices, and bolstering the sustainable advancement and prosperity of small businesses in the region.

This study aims to investigate the challenges that micro enterprises face while developing effective accounting processes, with a focus on the variables that impede solid financial management within these tiny organizations. The research attempts to identify significant issues impacting microentrepreneurs' financial knowledge and abilities by assessing the barriers to the adoption of appropriate accounting processes. This research is critical for developing tailored interventions, training initiatives, and support programs to address these challenges and improve micro enterprises' performance, decision-making capabilities, and competitive edge, thereby fostering their long-term success and economic influence.

There are many studies on entrepreneurship in Mizoram (e.g., Lalhunthara (2015); Ramswamy and Kumar, 2013; Gogoi, 2018; Lalhunthara (2019), Lalrampuii, 2020; Lalmuanpuii *et al.*, 2022); Lalnunthara, Jyoti Kumar & Laldinliana (2023)) however, they did not focus sufficiently on the accounting practices. Against this backdrop, it is attempted to study the accounting practices of micro enterprises in Mizoram.

#### ***1.4 Objectives of the Study***

The main aim of the present study is to explore and analyse the accounting practices of micro enterprises of Mizo entrepreneurs. The specific objectives of the study are:

1. To identify the socio-economic characteristics of the micro entrepreneurs in Mizoram.
2. To study the profile of micro enterprises in terms of nature of business, form of business, period of establishment and sales.
3. To study the awareness, knowledge and attitudes of micro entrepreneurs regarding the maintenance of books of accounts.
4. To study the accounting practices with regard to the type of accounting records maintained by micro enterprises.
5. To identify the challenges faced by micro enterprises in maintenance of proper books of accounts.

### ***1.5 Hypotheses***

The present study seeks to test the following hypotheses:

1. H<sub>0</sub>: There is no significant difference in the number of respondents following accounting practices among manufacturing and service units
2. H<sub>0</sub>: There is a no significant association between attitudes and accounting practices of micro enterprises.
3. H<sub>0</sub>: There is no significant association between gender of the respondents and awareness about accounting tools and techniques.
4. H<sub>0</sub>: There is no significant association between age group of the respondents and awareness about accounting tools and techniques.
5. H<sub>0</sub>: There is no significant association between marital status of the respondents and awareness about accounting tools and techniques.
6. H<sub>0</sub>: There is no significant association between educational qualification of the respondents and awareness about accounting tools and techniques.

## ***1.6 Research Methodology***

This study employs quantitative research as a main approach. The use of numerical data to measure constructs requires quantitative approach (Camerron & Sankaran, 2015). This makes the quantitative approach more suitable for this study.

A descriptive research was carefully constructed to ensure a detailed account of the situation, minimizing bias in data collecting, and reducing mistakes in data interpretation (Ghauri and Gronhaug, 2010). This approach is also adaptable, suitable, and effective as it allows the researcher to experiment with different data gathering sources and techniques. It is acceptable since its conclusion clearly outlines a research topic, research questions, and a set of objectives. The researcher physically visited each of the micro enterprises in Aizawl and Lunglei in addition to using the quantitative technique to monitor and evaluate the maintenance of their accounting records.

### ***(I) Population of the study***

A population in statistics is the particular population that is the subject of the sought information (Mugenda & Mugenda 2003).

The population of the study comprised of micro enterprises from manufacturing and service sectors who registered their units at District Industries Center, Aizawl and Lunglei since 2008-09 to 2017-18 under two registration systems, i.e., Entrepreneurship Memorandum – II (EM-II) and Udyog Aadhaar Memorandum (UAM) set up under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. The researcher chose Aizawl District and Lunglei District because of the thrive of the micro enterprises economy in both the places. As per the records of Directorate of Commerce and Industries, Government of Mizoram, there were 1217 manufacturing and service units registered in District Industries Center (DIC) Aizawl, and there were 389 manufacturing and service units registered in District Industries Center (DIC) Lunglei. The target population of 1,606 (DIC, Aizawl

& Lunglei) respondents were decided on, consisting of entrepreneurs in micro enterprises sector.

### ***(II) Sample size of the study***

Purposive sampling was adopted to achieve high response rates and to enhance sample representation of the population. The sample size of the study was 200 respondents, with 100 micro enterprises each selected from manufacturing sector and service sector to better reflect the total population. Furthermore, micro enterprises which are in operation of at least 5 years were selected as samples. Their selection was influenced by the main objective of the study and also on the aspect of trying to get variations in experiences as far as possible.

### ***(III) Data collection***

(a) **Primary data:** The study is based mostly on primary data. Primary data were collected from a sample of micro enterprises in the study.

(i) *Survey of micro enterprises:* The questionnaire was framed based on the extensive literature survey. In order to ensure the reliability and appropriateness of the instruments, pilot testing was conducted with 30 micro enterprises by using Cronbach's Alpha score and the output of the reliability of the statistics was 0.851 and the instruments was found reliable.

The questionnaire consists of three parts: Part I, Part II and Part III (Annexure). Part I consists of questions relating to the socio-economic profile of respondents. Part II consists of questions relating to the profile of micro enterprises and Part III consists of questions relating to accounting practices of micro enterprises and some of the statements are Likert's five points scale. Secondary data: It was collected through various sources such as books, journals, bulletin, newspapers, published and unpublished thesis and dissertations, published and unpublished documents by the State and Central Government, reports and websites, etc.

Primary data were collected by administering a structured questionnaire (Annexure) among the sample respondents. The Questionnaire was translated into Mizo and the survey was conducted personally by the researcher herself with the support of a research assistant. The assistant was trained on how to identify the respondent, how to approach, and how to solicit required information in different locations of two select districts. The Questionnaire was administered to the micro entrepreneur under the study in their enterprises during working hours.

(ii) *Period of collection:* Information from the sample entrepreneurs was collected during 2022 and 2023 by administering a questionnaire. Because of the low number of COVID-19 cases throughout the timeframe, the researcher had no major difficulty conducting the field survey. However, it proved to be a challenging effort to contact and persuade micro entrepreneurs to complete the questionnaire, which required around 40-60 minutes of their time because the data was gathered at the entrepreneurs' workplaces and during their working hours. Furthermore, the questionnaire presented had certain information that would disclose their financial data, so the entrepreneurs were a bit hesitant to provide it. Notwithstanding these constraints, the entrepreneurs were cooperative in sharing their time and information.

(b) **Secondary data:** An extensive literature review based on accounting practices was undertaken to familiarise with the concepts and issues. Secondary data were collected from various Government publications such as Statistical Handbook, Mizoram; Mizoram Statistical Abstract; Economic Survey, Mizoram; Basic Statistics of NER; Annual Report, Ministry of MSME. Other sources of secondary data includes unpublished Government documents, journals, bulletin, newspapers, published and unpublished thesis and dissertations, textbooks, business magazines, newspapers and websites of different organisations.

#### **(IV) Data Analysis**

After data collection, survey data was edited and coded. In the coding process, data were organized into categories after which, numerals were assigned to each item

before entering them into a worksheet. SPSS was used to generate quantitative results including percentages and frequencies. Since the study specifically employed quantitative approach, tables depicting frequencies and percentages were used to present outcomes of the analysis. The study subsequently employed statistical tools like Mann Whitney U Test, Chi-square test for association to analyse the objectives and test the formulated hypotheses.

### ***1.7 Limitations of the study***

1. Even though micro enterprises is one of the largest sector in India, the researcher faced problems in acquiring past and up to date secondary information regarding accounting practices.
2. Although the primary data were collected through structured questionnaire and non- disclosure statement was provided, many micro enterprises seemed to be little reluctant to respond since the questionnaire called for respondents to disclose information associate with financial matters, also many of them did not maintain detailed or complete set of accounting records.
3. The study focused on accounting practices of micro entrepreneurs; hence, the findings of the study may not be used as generalisation to accounting practices of other sectors.
4. The questionnaires were administered during the business hour in which many respondents were busy in dealing with their entrepreneurial role. Despite the researcher's precautions, it is still possible that the respondents' behaviour and answers may be influenced by the time constraints in a limited way.

## **Chapter 2: Micro, Small and Medium Enterprises in India with reference to Mizoram**

Chapter 2 provides a comprehensive overview of the Micro, Small and Medium Enterprises (MSMEs) sector in Mizoram, shedding light on the state's economic landscape, historical background, and challenges faced in entrepreneurship

development. Mizoram's strategic geographical location, with international borders with Myanmar and Bangladesh, presents opportunities for cross-border trade and economic growth. The state's historical reliance on agriculture and cottage industries has shaped its economy, but barriers such as limited infrastructure and lack of industrial development hinder the growth of enterprises. While the Ministry of MSME has introduced initiatives to promote entrepreneurship in Mizoram, there is a clear need for increased support and involvement from the state government to address these challenges and foster sustainable economic development. By leveraging its unique position and implementing targeted policies to support MSME growth, Mizoram has the potential to emerge as a hub for small and medium enterprises, contributing to the overall economic prosperity of the region.

The chapter also highlights the performance of MSMEs in India in general, the role and importance of MSMEs in India for achieving inclusive and sustainable economic development. MSMEs enable individuals to overcome the cycle of poverty and hardships by creating ample opportunities to entrepreneurs. It also presents the major schemes targeted at a) providing credit and financial assistances b) skill development training, c) infrastructure development, d) marketing assistance, e) technological and quality upgradation and f) Other Services for the MSMEs across the country. The chapter also shows problems and challenges faced by the entrepreneurs and the institutional support for the MSMEs in Mizoram.

### **Chapter 3: Socio-Economic Profile of Micro Entrepreneurs and Profile of Micro Enterprises in Mizoram**

The main objectives of Chapter 3 are *“to identify the socioeconomic characteristics of the micro entrepreneurs in Mizoram”* and *“to study the profile of micro enterprises in terms of nature of business, form of business, period of establishment and sales”*. In compliance with the objective, the chapter presents the socio-economic profile of micro entrepreneurs and business profile of micro enterprises in Mizoram. The demographic profile includes age, gender, marital status, educational qualification and average monthly income. The business profile of the women entrepreneurs includes forms of business organization, annual sale turnover,

about the workers hired by the business, year of operation, DIC/MSME registration or permit acquirement, place of business establishment and GST registration.

### **3.1 Socio-Economic profile of micro entrepreneurs**

- With regard to the gender composition among the entrepreneurs, it was found that 59% of the entrepreneurs were male entrepreneurs and the remaining 41% were female entrepreneurs.
- In terms of marital status, around 72.5% of the entrepreneurs were married while about 19% were unmarried/single, 5% are divorced and 3% female entrepreneurs were widowed
- With regards to the age, 48.5% were in the age group 41-60 years, 43.5% belonged to the age group of 21-40 and 8% were in the age group above 60 years. Only around 1% belonged to the age group of less than 20 years.
- Education-wise, around 30% of the entrepreneurs were undergraduates and matriculates, followed by 23.5% respondents completing Higher Secondary, 15.5% accounted for Post Graduates and only 0.5% accounted for respondents having MPHIL/PHD degree.
- Regarding the annual income of other family members, 49% were having annual income less than ₹ 5 lakhs and 35.5% were having annual income ₹ 5 lakhs to ₹ 10 lakhs. 12.5% accounted for respondents having annual between ₹ 10 lakhs to ₹ 15 lakhs and 3% % accounted for respondents having annual income more than ₹ 15 lakhs.

### **3.2 Business profile of micro enterprises**

- In respect of forms of organization, it is observed that there were 54% sole proprietors out of the total respondents and family-owned business accounted for 46%.
- With respect to the annual sales turnover of the enterprises, it is found that 39% enterprises were having annual sales turnover between ₹ 11 lakhs to ₹ 20 lakhs, this account for the highest number of respondents. It further shows that 38% enterprises had an annual sales turnover below ₹ 10 lakhs and 22.5% had



annual sales between ₹ 21 lakhs to ₹ 40 lakhs while only 0.5% had annual sales of more than ₹ 40 lakhs.

- Employment of workers wise, 20% enterprises were having workers less than 2 employees, 43.5% respondents were employing 2 to 5 workers. Thus, a considerable proportion of the enterprises that is 32.5% accounted for enterprises employing workers between 6 to 10. More than 10 workers were employed by 4% respondents in their business enterprise.
- The biggest proportion of the micro enterprises i.e., 47% were in business for at least 5 to 10 years. The second biggest proportion of them which account to 25.5% were in business for 16 to 20 years. The percentage of the micro enterprises who were established for 11 to 15 years accounts to 20.5% of the total respondents and the table also shows that the sample who were in business for more than 20 years was 7% only.
- In terms of business activity of manufacturing enterprises 35% were engaging in garments/handloom production, 21% were engaging in food products like bakery, ice cream making, pickle making, etc., 15% were engaging in furniture manufacturing like sofa, cabinets, beds, tables, chairs, etc., 14% were engaging in steel fabricated products, 5% were engaging in soap and candle production, another 5% were engaging in leather products, 3% produced packaged drinking water and 2% engaged in plastic syntax production.
- In terms of business activity of service enterprises 22% were engaging in mobile & computer repairing and servicing, 20% were engaging in automobile repairing and servicing, another 20% were engaging in printing, screen printing, DTP, xerox, etc., 18% were providing service in hotels and restaurants, 10% were engaging in beauty parlour and spa and another 10% were engaging in computer consultancy.

## **Chapter 4: Awareness, Knowledge and Attitudes of Micro Entrepreneurs Regarding the Maintenance of Books of Accounts**

The main objective of Chapter 4 is “*to study the awareness, knowledge and attitudes of micro entrepreneurs regarding the maintenance of books of accounts*” and the chapter highlights the awareness of accounting practices and the extent to which record keeping and basic accounting procedures have been implemented by the micro enterprises in Mizoram. This chapter further highlights the method used for recording financial transactions, their method of recording, basis of recording, financial reporting basis, person responsible for recording financial transactions and preparation of financial reports, accounting basis, payment method used and the perception of micro entrepreneurs regarding the need of maintaining accounts and their attitudes with regards to accounting.

### **4.1 Awareness, knowledge and pattern of accounting practices**

- Nearly 90% were aware of accounting practices while only 10.5% respondents were not aware of accounting practices.
- The study revealed that almost all entrepreneurs i.e., 96% were not aware of basic rules of accounting while 4% were aware of basic rules of accounting.
- It is observed that entrepreneurs who keep records of financial transactions account for 72% of all businesses, while those who don't keep such records (28%) account for the remaining fraction.
- Around 60% of business owners opted for manual/register methods, while 12.5% of micro entrepreneurs were adopting computerized method for recording and 28% business owners did not record financial transactions at all.
- Nearly 60% of the micro entrepreneurs used the double entry method to record financial transactions, while 6% of micro entrepreneurs utilised the single entry method. 7% of business owners maintain all financial records in a single book and surprisingly 28% of entrepreneurs rely on memory to track sales and trade creditors.

- Around 53% of respondents prepared financial reports on a monthly basis, whereas 5.5% did so on an annual basis. The data also showed that 41% of respondents do not prepare financial statements or reports.
- Nearly 60% of businesses revealed that their owners themselves were in charge of this task. However, 11% of respondents have managers who handle the financial record keeping, compared to 0.5% who hired an accountant to do so. Only 1% of responses mention salespeople maintaining the records.
- 43% of respondents used the cash basis of accounting while 57% used the hybrid basis. Table also showed that no respondents were exclusively using accrual-based accounting.
- It is observed that a significant portion of micro enterprises accept cash as the primary payment method (16.5%), while a majority opt for a combination of cash, cards and online payments (56.5%). Additionally, 27% of micro enterprises accept a combination of cash, cheque, cards and online payments. Notably, none of the respondents exclusively accepted cheque, cards or online payments.

#### **4.2 Perceptions of Micro Entrepreneurs on the Importance of Accounting Record Maintenance**

- Around 69% of the respondents consider that maintaining Cash Book is important.
- With regards to maintaining Sales Book, majority of the respondents which is 56% of the respondents believe that maintaining Sales Book is important.
- Nearly 35% respondents deemed it is important to maintain Purchase Book while another 33.5% believe it is not important to maintain Purchase Book.
- 44.5% of the respondents consider that maintaining Debtors Account is important.
- Around 79% consider that it is not important to maintain Fixed Asset Register.
- 76% of the respondents believe that it is not important to maintain a Stock Book.
- 76.5% respondents deemed it is not important to maintain Payroll Records.

- 60.5% of the respondents believe maintaining Profit & Loss Account is important.
- In terms of maintaining a Balance Sheet, 64% consider that it is not important to maintain it.
- With regards to maintenance of Cash Flow Statement, 86% of the respondents believe that it is not important to maintain it.

#### **4.3 Attitudes of the entrepreneurs on maintenance of accounting records**

- 79% of the respondents gave the statement “I am compelled to record financial transaction” a grade of 7 or higher.
- Around 50% of the respondents gave the statement “Accounting is a tedious activity and time consuming” a grade of 7 or higher. This implies that most of the respondents considered maintaining accounting records to be a tiresome, uninteresting and time-consuming activity.
- Nearly 50% of the respondents gave the statement “I am willing to participate in Training/Workshop on accounting practices” a grade of 7 or higher. This implies that respondents are willing to go and learn how to keep accounting records provided training or seminars are available.
- 70% of the respondents gave the statement “I am satisfied with the financial reports I prepared” a grade of 7 or higher.
- About 56% of the respondents gave the statement “I feel happy when I prepare accounting records” a grade of 7 or higher.
- Around 76% of the respondents gave the statement “I wish to continue preparing financial reporting in the future” a grade of 7 or higher.
- 77.5% of the respondents gave the statement “I highly recommend entrepreneurs to practice good financial records and prepare financial reports” a grade of 7 or higher.
- About 70% of the respondents gave the statement “Accounting is the key to the success of a business” a grade of 7 or higher.

- 60% of the respondents gave the statement “Accounting adds unnecessary cost to my business” a grade of 5 or lower.
- 75% percent of the respondents gave the statement “It is always good to keep record of all transactions in my business including those that did not go well for the business” a grade of 7 or higher.

#### **4.4 Descriptive statistics on attitudes of the entrepreneurs on maintenance of accounting practices**

- The statement “I highly recommend entrepreneurs to practice good financial records and prepare financial reports” has the highest mean score of 8.03 (SD= 2.083)
- It is followed by the statement “I am compelled to record financial transaction” with a mean of 7.81 (SD = 2.456).
- The statement “I wish to continue preparing financial reporting in the future” has a mean of 7.78 (SD = 2.254)
- The statement “Accounting adds unnecessary cost to my business” has the least mean score of 4.95 (SD = 2.282).
- It is observed from the results that almost all the means are above 6.0. This shows that the respondents had very positive attitude towards accounting practices.

### **Chapter 5: Types of Accounting Records Maintained and the Challenges Faced**

The main objectives of Chapter 5 are “*to study the accounting practices with regard to the type of accounting records maintained by micro enterprises*” and “*to identify the challenges faced by micro enterprises in maintenance of proper books of accounts*”. This chapter examined the books of accounts and financial statements prepared by the micro enterprises in Mizoram along with the accounting tools to monitor and track financial position, reasons for incomplete and improper accounting records, challenges to keep proper and complete accounting records, impact of incomplete and improper accounting records, performance of accounting records, functions and necessity to keep accounting records and performance of micro

enterprises post covid pandemic. Furthermore, this chapter highlights the results of the research hypotheses and their analysis.

### **5.1 Types of books of accounts prepared by micro enterprises**

- With regards to preparing a Cash Book, it is indicated that 72% of the respondents kept Cash Book to keep track of their cash inflows and outflows while 28% of the respondents did not maintain a Cash Book.
- In terms of maintaining Sales Book, the findings revealed that around 53% of the respondents kept a record of their sales transactions in the business whereas around 47% did not maintain Sales Book.
- The findings depicts that around 68.5% of the respondents failed to maintain Purchase Book and failed to keep invoices and receipts of their purchase and around 31.5% maintained a Purchase Book.
- With regards to keeping an Expense Book, the data shows that 61% of the respondents keep an Expense Book while 39% failed to keep one.
- 53% of the respondents did not keep Debtor's Account while around 47% of the respondents maintained a Debtor's Account.
- With regards to maintaining Creditors Account, it is observed that 88.5% of the respondents did not keep it whereas 11.5% of the respondents maintain Creditor's Account.
- Over 95% of the respondents failed to keep Fixed Asset Register whereas only 5% of the respondents maintained it.
- The study showed that almost all respondents (92.5%) failed to maintain a Stock Book while only around 7.5% of the respondents kept a stock book.
- In terms of keeping Payroll Records, the data shows that 89% of the respondents failed to keep Payroll records whereas 11% of the respondents maintained it.

## **5.2 Financial Statements Prepared by the Micro Enterprises**

- The study revealed that 58% of the micro enterprises prepared a Profit & Loss Account while 42% failed to prepare one.
- 90% of the respondents failed to prepare a Balance sheet while 10% prepared a Balance Sheet.
- 97.5% of the respondents did not prepare Cash Flow Statement while 2.5% prepared a Cash Flow Statement.

## **5.3 Accounting Practices used to Monitor and Track Financial Position**

- 41% of micro firms relied entirely on their Cash & Bank Balance to know their financial condition
- While 47.5% utilized Profit & Loss Account to monitor and manage their financial position.
- It also shows that 9% of respondents prepared a Profit & Loss Account in addition to a Balance Sheet to keep track of their financial position
- 1.5% used a Profit & Loss Account in addition to a Cash Flow Statement to track and monitor their financial position
- 1% prepared both Balance Sheet and a Cash Flow Statement to know their financial position.

## **5.4 Challenges to keep proper and complete accounting records**

This section is divided into 4 parts namely *cost and time constraints, lack of expertise and knowledge on accounting, erroneous perceptions about accounting and absence of guidelines for record keeping and financial reporting*

### **1.4.1 Cost and time constraints**

- About 62% of the entrepreneurs expressed that time constraint is one of the biggest challenges they faced in preparing accounting records. Over 78% of the respondents expressed that high cost of hiring professional and trained

accountants posed a challenge for them to adopt good accounting system. Over 75% of the respondents felt that the requirement for more staffs to dedicate to recording and maintaining accounting records posed a challenge as it will add to more cost for the business.

#### **5.4.2 *Lack of expertise and knowledge***

- Over 80% of respondents stated that a lack of accounting knowledge, as well as a lack of competence and expertise in preparing accounting information, posed a major challenge in maintaining and preparing accurate accounting records. About 52% of the respondents felt that it is difficult for them to maintain accounting practices.

#### **5.4.3 *Erroneous perceptions about accounting***

- Over 61% of the respondents regarded that the transparency and exposure of financial performance and position as a result of maintaining accounting records/reports posed a challenge for them. While around 89% of the respondents disagreed with the statement “it makes your enterprise to pay more tax”. About 75% of the respondents felt that the fear of discouragement in case of loss attributed their reason for non-compliance with proper accounting practices.

#### **5.4.4 *Absence of guidelines for record keeping and financial reporting***

- Over 85% of the respondents felt that the absence of guidelines for record keeping and financial reporting is their reason for non-compliance with proper accounting practices.

### **5.5 Impact of Accounting Practices on the Performance of Micro Enterprises in Mizoram**

- Over 70% of the felt that poor and inaccurate accounting practices results in ‘Inefficient, improper and untimely decision making’. Around 83% of the



respondents agreed that ‘Difficulty in assessing credit/finance and loans from financial institutions. is a result of their company's lack of basic accounting records. Around 97% of respondents, or the majority of respondents, thought that the lack of good accounting processes had made it ‘difficult to determine the results of their business's operations’. Almost all of the entrepreneurs felt that absence of proper accounting practices had made it difficult to determine the financial position of their business. Nearly all of the respondents in the present study agreed inadequate accounting practices had resulted in an inability to identify losses and thefts in their firm.

#### **5.6 Reasons for preparing accounting records and financial statements.**

The purpose of preparing accounting records and financial records by micro enterprises in Mizoram have five (5) statements. The statements prepared were intended exclusively for the micro enterprises who maintain any accounting records or financial statements in any form, regardless of how inadequate or inconsistently they are prepared. In this section, an attempt is made to analyse the statement regarding the purpose of preparing accounting records and financial records.

- Nearly all entrepreneurs in the present study felt that determining business profitability contributes significantly to the purpose of preparing financial statements and accounting records. Around 95% of the respondents indicated that performance evaluation specifically determining financial position and financial performance is the main reason why micro enterprises choose to prepare accounting practices. Only around 35% of the respondents agreed that their reason of preparing accounting reports is for tax obligations. Around 70% the respondents agreed that access to credit and finance also contributes to the purpose of maintaining accounting records. Over 90% of the entrepreneurs agreed that they prepare accounting records and financial statements to enhance their sustainability, to make effective and efficient decisions and to plan their future.

### **5.7 The functions of accounting practices on micro enterprises performance and growth**

The function of accounting practices on micro enterprises performance and growth consists of six (6) statements. In this section, an attempt was made to assess the function of accounting practices on the performance and growth of micro enterprises in Mizoram.

- Over 80% of the respondents agreed that accounting practices had helps in planning future strategies and decision-making process of their business operations. Over 75% of the respondents felt that that accounting practices had helped the management in controlling the current activities of the organization. Around 75% of the respondents understood that preparation of good accounting information and proper maintenance of accounting records can increase the possibility of achieving success in their business. 100% of the entrepreneurs felt that accounting practices assist in evaluating and measuring the performance of their business. Over 75% of the entrepreneurs felt that an adequate accounting practice has a role of helping the business to have optimum utilization of their resources. Around 80% felt that accounting practices had improved their internal and external communications.

### **5.8 Performance of the firm during last three years.**

- Level of productivity declined during the past three years i.e., during 2019-2022, around 69.5% and 8.5% reporting the level of productivity decreased and decreased significantly.
- 62.5% of the respondents stated that there is no change in the product quality and on the other hand, about 32.5% responded that the quality of the products they manufactured had improved.
- With regards to sales growth rate, operating profit growth rate and cash flow growth rate, around 60.5%, around 62.5% and around 64.5% of the respondents reported a decline respectively.

## 5.9 Testing of Hypotheses

Hypotheses	Tool used	Asymp Sig (2-Tailed) (p value)	Status
There is no significant difference in the number of respondents following accounting practices among manufacturing and service units	Mann-Whitney U Test	0.001	Rejected
There is no significant association between respondents' attitude on accounting practices and their application	Chi-Square Test	0.000	Rejected
There is no significant association between gender of the respondents and awareness about accounting tools and techniques	Chi-Square Test	0.031	Rejected
There is no significant association between age group of the respondents and awareness about accounting tools and techniques	Chi-Square Test	0.378	Failed to reject
There is no significant association between marital status of the respondents and awareness about accounting tools and techniques	Chi-Square Test	0.149	Failed to reject
There is no significant association between educational qualification of the respondents and awareness about accounting tools and techniques	Chi-Square Test	0.035	Rejected

## Chapter 6: Summary of Findings, Suggestions and Conclusion

This chapter provides the overall summary of the present study and aims to provide suggestions based on the major findings of the study. This chapter also deals with the scope for further research for prospective researchers in the field of accounting practices.

### 6.1 Suggestions (outlined in brief)

Based on the findings of the study, various suggestions are given to the entrepreneurs, Government and academic institutions.

Some of the suggestions to the entrepreneurs are:

- education and training programs to enhance the accounting knowledge and skills of micro entrepreneurs in Mizoram,
- encouraging regular financial reporting,
- utilization of technology for accounting practices,
- encouraging the adoption of digital payment methods and
- facilitating peer learning opportunities and networking events among micro entrepreneurs.

Lastly, the Government and academic institutions are advised:

- to organize workshops, trainings and seminars to the entrepreneurs on accounting education,
- establish resource centres or online platforms where micro entrepreneurs can access accounting guides, templates, and tools to help them maintain proper accounting records and financial reports,
- to promote record keeping practices among the micro enterprises
- offer subsidized accounting services,
- incorporate financial literacy education into academic curricula and government-sponsored workshops,
- collaborate with industry partners, establish mentorship programs,
- support research on accounting practices,
- introducing accounting and financing training in school curricula at an earlier stage,
- create internship programs for commerce students to gain practical experience and exposure to accounting practices within micro enterprises

## **6.2 Conclusion**

The study on micro entrepreneurs in Mizoram regarding the maintenance of books of accounts highlights a mix of attitudes towards accounting practices. The study indicates that there is an overall positive attitude towards maintaining accounting records among micro entrepreneurs in Mizoram. Respondents recognize the importance of proper financial management for their businesses, highlighting a fundamental understanding of the value of accounting practices in business operations. Despite the positive attitudes, the study identifies challenges related to limited knowledge and expertise in accounting among the respondents. This suggests a gap in understanding accounting principles and practices, which can potentially hinder effective financial management and decision-making within micro enterprises.

The reluctance towards adopting computerized accounting systems and the preference for manual record-keeping methods point to a resistance towards embracing technological advancements in financial management. This reluctance may stem from concerns about fraud, financial disclosure, or a perceived lack of benefits associated with digital accounting tools. The study underscores the importance of addressing the challenges faced by micro entrepreneurs through targeted education and training programs. By enhancing accounting knowledge and skills among small business owners, they can overcome barriers to effective financial management, make informed decisions, and improve the overall sustainability and success of their enterprises.

The study highlights an opportunity for improvement in enhancing the accounting capabilities of micro entrepreneurs in Mizoram. By investing in educational initiatives and providing resources for skill development in accounting practices, small businesses can strengthen their financial management processes, leading to better business outcomes and long-term sustainability. In essence, it emphasizes the need for continuous learning and skill development in accounting practices among micro entrepreneurs to overcome challenges, embrace technological advancements, and drive business growth and success in the competitive business landscape.