

**ACCOUNTING PRACTICES OF MICRO ENTERPRISES IN LUNGLEI,  
MIZORAM**

**Abstract**  
**for**  
**the award of M.Phil Degree**

**Submitted by**  
**C. LALRINSANGI**  
**MZU/M.Phil./506 of 07.05.2019**

**Under the supervision of**  
**Dr. Lalneihluangi Fanai**

**DEPARTMENT OF COMMERCE**  
**SCHOOL OF ECONOMICS, MANAGEMENT AND INFORMATION**  
**SCIENCES**

**MIZORAM UNIVERSITY, AIZAWL - 796004**

**JULY, 2020**

ACCOUNTING PRACTICES OF MICRO ENTERPRISES IN LUNGLEI,  
MIZORAM

BY

C. Lalrinsangi  
Department of Commerce  
Supervisor  
Dr. Lalneihluangi Fanai

Submitted

In partial fulfillment of the requirement of the Degree of Master of Philosophy in  
Commerce of Mizoram University, Aizawl.

**C E R T I F I C A T E**

This is to certify that the dissertation entitled “**Accounting Practices of Micro Enterprises in Lunglei, Mizoram**” submitted to Mizoram University for the award of Master of Philosophy in Commerce is a research work carried out by Ms. C. Lalrinsangi, Research Scholar, in the Department of Commerce, Mizoram University under my guidance.

She has fulfilled all the requirements in the M.Phil regulations of the Mizoram University. The dissertation is the result of her investigation into the subject. Neither the dissertation as a whole nor any part of it was ever submitted to any other University for any research degree.

Dated:

(Dr. Lalneihtluangi Fanai)

Place: Aizawl

Research Supervisor

**MIZORAM UNIVERSITY****Aizawl: Mizoram****July, 2020****D E C L A R A T I O N**

I, C. Lalrinsangi, hereby declared that the subject matter of this dissertation is the record of the work done by me, that the contents of this dissertation 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 dissertation 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 Master of Philosophy in Commerce.

Dated: (C.LALRINSANGI)

Place: Aizawl Research Scholar

Mizoram University

(PROF. NVR JYOTI KUMAR)

(DR. LALNEIHTLUANGI FANAI)

Head

Research Supervisor

Department of Commerce

Department of Commerce

Mizoram University

Mizoram University

## ACKNOWLEDGEMENT

It is a great privilege for me to have completed my research work. During my research I received assistance from many institutions and individuals. I am happy to acknowledge the help received from Central Library, Mizoram University. I am also thankful to the staff of Industries Department, Lunglei District and District Industries Center, Lunglei District for providing materials without which the work would not have been possible.

In course of my research work, I received generous help and guidance from a number of persons. First of all, I am grateful to my supervisor Assistant Professor Dr. Lalneihtluangi Fanai, Mizoram University for her exemplary guidance, valuable feedback and constant encouragement. Her valuable suggestions were of immense help throughout my research work. Her perceptive criticism kept me working in a much better way and enabled me to complete the research work expeditiously. Working under her was an extremely knowledgeable experience for me.

I am thankful to Prof. Bhartendu Singh, former Head and the faculty members of Department of Commerce, Mizoram University for their guidance, encouragement and valuable suggestions without which the work would not have been completed. I would also like to render my gratitude to my friends and scholar mates who have been invaluable helping hands to me and for their encouragement during the research.

Above all, I thank God for His sustaining love and blessing me with strength and health during the course my research work. My sincere appreciation go to my family for their understanding and support. They pray for me without ceasing and makes me stronger each day.

Dated:

(C. LALRINSANGI)

Place: Aizawl

<b>CONTENTS</b>	<b>Pages</b>
<b>Cover Page</b>	<b>i</b>
<b>Certificate</b>	<b>ii</b>
<b>Declaration</b>	<b>iii</b>
<b>Acknowledgement</b>	<b>iv</b>
<b>Contents</b>	<b>v-viii</b>
<b>List of tables</b>	<b>ix-x</b>
<b>Appendices</b>	<b>75-82</b>
<b>Bibliography</b>	<b>83-91</b>
<b>CHAPTER 1: INTRODUCTION</b>	<b>1-27</b>
<b>1.1 Accounting Practices</b>	<b>1-4</b>
<b>1.2 Micro Enterprises</b>	<b>5-8</b>
<b>1.3 Micro Enterprises and Accounting Practices</b>	<b>8-14</b>
<b>1.4 Significance and Scope of the study</b>	<b>14-15</b>
<b>1.5 Review of literature</b>	<b>15-21</b>
<b>1.6 Research Design</b>	<b>21-24</b>
<b>1.6.1 Statement of the Problem</b>	<b>21-22</b>
<b>1.6.2 Objectives</b>	<b>22</b>
<b>1.6.3 Research Questions</b>	<b>22-23</b>
<b>1.6.4 Hypothesis</b>	<b>23</b>
<b>1.6.5 Research Methodology</b>	<b>23-25</b>

<b>1.7 Chapterization</b>	<b>25-26</b>
<b>1.8 Limitations of the Study</b>	<b>26</b>
<b>1.9 Conclusion</b>	<b>26-27</b>
<b>CHAPTER 2:       SOCIO-ECONOMIC PROFILE</b>	<b>28-40</b>
<b>                          OF MICRO ENTERPRISES IN</b>	
<b>                          LUNGLEI DISTRICT</b>	
<b>2.1 Introduction</b>	<b>28-29</b>
<b>2.2 Gender and Marital wise classification</b>	<b>29-30</b>
<b>2.3 Educational qualification Vs Annual income from the enterprise</b>	<b>30-31</b>
<b>2.4 Gender wise and Age group wise distribution</b>	<b>31-32</b>
<b>2.5 Forms of organization and Annual income</b>	<b>33-34</b>
<b>2.6 Period of establishment of the enterprise</b>	<b>34</b>
<b>2.7 Amount of sales at the initial stage</b>	<b>34-35</b>
<b>2.8 Form of organization Vs Type of location</b>	<b>35-36</b>
<b>2.9 Native or Immigrant</b>	<b>36-37</b>
<b>2.10 Total number of workers employed</b>	<b>37-38</b>
<b>2.11 Legal existence</b>	<b>38</b>
<b>2.12 Caste and Religion</b>	<b>39</b>
<b>2.13 Conclusion</b>	<b>39-40</b>

<b>CHAPTER 3:</b>	<b>ACCOUNTING PRACTICES AND</b>	<b>41-66</b>
	<b>PATTERN OF MICRO ENTERPRISES</b>	
	<b>IN LUNGLEI</b>	
<b>3.1</b>	<b>Introduction</b>	<b>41-42</b>
<b>3.2</b>	<b>Accounting practices and Pattern</b>	<b>42-60</b>
<b>3.2.1</b>	<b>Awareness of accounting practices by Micro enterprises in</b>	<b>42</b>
	<b>Lunglei</b>	
<b>3.2.2</b>	<b>Keeping of financial record</b>	<b>43</b>
<b>3.2.3</b>	<b>Awareness of Basic Rules of Accounting</b>	<b>43-44</b>
<b>3.2.4</b>	<b>Method used by the micro enterprises for record keeping</b>	<b>44-45</b>
<b>3.2.5</b>	<b>Accounting basis adopted by the micro enterprises in Lunglei</b>	<b>45-46</b>
<b>3.2.6</b>	<b>Payment method of the micro enterprises in Lunglei</b>	<b>46-47</b>
<b>3.2.7</b>	<b>Basis for recording financial transactions by the micro</b>	<b>47-48</b>
	<b>Enterprises.</b>	
<b>3.2.8</b>	<b>Basis for preparation of Financial Reports by the Micro</b>	<b>48</b>
	<b>enterprises in Lunglei.</b>	
<b>3.2.9</b>	<b>The person in charge of financial record keeping</b>	<b>49-50</b>
<b>3.2.10</b>	<b>Is it necessary to maintain proper or complete set of</b>	<b>50-51</b>
	<b>accounting records in the opinion of the micro enterprises in Lunglei?</b>	
<b>3.2.11</b>	<b>Types of accounting records kept by the micro enterprises in</b>	<b>51-52</b>
	<b>Lunglei</b>	



<b>3.2.12 The financial statement or reports prepared by micro enterprise in Lunglei.</b>	<b>52-53</b>
<b>3.2.13 Reasons why the micro enterprises in Lunglei do not maintain complete and proper set of accounting records</b>	<b>53-55</b>
<b>3.2.14 Challenges of using and keeping accounting records</b>	<b>55-56</b>
<b>3.2.15 Challenges in financial record keeping hinders the operation Of the business</b>	<b>56</b>
<b>3.2.16 Impact of improper accounting records</b>	<b>57-59</b>
<b>3.2.17 GST registration and file</b>	<b>59-60</b>
<b>3.3 Test of Hypotheses</b>	<b>60-63</b>
<b>3.3 Conclusion</b>	<b>63-66</b>
<b>CHAPTER 4: FINDINGS &amp; SUGGESTIONS</b>	<b>67-74</b>
<b>4.1 Major Findings</b>	<b>67-72</b>
<b>4.2 Suggestions</b>	<b>72-74</b>
<b>APPENDICES</b>	<b>75-82</b>
<b>BIBLIOGRAPHY</b>	<b>83-91</b>

**LIST OF TABLES**

<b>Table No.</b>	<b>Title</b>	<b>Page No.</b>
1.1	Classifications of MSMEs	6
2.1	Gender and Marital status of the respondents	30
2.2	Educational qualification Vs annual income from the enterprise	31
2.3	Gender wise and Age group wise distribution of the respondents	32
2.4	Form of organization and annual income from the enterprise	33
2.5	Period of establishment	34
2.6	Form of organization Vs amount of sales	35
2.7	Form of organization Vs Type of location	36
2.8	Native or immigrant Vs type of location of the enterprise	37
2.9	Total number of workers employed	37
2.10	Forms of organization Vs Legal existence	38
3.1	Awareness of accounting practices	42
3.2	Preparation of any kinds of accounting practices	43
3.3	Awareness of basic rules of accounting	44
3.4	Method used for record keeping	45
3.5	Accounting basis adopted	46
3.6	Payment method	47
3.7	Basis for recording financial transactions	47
3.8	Financial reports	48
3.9	Person responsible for financial record keeping	49
3.10	Is it necessary to maintain complete or proper set of accounting records?	50
3.11	Accounting records kept by the micro enterprises in Lunglei	51
3.12	Financial statement or reports	52
3.13	Reasons why complete or proper accounting records are not kept	54

3.14	Challenges of using and keeping accounting records	55
3.15	Challenges in financial record keeping hinders the operation of the business	56
3.16	Impact of improper and incomplete accounting records	58
3.17	GST registration	60
3.18	Difference between gender of the respondents and awareness of accounting practices	61
3.19	Difference between educational qualification of the respondents and awareness of accounting practices	61
3.20	Difference between age group of the respondents and awareness of accounting practices	62
3.21	Difference between difficulty in assessing credit or finance and loans and absence of proper records of financial transactions	63

## **CHAPTER 1**

### **INTRODUCTION**

This chapter presents an overview of Micro enterprises and accounting practices, the research area, review of literature, statement of the problem, objectives of the study, research methodology, chapterization, limitations of the study and conclusion drawn from the chapter.

#### **1.1 Accounting Practices**

Accounting, the art and practice of maintaining records of transactions has withstood complete transformation 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 properly used, is a powerful tool in creating information to improve the decisions that affect those constituents. (Sharma, 2004)

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 persons (Maheshwari & Maheshwari, 2003). There are two branches of accounting such as financial accounting and management accounting. Financial management 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 the management for discharging 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).

Accounting is paramount in any business, even the smallest business needs to follow the accounting practices to analyze their performance by examining the sales and pricing policies as to know if the difference between the selling price and cost price

generates enough margin i.e., profit. The accounting practices of the micro enterprises are routine in nature where the financial activities are gathered and recorded which is often limited to the preparation of cash book, debtor's book, creditor's book respectively since most of the small businesses cannot afford the complexities of detailed accounting. Application of accounting policies usually accounts for normal, practical application of accounting policies that occur within a business enterprise. To ensure the ease of understanding of the users of accounting records, the business should ensure the consistency of the adopted accounting practices which would also enhance the credibility of the same. Auditors depend upon steady accounting practice when inspecting a company's 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 ascertained that the lack of keeping proper maintenance of accounting records is the main factor that hinders the development of 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 appreciate their financial position at any given time which increases 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. A micro enterprise's accounting practices basically means the practice following which the suitable accounting policies are applied and carried out on a daily basis mostly by the owners and/or auditor or a team of accounting professionals. Accounting practices can be said as the usual practice of applying applicable accounting as well as auditing policies.

Details relating to the financial transaction flows along with the financial position is recorded, retained and reproduced by an accounting system. It records inflows as incomes and outflows as expenses. Financial positions constitute of property, income, or expense and are appropriated to the groups such as assets, liabilities, and equity and respective accounts for each element is opened. The accounts so opened record all the transactions relating to that particular asset, liability, income, expense or equity however, accounts like income and expenditure are temporary in nature (Ezejiofor, Emmanuel, Olise, 2014). Technique that helps to organize and make sense of the business world is known as accounting. 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).

According to Caruthers and Espeland (1991), people have kept records for as long as they have engaged in buying and selling. Accounts in some form or other 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 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 would help the proprietor of business determine what he owed and how much work had been done in monetary terms. However, according to Penno (1990) 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. For a long time accountants ignored many economic activities which in their view could not be measured in financial terms. This is despite the fact that these activities were an important factor in the measurement of capital employed. Over time, accounting became increasingly important because it was now a primary source of information, for the growing business empires for early merchants (Caruthers & Espeland, 1991). 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 for accounting for transactions for businesses in various locations. They further state that for a trader, knowing how to keep good and orderly records teaches one 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.

Lack of keeping complete accounting records leads to inefficient utilization of accounting information to assist financial performance measurement by the small and micro enterprises. Also lack of keeping proper accounting records result in difficulty to calculate their business profit efficiently by the entrepreneurs (Madurapperuma, Thilakerathne & Manawadu, 2016). Kinney (2001) also states that accounting is the prime information for decision making of both internal and external of 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.

## **1.2 Micro Enterprises**

Small scale entities are said to be the stimulant for the development and expansion of a country's economic condition and have dominated the industrial sectors of developed and undeveloped countries. The Micro, Small and Medium Enterprises (MSME) sector promotes job creation, exports of the country and manufacturing of goods. Prasad (2001) summarized that by promoting the growth of small business entities, the productive sector of the economy would broaden, revenue collected by means of tax would increase and on the larger scale it would help in reduction of poverty as employment opportunities would be generated. MSME sector is estimated to generate employment to about 11.10 crore people throughout the country. Moreover, the sector has the highest growth rate among the entire industrial sector. The sector has manufactured around 6000 products varying from traditional to high-tech products. It is widely known that after agriculture, the MSMEs provide the maximum opportunities for both self-employment and jobs (Annual report 2017-2018, Ministry of MSME).

Majority of the people in India are living in rural areas drawing their livelihood from agriculture and allied sectors. The government of India is striving to improve the economic and social conditions of rural population and non-farm sector through a host of measures including creation of productive employment opportunities based on optimal use of local raw materials and skills as well as undertaking interventions aimed at improving supply chain; enhancing skills; upgrading technology; expanding markets and capacity building of the entrepreneurs/artisans and their groups/collectives. Therefore, the Government of India launched Micro, Small and Medium Enterprises Development (MSMED) Act in 2006 with an intention of facilitating the promotion, development and enhancement of the competitive advantage of micro, small and medium enterprises.

There is no globally accepted definition of MSMEs. Different countries use different criterion, most of the definitions are based on investment ceiling and number of people employed. In India, MSMED Act 2006 defines MSMEs. The Act introduces the concept of 'enterprise' as opposed to the earlier concept of industry. According to the



MSMED Act, 2006, MSMEs are classified into “entities involved in manufacturing or production of goods related to the specified industries under the 1<sup>st</sup> schedule to the Industrial and Development Act 1951 and enterprises engaged in providing or rendering services”.

Industrial units are generally classified between small scale, medium scale and large scale units considering their size, capital resources and the number of laborers engaged upon (Dhar P.K, 2005). In India, the first official criterion for Small Scale Industry (SSI) dates back to the Second Five Year Plan when it was defined in terms of gross investment in land, building, plant and machinery and the strength of labor force. One of the attractive features of small industry is its ability to create new jobs at a minimal cost (Ram K. Vepa, 1988).

As per the provision of MSMED Act, 2006 the Micro, Small and Medium Enterprises (MSME) are defined by the investments they put into it. However, the Government has announced about making changes to the MSME definition where turnover will define an MSME, and not the investment put into it.

**TABLE 1.1 Classifications of MSMEs**

<b>Investment and Annual Turnover</b>			
<b>Classification</b>	<b>Micro</b>	<b>Small</b>	<b>Medium</b>
<b>Manufacturing &amp; Servicing enterprises</b>	Investment>Rs 1cr. & Turnover>Rs 5cr.	Investment>Rs10cr. & Turnover>Rs 50cr.	Investment>Rs20cr. & Turnover>Rs100cr.

Source: Revised MSMEs Definition, 2020, Ministry of Micro, Small and Medium Enterprises

In accordance with the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during 2015-16, 633.88 lakh unincorporated non-agriculture MSMEs were present in the

country and they are engaged in different economic activities 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. The survey showed that there were 31% MSMEs engaged in manufacturing activities, while 36% were in Trade and 33% in Other Services. Furthermore, out of 633.88 lakh estimated numbers of MSMEs, 324.88 lakh MSMEs (51.25%) were located 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. 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 2017-2018 Ministry of MSME)

MSME sector has been generating employment opportunities to 11.10 crore people in the rural and the urban areas throughout the country (360.41 lakh in Manufacturing, 387.18 lakh in Trade, 362.82 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission). Micro sector with 630.52 lakh estimated enterprises generates 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 2017-2018 Ministry of MSME)

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavors 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 (2017-2018) 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.

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. 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 Startups and MSMEs in Food Processing sector, said Kummanam Rajasekharan, Governor of Mizoram at the conference on Startups and MSMEs in Food Processing organized by ASSOCHAM in conjunction with Ministry of Food Processing Industries (MoFPI), NABARD and Mizoram University in 2018. Most of MSMEs are in and around Aizawl, followed by Lunglei district. According to District Industries Centre, Lunglei, there are 881 micro and small enterprises in the area but no medium and large scale enterprises. There are potentials for service industries and MSMEs.

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

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 be unable to afford the complexities of a detailed accounting system but their accounting process is quite profound.

Every business needs to have a reliable accounting practice and internal control systems regardless of its scale of operations. Numerous small-scale businesses are unable to understand the complexities of a detailed accounting system henceforth they follow single entry system of booking and in some cases they have incomplete records. As observed by Wood (1979), many small businesses can obtain all the information they need by merely maintaining a cashbook and having some type of records, not necessarily in double entry system.

Ezejiofor, Emmanuel & Olise (2014) mentioned that all the financial decisions of the business need to be backed by adequate, understandable and timely financial information. Accounting should play an active role in carrying and managing of any business however, various new entities fear the notion of accounting and bookkeeping, which is in contrary very simple. Bookkeeping and accounting both share same goals:- record income and expense of a business and to gather the required information to ease the process of filing tax returns. There does not seem to exist any fixed method of keeping records however, the records should be reliable and accurate and businesses are free to select any method of accounting i.e., cash or accrual.

Any business can create their own ledgers and reports or depend on accounting relying on the size of their business and sales made by them. Details relating to the financial transaction flows along with the financial position is recorded, retained and reproduced by an accounting system. Financial transaction flow records inflows and

outflows as incomes and expenses. Financial positions constitute of property, income, or expense and are appropriated to the groups such as assets, liabilities, and equity and respective accounts for each element is opened. The accounts so opened record all the transactions relating to that particular asset, liability, income, expense or equity however, accounts like income and expenditure are temporary in nature. Technique that helps to organize and make sense of the business world is known as accounting. However, numerous micro enterprises failed to maintain accounting records pertaining to their business even though it plays an important role in the success of businesses. The reason behind this could be that the owners or managers do not have knowledge and good understanding of book keeping and accounting practices. Furthermore, it is difficult to assure that whether the incorporated accounting practice satisfies the law or not.

A thorough book keeping system enables entrepreneur to formulate accurate and explicit financial reports which reflects the growth and current scenario of the business. An accurate and timely records help to compare the performance of one period to other either monthly, quarterly or yearly, which subsequently helps in knowing the growth of the business. Having a comprehensive accounting record had many aided advantages like simpler tax computations, analyzing the performance of business- sector wise, formulating future business plans like merger, amalgamation, take over, expansion, broaden or narrow down any specific product line. Also, it can be used to review the performance by the potential investors, lender, etc henceforth it is a necessity and not merely a choice to have a proper account. There is a requirement to have reliable accounting information to enable seekers and providers of finance to make an informed economic decision which can be generated through sufficient accounting system. An insufficient accounting system is the prime factor for failures in small business. The accuracy and quality of records keeping attract the investors to invest and the financial institution to provide financial support (Tagoe 2001). Most providers of finance reassure themselves with the financial accounting information in order to reduce risk generated from reliable accounting system.

Research conducted in this area shows, by Michael (2009) and Zahra A (2011) indicated that SMEs have faced challenges like inability to acquire credit, low-cost imports, insecurity and collection of debts 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 and 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 and Halabi (2007) revealed that the main challenge faced by the business owner of micro enterprises is mostly their inability to keep adequate accounting records to aid them in their decision-making. They further indicated that majority of micro businesses depend more heavily on manual methods or they hold their business traditionally, while small businesses are more likely to adopt computerized method. Other researcher like Amoako (2013) stated that small and micro enterprises failed to maintain proper accounting records as the need to have proper accounting record is not felt by the proprietors or owners 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. 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.

Appropriate book-keeping and accounting procedures have provided some importance of good records keeping including the fact; unless your business is accounting or bookkeeping, keeping financial records is probably not what you do best. Most likely, you would rather spend your time selling your product or service. However, if you are going to run a successful business, accurate and timely financial information is a must.

Furthermore, as per Longneck and Moore; (1988) and Smith et al (1989), evaluating the financial cost is part of every business decision made. Without accurate records and financial information, it may be hard to know the financial impact of a given course of action. They go on to say that, outside investor , creditors and a bankers regularly want to see financial statements for the most current and prior years, as well as your projected statements showing the impact of the requested loan and for potential investment.

Accounting provides crucial information to the business for the planning, evaluating, controlling and decision making process and thus forms an essential part of the management process in an organization (Mahfar & Omar, 2004). Accounting system consist of all the procedures required for the updating and maintaining the books of accounts which would testify and support the formulation of the financial statements (Sathyamorthi, 2001). Without the presence of a good accounting system, it would be complicated for small and micro enterprises to determine their performance, to identify customer and supplier account balances and to predict future performance (Stefanou, 2006). Padachi (2012) also observed that proper accounting system indicates the performance of the business and necessary decisions to be made in order to retain the business in the market and further emphasized the importance to maintain proper books of accounts by every business.

Financial statements and books of accounts of any business must present a true position of its financial status and performance. The accounts so maintained must be supported with proper and reliable records of transactions and ensure the directors that any accounts prepared comply with the suitable financial reporting framework. The entries of all money received and paid out must be routine in nature together and proper record of all liabilities, assets and equity must be held either manually or electronically. 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 small and micro enterprises failed to maintain complete records of accounts assigning several reasons. For example, a study by Maseko & Manyani (2011) established that majority of the micro

and small enterprises failed to hold proper accounting records as they lack knowledge and technical skills about the same and are not inclined to hire a professional due to the cost assigned with it. His study highlighted that the use of accounts by the SMEs results in ineffective utilization of accounting information to support financial performance measurement.

The maintenance of accounting records in small and micro enterprises depends upon the understanding of the proprietors' 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 shows 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 sound accounting system does not simple means that good accounting records are kept but it is able to meet the information required by both internal and external interested parties. Maseko and Manyani (2011) suggested that for a small or micro business, accounting practices will include the maintenance of adequate Cash Book, Bank Accounts, 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.

The daily transactions of the business should be recorded. The process of recording and maintaining these books is known as book-keeping. Efficient financial mangers 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 activities and to comply with the necessary government laws.

Although business failure is not always the outcome of inadequate maintenance of accounting records people usually link with it. The businesses are free to opt different methods for maintaining their books of account. 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”.

#### **1.4 Significance and scope of the study**

It is evident that Small and Micro Enterprises (SMEs) contribution to the economic is commendable in various developing countries around the world. MSME sector has been creating 11.10 crore jobs to the country working population, it is the largest employment provider in India next to agriculture. It contributes a large amount of revenue to the government by means of tax, generation of profits, dividends and also generates employment. (Ministry of MSME, 2017-2018)

An inadequate accounting system is a prime factor for failures in small business failures. Accounting contributed a significant part in the success/failure of an entity as it documents, interprets and evaluates the performance of business entities. It also helps in maintaining the documents for filing of tax and project information for interested outside parties. Accounting systems supply information to the owners and managers of small and micro enterprises for measuring their financial performance. The significance of keeping an updated book of accounts and keeping track of its financial position cannot be overlooked by any business entity regardless of its size. Profit is an assessment of a business's performance and the accounting practice adopted to document, analyze, asses

and report should be highly reliable. A reliable accounting method is a necessity for ensuring a sound functioning of any business irrespective of the size of the business. Henceforth, the accounting records of SMEs should empower the entrepreneurs with necessary information and in-turn enhances the economy.

The scope of this study is confined to the Micro enterprises in Lunglei. Lunglei is the second biggest district in Mizoram in terms of population, covering 4,536 sq km, with a population of over 1.61 lakh (census 2011). There are 873 micro enterprises in Lunglei. It is observed that micro entrepreneurs in Mizoram do not maintain proper books of accounts and have little knowledge about the accounting tools and techniques. 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. Priskil & Fanai (2018) stated that the food and grocery shop owners of Mizoram do not have proper records of their business transactions and therefore cannot determine their net profit. The main aim of the study is to examine the status of micro enterprises in Lunglei District towards the awareness and adoption of financial accounting practices.

## **1.5 Review of literature**

An intensive literature review is undertaken to familiarize with the financial accounting practices, to identify the research problem and to develop appropriate methodology. Both relevant Indian and International research works are reviewed here:

Wichman, (1983) indicated that accounting constitutes major challenge to management of small and micro enterprises and recommends that managers or owners in small and micro enterprises must learn how to maintain record and accounting.

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.

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.

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.

A study by McMahon (1999) find that financial reporting practices in SMEs appear to fall short of the standards recommended by various external financial information users imperatives that exist for them, and further claim that SME managers/owners appear mostly reluctant to produce financial reports which might become accessible to outside parties either through the regulatory authorities or directly.

Mitchel et al. (2000) 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 and 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.

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.

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.

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.

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.

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.

Glitz (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.

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 and 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

Amoako (2013) explores the accounting practices of SMEs in Ghana. The results reveal that SMEs do not maintain proper books of accounts because owners 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.

Koperunthevy and 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.

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.

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.

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.

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 and Agir (2017) concluded that, SMEs in general are bedeviled 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.

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.

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.

There are many studies related to the accounting practices among micro enterprises, however, such studies are minimal in the context of Mizoram. The proposed study is expected to fill up the research gap that exists in the body of knowledge.

## **1.6 Research Design**

### **1.6.1 Statement of the problem.**

Small scale entities are said be to the stimulant for the development and expansion of a country's economic condition and have dominated the industrial sectors of developed and underdeveloped countries. The uniqueness of small scale businesses call for careful contemplation while designing of the accounting systems. Small and medium 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.

Every business needs to have a reliable accounting practice and internal control systems regardless of its scale of operations. Numerous small-scale businesses are unable



to understand the complexities of a detailed accounting system henceforth they follow single entry system of booking and in some cases they have incomplete records. Nikhil, Brajesh and Safiqul (2017) studied the accounting practices of 330 MSMEs in Tripura. Their findings show 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.

Studies by Lalhunthara (2015) and Priskil & Fanai (2018) on the entrepreneurs of micro enterprises and grocery shop owners in Aizawl showed that there is a lack of knowledge and practices of accounting tools and techniques by the micro entrepreneurs in Mizoram. The results of the studies show similarities to other studies conducted on the accounting practices of micro enterprises in the country

So, there is a need to identify whether the micro enterprises in Lunglei are aware of the accounting practices. Further it aims to study the accounting tools and techniques used by the micro enterprises in Lunglei for recording financial transactions.

### **1.6.2 Objectives**

These are the main objectives of the present study:

1. To identify the socio-economic profile of select Micro entrepreneurs in Lunglei.
2. To study the accounting practices and pattern adopted by Micro entrepreneurs.

### **1.6.3 Research Question**

The following research questions are developed for the present study;

1. Do micro entrepreneurs in Lunglei maintain basic books of accounts namely cash book, stock register, income and expenditure account and final account? If not, why?
2. Do micro entrepreneurs know basic rules of accounting?

3. Do micro entrepreneurs maintain their account themselves or hire someone?
4. Do micro entrepreneurs face difficulty in taking loans due to absence of proper records of financial transactions?

#### **1.6.4 Hypothesis**

The following null hypotheses have been framed for the purpose of this study

H<sub>01</sub>: There is no significant difference between the gender of the respondents and awareness of accounting practices.

H<sub>02</sub>: There is no significant difference between the educational qualification of the respondents and awareness of accounting practices.

H<sub>03</sub>: There is no significant difference between the age group of the respondents and awareness of accounting practices.

H<sub>04</sub>: There is no significant relationship between the difficulty in assessing credit or finance and loans and incomplete or improper records of financial transactions.

#### **1.6.5 Research Methodology**

##### ***Data Collection***

For the purpose of the study, primary data and secondary data have been collected.

For the collection of primary data, a structured questionnaire was developed. A questionnaire with open ended and close ended questions was framed for the collection of primary data from the micro enterprises in Lunglei. The questionnaire is prepared in English which is then translated into local language i.e, Mizo while interviewing the respondents for better response.

The questionnaire consists of 2 parts namely, 'Socio-economic Profile of Micro Entrepreneurs in Lunglei District' and 'Accounting Practices and Pattern Adopted by the Micro Enterprises in Lunglei'. The first part of the questionnaire, 'Socio-economic

Profile of Micro Entrepreneurs in Lunglei District’ includes questions about the socio economic profile of the micro entrepreneurs under study like marital status, gender, educational qualification, age group, religion, caste and nativity. The questionnaire also consists of questions regarding the nature of the micro enterprises such as form of organization, annual income of the enterprise, number of workers employed, type of location, period of establishment, sales and legal existence. The second part of the questionnaire, ‘Accounting Practices and Pattern Adopted by the Micro Enterprises in Lunglei’ aims at collecting information on the extent to which record keeping and basic accounting procedures have been implemented by the micro enterprises in Lunglei and the challenges faced by them in record keeping.

Secondary data needed for the research is 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.

### ***Sampling***

The study is confined to the micro enterprises of Lunglei Town, the second capital of Mizoram. Lunglei district is sub-divided into four rural blocks, i.e., Lunglei block, Lungsen block, Hnahthial block and West Bnghmun block. Lunglei block was selected for drawing sample for the present study as majority of the micro enterprises have their establishment in the area. According to the reports of District Industries Center, Lunglei, there are 881 MSMEs in Lunglei District and micro enterprises constitute the vast majority with 873 establishments.

The present study uses purposive sampling method selecting a total number of 60 respondents, 30 respondents each from manufacturing unit and services unit. Micro enterprises which are in existence of at least 3 years or more were selected as samples.

## ***Tools***

The Statistical Package for Social Sciences (SPSS) version, 22.0 and Microsoft Excel were used to analyze data and presented in frequency tables and percentages. For testing the formulated hypotheses of the study, independent sample t-test and Chi-square test were employed.

### **1.7 Chapterization**

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

#### Chapter 1: Introduction

Introduction presents an overview of the Micro enterprises and their accounting practices, significance and scope of the study, review of literature, research design such as statement of the problem, objectives of the study, research questions and research methodology, and chapterization, limitations of the study and conclusion drawn from the chapter.

#### Chapter 2: Socio economic Profile of Micro Entrepreneurs in Lunglei, Mizoram

This chapter highlights the socio economic profile of the entrepreneurs of micro enterprises such as marital status, gender, educational qualification, age group, religion, caste and nativity. The analysis of this chapter also aims to study the nature of the micro enterprises such as form of organization, annual income of the enterprise, number of workers employed, type of location, period of establishment, sales and legal existence based on the data collected from 60 respondents from the Micro enterprises of Lunglei.

#### Chapter 3: Accounting Practices and Pattern Adopted by the Micro Enterprises in Lunglei

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 Lunglei. This chapter also analyses the reasons and challenges for

not maintaining detailed or complete books of accounts, and the effect of maintaining incomplete or improper accounts.

#### Chapter 4: Findings & Suggestions.

This chapter highlights the findings of the study from the data collected from 60 respondents and give suggestions that could improve or solve the problems faced by the respondents regarding accounting practices.

#### **1.8 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 information and secondary data regarding accounting practices.
2. Although the primary data were collected through structured questionnaire and non-disclosure statement was provided, many micro enterprises were reluctant to be respondents 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.

#### **1.9 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 MSMEs 2017-2018, 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.

Meanwhile keeping proper accounting record is important for every business 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. Accounting records serve as an administrative tool as they give a true view on the financial performance of businesses. Several studies show that poor and improper maintenance of accounting record hampers the growth in the small business sector. Recording financial transaction is crucial for assuring the development and expansion of a business entity, 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 incompetent utilization of accounting information to aid in the measurement of financial performance 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 Lunglei 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**

### **Socio-economic profile of Micro entrepreneurs in Lunglei District**

The present chapter proposes to identify the socio economic profile of the micro enterprises in Lunglei, Mizoram in the context of their accounting practices. In other words, this chapter highlights the socio economic profile of the entrepreneurs of micro enterprises such as marital status, gender, educational qualification, age group, religion, caste and nativity. The analysis of this chapter also aims to study the nature of the micro enterprises such as form of organization, annual income of the enterprise, number of workers employed, type of location, period of establishment, sales and legal existence based on the data collected from 60 respondents from the Micro enterprises of Lunglei.

#### **2.1 Introduction**

The socio-economic milieu plays an important role in the origination and development of entrepreneurs as they are embedded in socio-economic systems. (Cross and Morales, 2007) Entrepreneurship promotion and development have been identified among one of the key components for economic development strategies of a nation. Entrepreneurial resource has been deemed a crucial input in the process of this economic development.

Micro-entrepreneurial ventures are considered the most critical factor that would lay the foundation in an economically struggling third world developing country like India. These entrepreneurial ventures will uplift the standard of living of both the urban and rural population through creation of jobs, a rescue from unemployment and poverty and thereby make an impact upon developing skills, self-esteem and self-sufficiency. Entrepreneurship among both male and female is a recent phenomenon. In a developing country like India, a favourable socio-economic environment could help in exploiting the latent entrepreneurial talents. However, the unfavourable conditions often hinder the emergence of such entrepreneurial talents.

Despite these situational constraints, today more and more people are entering the field of entrepreneurship in India including Mizoram. The entrepreneurial behaviour and enterprise management among the people are supported and sustained by the growth of enterprise involvement by the demographic and environmental factors among the respondents. Such information is expected to provide for a mechanism to identify the people who have the potential and plan appropriate training programmes to develop their potential further.

## **2.2 Gender and marital status wise classification**

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.

There is 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. 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)

Khadim and Hussain (2018) analyzed the socio economic characteristics of micro and small enterprises in Cachar District of Assam. The findings revealed that majority of the respondents (91.40 percent) were males and only 8.60 percent respondents were females. The female participation in the micro and small enterprise in the study area is very poor.

Table 2.1 highlighted the gender of the respondents by marital status. The gender of the respondents is classified into three categories, viz., Male, Female and Others. Marital status of the respondents is classified as married, unmarried, divorced and widowed.



**Table 2.1:**

***Gender and marital status of the respondents***

<b>Gender</b>	<b>Marital status of the respondent</b>			<b>Total</b>
	<b>Married</b>	<b>Unmarried</b>	<b>Widow/Widower</b>	<b>No.</b>
Male	34	2	0	36
Female	16	2	6	24
Total	50	4	6	60

Source: Primary Data

With regard to the gender composition among the entrepreneurs, it was found that 60 percent of the micro enterprises were owned by male entrepreneurs and the remaining 40 percent were female entrepreneurs. The study also revealed that 83.33 percent of the entrepreneurs were married. Only 6.67 percent were unmarried and 10 percent female entrepreneurs were widow/widower.

The most important marital status among male and female respondents is 'married' which constitute 94.44 percent and 66.67 percent to their respective total. The numbers of unmarried respondents in male and female groups of respondents constitute 5.56 and 8.33 percent respectively. Only 10 percent female entrepreneurs were widow/widower. The above table 2.1 reveals the dominance of respondents who are married in the study area.

### **2.3 Educational qualification Vs annual income from the enterprise**

Educational qualification is often used as an instrument to understand and study the behavior of business proprietors. Their level of education achievement has an impact on the understanding of the significance of maintaining proper books of accounts. The level of education is grouped into matriculation, higher secondary, under graduate and post graduate. The annual income of the respondents represents the income of the respondents earned from all possible sources within a period of one year during the study period.

**Table 2.2:**

***Educational qualification Vs annual income from the enterprise***

Educational qualification of the respondents	Annual income from the enterprise (in lakhs)					Total
	below 5	Between 5 to 10	Between 10 to 20	Between 20 to 25	above 25	
Matriculation	0	4	7	2	18	31
Higher secondary	1	3	4	0	7	15
Under Graduate	2	1	4	1	4	12
Post Graduate	0	0	0	0	2	2
Total	3	8	15	3	31	60

Source: Primary data

As shown in table 2.2, out of total 60 respondents, 51.67 percent respondents are matriculates, followed by 25 percent respondents passing higher secondary. The under graduates constitutes 20 percent respondents and only 3.33 percent respondents are post graduates.

The table 2.2 also reveals that the largest section of respondents i.e., 51.67 percent respondents, are having annual income above 25 lakhs, 25 percent respondents have an annual income between 10 to 20 lakhs, followed by 13.33 percent respondents having annual income between 5 to 10 lakhs. The number of respondents having annual income between 20 to 25 lakhs and below 5 lakhs constitutes 5 percent each to its respective total.

#### **2.4 Gender wise and Age group wise distribution**

The most important social profile among the respondents is age 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. Both these aspects of experience and risk orientation among the respondents are highly essential for the development of their entrepreneurial behaviour (Robert Edwin Chester, J 2007). A study conducted by

Lalhunthara (2015) on micro enterprises in Lunglei stated that age does not seem to be a barrier on one's entry into business. His study shows that the age group 31-40 has the highest proportion followed by age group 41-50.

The owners of the micro enterprises are classified into different age groups: the first age group is a representation of the respondents between 25 to 35 years, the second group represents 35 to 45 years, the third group consists of respondents between 45 to 60 years and the fourth group represents the age group above 60 years.

**Table 2.3:**

*Gender wise and Age group wise distribution of the respondent*

Gender of the respondents	Age group of the respondent				Total
	25-35	35-45	45-60	above 60	In No.
Male	4	9	22	1	36
Female	3	6	13	2	24
Total	7	15	35	3	60

Source: Primary data

The table 2.3 reveals that 58.33 percent of the respondents are between the age group of 45 to 60 years. The second largest age group consists of 35 to 45 years which constitutes 25 percent and 11.67 percent respondents belong to the age group of 25 to 35 years. The age group above 60 years constitutes 5 percent with the least number of respondents.

Among the male respondents the dominant age group is 45 to 60 years which alone constitutes 61.11 percent of the 36 respondents. Among the 24 female respondents, the dominant age group is also 45 to 60 years which constitutes 54.17 percent of the total. The number of respondents belonging to the age group of less than 45 years among male and female respondents constitutes 36.11 and 37.5 percent to its respective total.

## 2.5 Forms of organization and annual income

One of the first decisions that will have to make as a business owner is how the business should be structured. All businesses must adopt some legal configuration that defines the rights and liabilities of participants in the business's ownership, control, personal liability, life span, and financial structure. The present study classifies the forms of organization into sole proprietorship, joint family, partnership and cooperative.

**Table 2.4;**

*Form of organization and annual income from the enterprise*

Form of organization	Annual income from the enterprise (in lakhs)					Total
	below 5	Between 5 to 10	Between 10 to 20	Between 20 to 25	above 25	
sole proprietor	3	2	5	2	15	27
joint family	0	6	10	1	14	31
Partnership	0	0	0	0	1	1
Cooperative	0	0	0	0	1	1
Total	3	8	15	3	31	60

Source: Primary data

From the field survey, it is observed that joint family business is the largest form of organization where there are 31 respondents out of the total 60 respondents. Sole proprietors come in the second place in which there are 27 respondents followed by partnership firms and cooperative organizations where there are 1 respondent each.

The table 2.4 further reveals that the largest section of respondents i.e., 31 respondents have an annual income from their enterprise above Rs. 25 lakhs, 15 respondents from sole proprietors, 14 respondents from joint family and another 2 respondents from partnership and cooperative. The second largest section i.e., 15 respondents have an annual income between Rs. 10 to 20 lakhs where 15 respondents are from joint family and the other 10 respondents are sole proprietors.

8 respondents earn between Rs. 5 to 10 lakhs annually where 2 respondents are sole proprietors and another 6 respondents are joint family. Another 3 respondents earn

between Rs. 20 to 25 lakhs annually in which 2 are sole proprietors and the other 1 is joint family. Only 3 respondents earn below Rs. 5 lakhs who are sole proprietors.

## **2.6 Period of establishment of the enterprises**

Micro enterprises which were established and formed more than 3 years were selected for the purpose of this study. The present study classified the period of establishment of the micro enterprises in Lunglei into 4 categories. They are categorized as before 1990, 1991-2000, 2001-2010 and after 2010.

**Table 2.5:**

*Period of establishment*

<b>Year</b>	<b>Frequency</b>	<b>Percentage</b>
Before 1990	1	1.7
1991-2000	8	13.3
2001-2010	41	63.3
2010-2015	10	16.7
Total	60	100

Source: Primary data

Table 2.5 indicated that with regard to the period of establishment, highest proportion of the micro enterprises (63.3%) were established between 2001&2010 which is followed by 16.7% micro enterprises established during 2010-2015. 13.3% micro enterprises were established during 1991-2000 and the least number of micro enterprises that is 1.7% was established before 1990.

## **2.7 Amount of sales at the initial stage**

The amount of sales at the initial stage represents the sales of the enterprise alone during the early stage of functioning as a business enterprise. It is included as an important variable since it may help the business enterprise to have continuous capital for the business to flourish. The amount of sales at initial stage in the present study is classified into less than 1 lakhs, 1 lakhs to 2 lakhs, 2 lakhs to 3 lakhs and more than 5 lakhs.

**Table 2.6;**

***Forms of organization vs. amount of sales***

Forms of organizations	amount of sales at initial stage (in lakhs)				Total
	0-1	1-2	2-3	more than 5	
sole proprietor	4	4	2	17	27
joint family	5	3	1	22	31
partnership	0	0	0	1	1
cooperative	0	0	0	1	1
Total	9	7	3	41	60
In %	15	11.67	5	68.33	100

Source: Primary data

As shown in Table 2.6, 68.33% respondents have more than Rs. 5 lakhs amount of sales at initial stage. 15% respondents were having sales below Rs. 1 lakhs at the initial stage, 11.67% respondents were having an amount of sales between Rs. 1-2 lakhs at initial stage and only 5% respondents were having sales between Rs. 2-3 lakhs during the initial stage.

Among the sole proprietors and joint family, the number of respondents earning more than Rs. 5 lakhs constitutes 62.96 percent and 70.97 percent to its respective totals. The number of sole proprietors and joint family having an amount of sales less than Rs. 5 lakhs at initial stages constitutes 37.04 percent and 29.03 percent to its respective totals.

**2.8 Form of organization vs. type of location.**

The type of location of the enterprise is classified as rented, on lease and own property. The location of a business can affect many aspects of how it operates, such as total sales and how costly it is to run. The present study classifies the forms of organization into sole proprietorship, joint family, partnership and cooperative.

**Table 2.7;**

***Form of organization vs. type of location***

<b>Form of organization</b>	<b>Type of location of the enterprise</b>			<b>Total</b>
	<b>Rented</b>	<b>on lease</b>	<b>own property</b>	
Sole proprietor	19	0	8	27
Joint family	22	1	8	31
Partnership	0	0	1	1
Cooperative	0	0	1	1
Total	41	1	18	60

Source: Primary data

Out of total 60 respondents, 68.33% respondents are on rented property, 30% respondents are on their own property and the remaining 1.67% respondent is on lease. Among the 68.33% respondents who are having their business enterprise on rented property, 19 respondents are sole proprietors and 22 respondents are joint family. Out of 30% respondents having business in their own property, 8 respondents are sole proprietors, another 8 respondents are from joint family, 1 respondent is from partnership organization and the other 1 respondent is from cooperative organization. Only 1% respondent from joint family is on lease.

**2.9 Native or immigrant.**

The present study classifies the respondents into native and immigrant to the town. A native is a person born in a specified place or associated with a place by birth, whether subsequently resident there or not. Whereas an immigrant a person who comes to live permanently in a foreign country or in case of the present study, a town.

**Table 2.8**

*Native or immigrant Vs Type of location of the enterprise*

Native or immigrant to the town	Type of location of the enterprise			Total
	Rented	on lease	own property	In no.
Native	40	1	16	57
Immigrant	1	0	2	3
Total	41	1	18	60

Source: Primary data

Table 2.8 highlighted that 95% respondents are native of the town and only 5% respondents are immigrant to the town. Among the native respondents, 70.18 percent are on rented property followed by 28.07 percent respondents having their own place of establishment and 1.75 percent is on a lease property. The number of immigrant respondents in rented and own property constitutes 33.33 percent and 66.67 percent.

**2.10 Total number of workers employed**

The purpose of entrepreneurship is to promote self employment and to create employment opportunities. Even in the case of micro enterprises, employment opportunities are visible. In order to analyze this aspect, the numbers of employees have been classified into less than 2, 2 to 3, 3 to 5 and more than 5.

**Table 2.9;**

*Total no of workers employed*

Total no. of workers employed	Frequencies	Percentage
1 to 2	4	6.7
2 to 3	4	6.7
3 to 5	16	26.7
More than 5	36	60
Total	60	100

Source: Primary data



Table 2.9 classifies the types of organization based on total number of workers employed by the business enterprise. 6.7% respondents were having workers between 1 and 2, another 6.7% respondents were employing 2 to 3 workers and 26.7% respondents were a total number of workers from 3 to 5. More than 5 workers were employed by 60% respondents in their business enterprise.

### 2.11 Legal existence

Every business enterprise requires a license or permit for start up. Business licenses are issued by all levels of government and, depending on what type of goods you plan to sell, you may need to obtain a business license on federal, state and/or local levels. Business licenses are permits issued by government agencies that allow individuals or companies to conduct business within the government's geographical jurisdiction. The present study is confined to obtaining license or not by the respondents.

**Table 2.10:**

*Forms of organization Vs Legal existence*

Form of organization	license/permit obtained or not	Total
	Obtained (in %)	
sole proprietor	27 (45%)	27
joint family	31 (51.66%)	31
Partnership	1 (1.67%)	1
Cooperative	1 (1.67%)	1
Total	60 (100%)	60

Source: Primary Data

Table 2.10 highlighted that all the respondents (i.e, 100%) obtained license or permit for conducting business. The micro enterprises in Lunglei obtained license from District Industries Center, Lunglei. Among the 60 respondents who obtained license, 51.66 percent constitutes of the joint family followed by 45 percent with sole proprietors.

## **2.12 Caste and Religion**

Religion plays a major role in the lives of many Indian entrepreneurs. All the respondents in the present study are Christian by religion belonging to ST category.

## **1.13 Conclusion**

There is 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 60 percent of the micro enterprises were owned by male entrepreneurs and the remaining 40 percent were female entrepreneurs. The participation of female in micro enterprises is no doubt smaller in the population of the entrepreneurs. The proportion of married respondents (83.33%) is undeniably higher than the unmarried (6.67%) and widow/widower (10%) 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. However, the number of respondents in the age group between 25-35 years is extremely low that is 11.67 % in comparison to the number of respondents in the age group 45-60 years which is 58.33%.

51.67% respondents are matriculates, followed by 25% respondents passing higher secondary. The under graduates constitutes 20% respondents and only 3.33% respondents are post graduates. 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. 51.67% respondents are having annual income above 25 lakhs, 25% earn between 10-20 lakhs annually, 13.33% respondents earn between 5-10 lakhs per annum. 5% each respondents have an annual income between 20-25 lakhs and below 5 lakhs respectively.

The study observed that joint family business is the largest form of organization where there are 51.67% respondents out of the total 60 respondents. Sole proprietors come in the second place in which there are 45% respondents followed by partnership firms and cooperative organizations where there are 3.33% respondents. The number of micro enterprises under study which has the highest proportion (63.3%) was established between 2001-2010 which is followed by 16.7% micro enterprises established during 2010-2015. 13.3% micro enterprises were established during 1991-2000 and the least number of micro enterprises that is 1.7% was established before 1990. The nativity of the respondents was also studied. 95% respondents are native of the town and only 5% respondents are immigrant to the town. Among the native respondents, 70.18% were operating on rental property, 28.0% respondents having their own place of establishment and 1.75% was operating on a lease property. The number of immigrant respondents operating on rental property and own property constitutes 33.33% and 66.67% respectively. All the respondents belong to Schedule Tribe and they are all Christian.

The amount of sales proceeding from the early stage of commencement of the micro enterprises was also observed. 68.33% respondents have more than Rs. 5 lakhs amount of sales, 15% respondents were having sales below Rs. 1 lakhs, 11.67% respondents were having an amount of sales between Rs. 1-2 lakhs and only 5% respondents were having sales between Rs. 2-3 lakhs during the initial stage. All respondents under study have employees working in their enterprises. The numbers of employees mostly range from 1 person to 5 persons. 60% were having more than 5 employees working for them. The Micro, Medium and Small Enterprise (MSMEs) in Lunglei obtained permit or license for operating their business from the District Industries Center, Lunglei (DIC). The study revealed that all the micro enterprises under study obtained license from the DIC for operating their business.

## **Chapter 3**

### **Accounting Practices and Pattern of Micro Enterprises in Lunglei**

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 Lunglei. This chapter also analyses the reasons and challenges for not maintaining detailed or complete books of accounts, and the effect of maintaining incomplete or improper accounts.

#### **3.1 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. 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 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 system. They have an unrecorded accounting system (Mwangi 2011) and they follow the accounting practices directly or

indirectly (Uddin et al 2017). The accounting practices of the micro enterprises are limited to the preparation of cash book, debtor's book, creditor's book respectively.

### **3.2 Accounting Practices and Pattern**

In this section, it is attempted to study the types of accounting records being maintained by the Micro enterprises in Lunglei, to analyze the motivation/ purpose for maintaining accounting records and to find out the reasons for not keeping accounting records.

#### **3.2.1 Awareness of accounting practices by Micro enterprises in Lunglei**

A study by Maseko & Manyani (2011) 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. Table 3.1 presents the response to whether respondents of Micro enterprises in Lunglei are aware of accounting practices.

**Table 3.1 Awareness of accounting Practices**

<b>Awareness of Accounting Practices</b>	<b>No. of respondents</b>	<b>Percentage</b>
Aware	48	80
Not Aware	12	20
Total	60	100

Source: Primary Data

As shown in table 3.1, majority of respondents (80 percent) were aware of accounting practices while 12 respondents representing 20 percent of the total respondents were not aware of accounting practices.

### 3.2.2 Keeping of financial record

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 3.2 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 3.2 Records keeping**

<b>Records</b>	<b>No. of respondents</b>	<b>Percentage</b>
Keep	44	73.3
Do not keep	16	26.7
Total	60	100

Source: Primary Data

The study revealed that 73.3 percent of the micro enterprises kept any form of financial records while 26.7 percent do not keep records at all. This denotes that majority of the micro entrepreneurs appreciate the importance of financial records keeping to a business. However, respondents who did not prepare books of accounts kept note to guide them to keep track of trade debtors and creditors.

### 3.2.3 Awareness of Basic Rules of Accounting

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 Golden Rules of Accounting.

- i. Real Account: Debit what comes in. Credit what goes out
- ii. Personal Account: Debit the receiver. Credit the giver

iii. Nominal Account: Debit all expenses or losses. Credit all incomes or gains

Table 3.3 presents the response to whether the respondents were aware of the basic rules of accounting.

**Table 3.3 Awareness of Basic rules of accounting**

<b>Basic rules of accounting</b>	<b>No. of respondents</b>	<b>Percentage</b>
Aware	15	25
Not Aware	45	75
Total	60	100

Source: Primary Data

The study revealed that majority of the respondents i.e., 75 percent was not aware of basic rules of accounting while 15 respondents representing 25 percent were aware of basic rules of accounting.

### **3.2.4 Method used by the micro enterprises for record keeping.**

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.

The studies of Dyt and Halabi (2007) revealed that the main challenge faced by the business owner of micro enterprises is mostly their inability to keep adequate accounting records to aid them in their decision-making. They further indicated that majority of micro businesses depend more heavily on manual methods or they hold their business traditionally, while small businesses are more likely to adopt computerized method. Table 3.4 presents the response to the method used by the micro enterprises for record keeping. The method of record keeping was classified into manual and electronic.

**Table 3.4 Method used for record keeping**

<b>Method used for record keeping</b>	<b>No. of respondents (Percentage)</b>
Manual	37 (84.1%)
Computerized	7 (15.9%)
Total	44

Source: Primary Data

The study showed that out of 44 respondents who keep accounts pertaining to their business, only 7 respondents representing 15.9 percent used computerized accounting system for record keeping while 37 respondents representing 84.1 percent used manual or paper based record keeping. This indicates that majority of the micro enterprises in Lunglei use the old method of record keeping which is monotonous, costly and time consuming. Financial reporting is therefore not appealing to business owners.

### **3.2.5 Accounting basis adopted by the micro enterprises in Lunglei.**

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 accruals or apply both depending on the nature of its business transactions.

**Table 3.5 Accounting basis adopted**

<b>Accounting basis</b>	<b>No. of respondents</b>	<b>Percentage</b>
Cash basis	16	26.7
Accrual basis	12	20
Hybrid basis	32	53.3
Total	60	100

Source: Primary Data

Table 3.5 revealed that 26.7 percent respondents adopted cash basis of accounting while 20 percent respondents adopted accrual basis of accounting. The table further revealed that 53.3 percent respondents adopted hybrid basis accounting that is they apply both cash basis accounting and accrual basis accounting.

### **3.2.6 Payment method of the micro enterprises in Lunglei.**

The table 3.6 presents the payment method of the micro enterprises in Lunglei. The micro enterprises offer cash and cheque only for the payment process. Several proposals have been made for the use of the cash basis than the accruals basis of accounting.

**Table 3.6 Payment method**

<b>Payment method</b>	<b>No. of respondents</b>	<b>Percentage</b>
Cash only	14	23.3
Cash & Cheque	46	76.7
Total	60	100

Source: Primary Data

The study revealed that majority of the respondents (76.76 percent) used both cash and cheque for payment of financial transactions while 23.33 percent respondents adopted cash transactions only.

### **3.2.7 Basis for recording financial transactions by the micro enterprises.**

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. The Table 3.7 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 and weekly.

**Table 3.7 Basis for recording financial transactions**

<b>Basis for recording transaction</b>	<b>No. of respondents</b>	<b>Percentage</b>
Daily basis	43	97.73
Weekly basis	1	2.27
Total	44	100

Source: Primary Data

The study reveals that out of 44 respondents keeping financial records, vast majority of them records on daily basis constituting 97.73 percent. Only 2.77 percent respondent records financial transactions on a weekly basis.

### **3.2.8 Basis for preparation of Financial Reports by the Micro enterprises in Lunglei.**

The study presents the response on how often financial reports or statements are prepared by the micro enterprises in Lunglei. 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 3.8 Financial reports**

<b>Financial reports</b>	<b>No. of respondents</b>	<b>Percentage</b>
Monthly	11	18.3
Annually	3	5
Not prepared	46	76.7
Total	60	100

Source: Primary Data

The Table 3.8 shows that only 23.3 percent prepared financial reports or statement out of 60 respondents and majority of the respondents i.e, 76.7 percent do not prepare financial reports or statement. Out of the 23.3 percent who prepared financial report/statement, 18.3 percent prepared financial reports on monthly basis while 5.0 percent prepared financial report/ statement on annual basis.

### 3.2.9 The person in charge of financial record keeping.

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 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.

Millichamp (1984) 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 3.9 Person responsible for financial record keeping**

<b>Record keeper</b>	<b>No. of respondents</b>	<b>Percentage</b>
Owner	34	56.7
Manager	9	15
Accountant	1	1.6
None	16	26.7
Total	60	100

Source: Primary Data

The response on the person responsible for financial record keeping, it came to light that in majority of the enterprises, the financial record keeping was done by the

business owners themselves which is 56.7 percent. However, 1.6 percent respondent hired an accountant to do financial record keeping while 15.0 percent have managers who do the financial record keeping.

**3.2.10 Is it necessary to maintain proper or complete set of accounting records in the opinion of the micro enterprises in Lunglei?**

The micro entrepreneurs in Lunglei were asked whether they appreciate the necessity to maintain proper or complete set of accounting records relating to their respective businesses. Amoako (2013) stated that small and micro enterprises failed to maintain proper accounting records as the need to have proper accounting record is not felt by the proprietors or owners 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.

**Table 3.10** *Is it necessary to maintain proper or complete set of accounting records?*

<b>Response</b>	<b>No. of respondents</b>	<b>Percentage</b>
Necessary	26	43.3
Not necessary	34	56.7
Total	60	100

Source: Primary data

The table 3.10 indicated that 56.7 percent respondents do not find the necessity to maintain proper or complete set of accounting records and they constitute the vast majority of the total respondents which can result in the absence of proper maintenance and complete set of books of accounts. Only 43.3 percent responded it is necessary to maintain proper books and complete set of accounting records. The findings of the present study support the previous studies pertaining to the maintenance of accounting records.

### 3.2.11 Types of accounting records kept by the micro enterprises in Lunglei

For good financial record keeping practices, an enterprise must keep records on purchases, sales, earnings, receipts and payments. However, Wood (1979) argued that many small businesses can have all the financial information they required by merely keeping a cash book and having some form of records, not necessarily the double entry system. McChlery et al (2005) studied financial records keeping practices in small entities 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, debtor’s ledger and creditor’s ledger”. The present study identifies the accounting records maintained by the Micro enterprises in Lunglei. The accounting records are classified into Cash book, Sales book, Purchases book, Debtors book, Creditors book and Expenditure book.

*Table 3.11 Accounting records kept by the micro enterprises in Lunglei*

<b>Form of Enterprise</b>	<b>Cash book</b>	<b>Purchases book &amp; sales book</b>	<b>Sales book &amp; Debtors book</b>	<b>Sales book, Purchases book &amp; Expenditure book</b>	<b>Sales book, Debtors book &amp; Creditors book</b>	<b>Total</b>
Manufacturing unit	3	3	9	3	4	22
Servicing unit	2	4	8	2	6	22
<b>Total</b>	<b>5</b>	<b>7</b>	<b>17</b>	<b>5</b>	<b>10</b>	<b>44</b>

Source: Primary data

As shown in Table 3.11, among the 22 manufacturing enterprises who maintained accounts, the most frequent books maintained were Sales book with Debtors book which

is prepared by 40.9% respondents. Sales book along with Debtors book and Creditors book were maintained by 18.2% respondents. 13.7% respondents each prepared Cash book only, Purchases book and Sales book and Sales book along with Purchases book with Expenditure book.

Among the 22 servicing enterprises that prepared accounting records, the most common book prepared by them are Sales book with Debtors book which is prepared by 36.4% followed by Sales book with Debtors book and Creditors book (27.3%), Purchases book and Sales book (18.2%) and Cash book only and Sales book with Purchases book and Expenditure book were prepared by 9.1% each respondents respectively.

### **3.2.12 The financial statement or reports prepared by micro enterprises in Lunglei.**

The Table 3.12 presents the response on the financial statements or accounts prepared by the Micro enterprises in Lunglei. The study reveals that vast majority of the respondents did not prepare financial statement or report pertaining to their business. The major reason for not maintaining financial reports is due to lack of technical skill and knowledge of financial accounting. Furthermore, there is no standard rule from the authorities for mandatory preparation of financial accounts or financial statements.

**Table 3.12 *Financial statement or reports***

<b>Form of enterprise</b>	<b>Balance sheet</b>	<b>Profit &amp; Loss A/c and Balance Sheet</b>	<b>Total</b>
Manufacturing unit	3	2	5
Servicing unit	1	8	9
Total	4	10	14

Source: Primary data

The study shows that majority of the respondents did not prepare financial statement or report pertaining to their business constituting 76.7 percent of the total

respondents. It is found that only 23.3 percent prepared financial statement or report to support their financial position of their business. Out of the respondents preparing financial report/statement, 6.7 percent prepared balance sheet, 16.6 percent prepared Profit & Loss account with Balance Sheet.

### **3.2.13 Reasons why there is incomplete and improper records of financial transactions by the micro enterprises in Lunglei.**

Several studies shows that the reasons why micro enterprises failed to maintain complete and proper set of accounting records are lack of adequate accounting knowledge, cost of hiring professional accountants, fear of tax, fear of exposing the business to business if information is disclosed to the public and business owners do not appreciate the need to maintain accounting records. (McMahon & Davies, 1994, Nelson & Onias, 2011, Amoako, 3012, Gilbert, 2013, Pavtar & Arigit, 2017, Zotorvie, 2017 & Gebremedihin, 2019)

The present study identifies the reasons why micro enterprises in Lunglei did not maintain proper accounting records. The reason for incomplete or improper records accounting are categorized as 1) it takes time to record, 2) it is costly, 3) it calls for expertise and knowledge, 4) it demands additional staffs, 5) it reveals the financial status, 6) additional tax needed to be paid, 7) maintenance of accounting records is not necessary and 8) there are complications in maintaining accounting records.

After categorizing the respondents into two, those who do not keep accounting records and the others who kept accounting records but with incomplete or improper manner, they were requested to justify with ranking a list of eight possible reasons why they failed to do so. The five-point Likert scale was used to specify the level of agreement to a statement by the respondents. Mean score and standard deviation were computed for each item. To measure the extent of agreement five-point Likert scale was utilized and it had 5 as “strongly agree” and 1 as “strongly disagree”. A strong agreement is indicated by higher mean score on a variable.



**Table 3.13 Reasons why complete and proper accounting records are not kept**

<b>Reasons why complete/proper accounting records are not kept</b>	<b>Mean</b>	<b>Std. Deviation</b>
It takes time to record	4.68	0.75
It is costly	4.73	0.63
It calls for expertise & knowledge	4.8	0.48
It demands additional staffs	4.73	0.63
It reveals the financial status	4.5	1
Additional tax needed to be paid	4.55	0.89
Maintenance of accounting records is not necessary	4.52	1.07
There are complications in maintaining accounting records	4.72	0.67

Source: Primary data

The Table 3.13 shows that, the respondents agreed that the main reason for not maintaining complete or proper accounting records is that “It calls for expertise & knowledge” with 4.8 mean and 0.48 standard deviation. The result implied that the respondents do not have adequate accounting knowledge and they do not have technical knowledge. This was followed by “It is costly” and “It demands additional staffs” with mean of 4.73 each respectively. Again this was followed by “There are complications in maintaining accounting records”, “It takes time to record”, “Additional tax needed to be paid” and “Maintenance of accounting records is not necessary” with mean of 4.72, 4.68, 4.55 and 4.52 respectively.

The factor having the lowest mean score is “it reveals the financial status” with mean of 4.5 and standard deviation of 1. This can imply that the respondents are not aware of the accounting principles and that accounting information 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 (Jones et al, 2012).

### 3.2.14 Challenges of using and keeping accounting records

The present study identifies the challenges faced by the Micro enterprises in Lunglei regarding the usage and maintenance of accounting records. The challenges are classified into 1) it takes time to record, 2) it is costly, 3) it calls for expertise and knowledge, 4) it demands additional staffs, 5) it reveals the financial status, 6) additional tax needed to be paid, 7) maintenance of accounting records is not necessary and 8) there are complications in maintaining accounting records. The five-point Likert scale was used to specify the level of agreement to a statement by the respondents. Mean score and standard deviation were computed for each item. To measure the extent of agreement five-point Likert scale was utilized and it had 5 as “strongly agree” and 1 as “strongly disagree”.

**Table 3.14 Challenges of using and keeping accounting records**

<b>Challenges</b>	<b>Mean</b>	<b>Std. Deviation</b>
It takes time to record	3.65	0.68
It is costly	3.65	0.66
It calls for expertise & knowledge	3.98	0.7
It demands additional staffs	3.85	0.73
It reveals the financial status	2.85	0.89
Additional tax needed to be paid	3.32	0.87
Maintenance of accounting records is not necessary	3.08	1.08
There are complications in maintaining accounting records	3.92	0.72

Source: Primary data

Respondents attributed that “It calls for expertise & knowledge” was the most important challenge of using and keeping accounting records with mean of 3.98 and

standard deviation of 0.7. This was followed by “There are complications in maintenance of accounting records” and “It demands additional staffs” with mean of 3.92 and 3.85 respectively and “It takes time to record” and “It is costly” with mean of 3.65 each respectively. Again it was followed by “Additional tax needed to be paid” and “Maintenance of accounting records is not necessary” with mean of 3.32 and 3.08 respectively. The factor having the lowest mean score is “it reveals the financial status” with mean of 2.85 and standard deviation of 0.89.

### **3.2.15 Challenges in financial record keeping hinders the operation of the business**

The Table 3.15 presents the response to whether the challenges in financial record keeping hinder the operation pertaining to their business or otherwise. . The five-point Likert scale was used, with five as “strongly agree”, four as “agree”, three as “neutral”, two as “disagree” and one as “strongly disagree” to measure the extent of agreement or otherwise.

**Table 3.15 Challenges in financial record keeping hinders the operation of the business**

<b>Response</b>	<b>Frequencies</b>	<b>Percentage</b>
Agree	32	53.3
Disagree	15	25
Strongly Disagree	13	21.7
Total	60	100

Source: Primary Data

Table 3.15 indicated that majority of the respondents agreed (53.3 percent) that the challenges in financial record keeping hinder the operation of the business. While 25 percent and 21.7 percent responded with disagree and strongly disagree respectively.

### **3.2.16 Impact of improper accounting records**

The present study identifies the impact of improper accounting records and classified into i) Inefficient, improper & untimely decision making, ii) Difficulty in assessing credit/finance & loans, iii) Difficulty in determining the results of operations, iv) Difficulty in determining the financial position of the business and v) Inability to detect losses & theft in the business.

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 studies of Dyt & Halabi (2007) revealed that the main challenge faced by the proprietors of micro enterprises is mostly their inability to keep adequate accounting records to aid them in their decision-making. They further indicated that majority of micro businesses depend more heavily on manual methods or they hold their business traditionally, while small businesses are more likely to adopt computerized method. With the absence of an accounting system, it is clear that determining performance, identifying customer and supplier account balances and forecasting future performance of their businesses would be very difficult for small and micro businesses (Stefanou, 2006). 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 small business entities did not maintain complete records of accounts assigning several reasons.

To specify the level of agreement, the respondents are asked to rate items using five-point Likert scale and had 5 as “strongly agree”, 4 as “agree”, 3 as “neutral”, 2 as “disagree” and 1 as “strongly disagree”.

**Table 3.16 Impact of improper and incomplete accounting records**

<b>Improper &amp; incomplete accounting records will lead to:</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Moderately agree</b>	<b>Agree</b>	<b>Strongly agree</b>
Inefficient, improper & untimely decision making	0	29	16	15	0
Difficulty in assessing credit/finance & loans	7	16	14	23	0
Difficulty in determining the results of operations	0	12	8	40	0
Difficulty in determining the financial position of the business	0	18	8	34	0
Inability to detect losses & theft in the business	0	23	9	28	0

Source: Primary data

Table 3.16 shows that while determining the impact of improper and incomplete accounting records “difficulty in determining the results of operation” ranked highest. A maximum of respondents (66.7%) agree, 13.3% respondents moderately agree and 20% respondents disagree. As regards to “difficulty in determining the financial position of the business” a maximum of respondents (56.7%) agree and a minimum of respondents 13.3% moderately agree.

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. It is, therefore, necessary that they keep proper accounting records of their businesses on consistent basis in order to achieve these objectives.

“Inability to detect losses and theft in the business” as an impact of improper and incomplete accounting record ranked third which is agreed by 46.7 percent, disagreed by 38.3% and moderately agreed by 15%.

Regarding “difficulty in accessing credit/finance and loans”, a maximum of respondents (38.3%) agree and a minimum of respondents (11.7%) strongly disagree. 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.

A maximum of 48.3% the respondents disagree and a minimum of 25% respondents agree with “Inefficient, improper & untimely decision making” as an impact of improper and incomplete accounting records.

### **3.2.17 GST registration and file**

In the GST regime, a business whose turnover exceeds Rs. 40 lakhs (Rs 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 3.17 GST registration**

Response	Frequency	Percent
Yes	33	55
No response	27	45
Total	60	100.0

Source: Primary Data

The table 3.17 indicated that 55 percent respondents had registration under GST and the other 45 percent shows no response. Under GST, a business is not required to register or collect GST if their annual turnover is less than 10 lakhs. So, this accounts for the absence of response of GST registration in case of the micro enterprises under study. Among the respondents who responded they had GST registration, only few can file GST by themselves and majority of them hire others to file for them.

### **3.3 Test of Hypothesis**

This section provides a test of the formulated null hypotheses. Independent sample t-test and chi-square test statistics were used in the test of the research hypotheses. The procedures were used to consider the level of significant of each question in relation to the hypothesis for the decision to be made.

### Hypothesis 1

**H<sub>01</sub>: There is no significant difference between gender of the respondents and awareness of accounting practices.**

**Table 3.18 *Difference between gender of the respondents and awareness of accounting practices***

	Gender		
	T	df	Sig. (2 tailed)
Awareness of accounting practices	0.519	58	0.605
The t-test value with df 58 is +/-2.0017 at .05 Significance level			

Source: Primary data

In case of gender, the t-value (0.519) does not fall within the critical region defined by the critical value of +/- 2.0017  $p > 0.05$ . Therefore, from the t-test result, it can be concluded that there is no statistical difference between gender of the respondents and awareness of accounting practices. The study then fails to reject the null hypothesis H<sub>01</sub>.

### Hypothesis 2

**H<sub>02</sub>: There is no significant difference between educational qualification of the respondents and awareness of accounting practices.**

**Table 3.19 *Difference between educational qualification of the respondents and awareness of accounting practices.***

	Educational qualification of the respondents
Chi-Square	11.660 <sup>a</sup>
Df	3
Asymp. Sig.	0.009

a. 3 cells (37.5%) have expected count less than 5. The min expected count is 1.87.

Source: Primary data



Table 3.19 presents result of the Chi-square test with a significant level of 0.009 which is less than 0.05 meaning that the test of variance is significant. The study shows that there is a significant difference between educational qualification of the respondents and awareness of accounting practices. Therefore, the null hypothesis  $H_02$  is rejected.

### Hypothesis 3

**$H_03$ : There is no significant difference between age group of the respondents and awareness of accounting practices.**

**Table 3.20** *Difference between age group of the respondents and awareness of accounting practices.*

	Age group of the respondents
Chi-Square	1.66 <sup>a</sup>
Df	3
Asymp. Sig.	0.644

a. 4 cells (50%) have expected count less than 5. The min expected count is 0.60  
Source: Primary data

Table 3.20 show results of the Chi-Square test in respect to age group of the respondents and awareness of accounting practices. The results revealed a significant level of 0.644 which is larger than 0.05 meaning that the test of variance is not significant. Thus, the study fails to reject the null hypothesis  $H_03$  and it can be concluded that there is no a significant difference between age group of the respondents and awareness of accounting practices.

#### Hypothesis 4

**H<sub>04</sub>: There is no significant different between the difficulty in assessing credit or finance and loans and absence of proper records of financial transactions.**

**Table 3.21** *Difference between difficulty in assessing credit or finance and loans and absence of proper records of financial transactions.*

	Difficulty in assessing credit/finance & loans
Chi-Square	35.096 <sup>a</sup>
Df	3
Asymp. Sig.	0.000

a. 3 cells (37.5%) have expected count less than 5. The min expected count is 1.87.

Source: Primary Data

The table 3.21 presents the result of the Chi-Square test between difficulty in assessing credit/finance and loans and incomplete or improper records of financial. The result revealed a significant level of 0.000 which is less than 0.05 level of significance. Therefore it can be concluded that there is a significant difference between difficulty in assessing credit/finance & loans and absence of proper records of financial transactions. Thus, the study rejects the null hypothesis H<sub>04</sub>.

#### 3.4 Conclusion

The study revealed that majority of respondents that is 80% were aware of accounting practices while 12 respondents representing 20% of the total respondents were not aware of accounting practices. But the knowledge of accounting practices by the owners of the micro enterprises was very limited. Majority of the respondents knows how to maintain basic books or registers to records their financial transaction. There are a minimum number of respondents that is 26.7% who did not keep any form of records for the financial transaction of their business. They either kept a note or memorize to keep

track of the debtors and creditors. But it is ideal for an entrepreneur to know how to keep good and orderly records of financial transactions and reliance on memory must be avoided because such reliance can cause many mistakes. 73.3% maintained financial records whether complete or incompletely. As far as accounting practices is concerned, there is no doubt that small business would not maintain a proper and complete accounting records and reports. Moreover, every business whether big or small have their own unique way of recording accounting records and can adopt different methods, even if they did not comply with the standardized format. To ensure the ease of understanding of the users of accounting records, the business should ensure the consistency of the adopted accounting practices which would also enhance the credibility of the same.

The method for recording financial transactions was also studied. The study indicated that majority of the micro enterprises rely more heavily on manual method as they hold their businesses in a traditional way. 84.1% used manual or paper based for record keeping while 15.9% used computerized system. An entity may make a choice between the two bases of cash or accruals or apply both depending on the nature of its business transactions. The study revealed that 26.7% respondents adopted cash basis of accounting while 20% adopted accrual basis of accounting and 53.3% adopted hybrid basis accounting that is they apply both cash basis accounting and accrual basis accounting. With regards to the payment method 76.76% used both cash and cheque for payment of financial transactions while 23.33% adopted cash transactions only. They did not utilize online payment or card payment.

Accounting practices are said to be the routine manner in which day-to-day financial activities of a business enterprise are gathered and recorded. There must be consistency in recording the financial transactions of the business. Among the respondents who records financial transactions, 97.73% enter records on daily basis and there is 2.27% who records on weekly basis. Several studies showed that financial reporting in small and micro enterprises appear to fall short to the standard recommended by various regulatory bodies and they further claim that they appear reluctant to produce

financial reports which might be accessible for outside parties. The study revealed that majority of the respondents (76.7%) does not prepare financial reports and 23.3% prepared. Among the respondents who prepared financial report/statement, 18.3% prepared financial reports on monthly basis while 5.0% prepared financial report/statement on annual basis. As for the person in-charge of record keeping, in majority of the enterprises, the financial record keeping was done by the business owners themselves which is 56.7%, 1.6% hired an accountant while 15.0% have managers who do the financial record keeping. In most micro enterprises, 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 which calls for the need to learn accounting and record keeping by the owners or managers.

The study indicated that 56.7% respondents do not find the necessity to maintain proper or complete set of accounting records while 43.3% responded it is necessary to maintain proper books and complete set of accounting records. Most micro enterprises failed to maintain proper accounting records as the need to have proper accounting record is not felt by the proprietors or owners 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. McChlery et al (2005) suggested that financial records of small and micro enterprises should include sales day book, purchase day book, cash receipt book, cheque payment book, petty cash book, general journal, nominal ledger, debtor's ledger and creditor's ledger. The most commonly prepared financial records of the micro enterprises under study are sales book and debtor's book. Other accounting records like cash book, purchases book, expenditure book and creditor's book are also prepared. 23.3% of the respondents also prepare Profit and Loss account (6.7%) and Balance sheet (16.6%).

Several studies shows that the reasons why micro enterprises failed to maintain complete and proper set of accounting records are lack of adequate accounting

knowledge, cost of hiring professional accountants, fear of tax, fear of exposing the business to business if information is disclosed to the public and business owners do not felt the need to maintain accounting records. The study shows that the most important reason for the failure to prepare complete and proper accounting records is the lack of technical expertise and knowledge by the owners followed by it is costly, it demands additional staffs, there are complications in maintaining accounting records, it takes time to record, additional tax needed to be paid, maintenance of accounting records is not necessary and it reveals the financial status. Mean and standard deviation were the tools used for measuring the data. Regarding the challenges of using and keeping accounting records, the factor 'it calls for expertise and knowledge' attributed the most important challenge. It has a mean of 3.98 and standard deviation of 0.7 and the least important factor is it reveals the financial status with mean of 2.85 and standard deviation of 0.89. The study reveals that majority of the respondents agreed (53.3%) that the challenges in financial record keeping hinder the operation of the business, while 25% and 21.7% responded with disagree and strongly disagree respectively.

The impact of improper or incomplete accounting records was also indentified. Difficulty in determining the results of operation ranked the highest with 66.7% respondents who agree to it, the second important factor is difficulty in determining the financial position of the business (56.7% agree), the third factor is inability to detect losses or theft in the business which is agreed by 46.7%, the fourth factor is difficulty in assessing credit/finance & loans where 38.3% agree and the fifth factor is inefficient, improper & untimely decision making (25% agree). GST registration is mandatory for certain businesses. 55% of the respondents had GST registration but only minimum number of respondents acquires knowledge and technical skills to file for themselves and larger number hire professionals to file for them. There is an absence of response under GST registration which accounts for 45% respondents. Under GST, small businesses can avoid applying for GST registration if their annual turnover does not exceed 10 lakhs and this justify the absence of response on GST registration by the respondents.

## Chapter 4

### Findings and Suggestions

#### 4.1 Major findings

This chapter finally highlights the findings of the study from the data collected from 60 respondents and give suggestions that could improve or solve the problems faced by the respondents regarding accounting practices.

- With regard to the gender composition among the entrepreneurs, it was found that 60% of the micro enterprises were owned by male entrepreneurs and the remaining 40% were female entrepreneurs.
- The study also revealed that 83.33% of the entrepreneurs were married. Only 6.67% were unmarried and 10% female entrepreneurs were widow/widower.
- A maximum number of respondents were matriculates (51.67%), followed by 25% respondents passing higher secondary. The under graduates constitutes 20% of the respondents and only 3.33% respondents were post graduates.
- The study also reveals that the maximum of respondents (51.67%) were earning above Rs 25 lakhs as annual income followed by 25% respondents earning an annual income between Rs 10 to Rs 20 lakhs and 13.33% respondents having annual income between Rs 5 to Rs 10 lakhs. The number of respondents having annual income between Rs 20 to Rs 25 lakhs and below Rs 5 lakhs constitutes 5% each to its respective total.
- The age group 45 to 60 years has the highest proportion among the entrepreneurs (58.33%). The second largest age group consists of 35 to 45 years which constitutes 25 percent and 11.67 percent respondents belong to the age group of 25 to 35 years. The age group above 60 years constitutes 5 percent with the least number of respondents.

- Among the male respondents the dominant age group is 45 to 60 years which alone constitutes 61.11% of the 36 respondents. Among the female respondents also, the dominant age group is 45 to 60 years which constitutes 54.17% of the total.
- 51.67% respondents have joint family business and 45% respondents were sole proprietors. The remaining 3.33% were in partnership firms and cooperative organizations.
- 68.33% respondents have more than Rs. 5 lakhs amount of sales at initial stage. 15% respondents were having sales below Rs. 1 lakhs at the initial stage, 11.67% respondents were having an amount of sales between Rs. 1-2 lakhs at initial stage and only 5% respondents were having sales between Rs. 2-3 lakhs during the initial stage.
- Out of total 60 respondents, 70% respondents are on rented/leased property and 30% respondents are on their own property.
- It is found that a high percentage of respondents that is 95% are native of the town and only 5% respondents are immigrant to the town.
- Among the native respondents, 70.18 percent are on rented property followed by 28.07 percent respondents having their own place of establishment and 1.75 percent is on a lease property. The number of immigrant respondents in rented and own property constitutes 33.33 percent and 66.67 percent.
- 60% respondents have more than 5 workers and 26.66% respondents have a total number of workers from 3-5 in their business enterprise. 6.67% respondents were having workers between 1 and 2 and 6.67% respondents were employing 2 to 3 workers
- All the respondents obtained license or permit for conducting business. The micro enterprises in Lunglei obtained license from District Industries Center, Lunglei.
- All the respondents in the present study are Christian by religion belonging to ST category.
- 80% respondents were aware of accounting practices while 20% respondents were not aware of accounting practices.

- It was found that 73.33 % of the micro enterprises kept any form of financial records while 26.67 % do not keep records at all. This denotes that majority of the micro entrepreneurs appreciate the importance of financial records keeping to a business. However, respondents who did not prepare books of accounts kept note to guide them to keep track of trade debtors and creditors.
- Majority of the respondents i.e., 75% were not aware of basic rules of accounting while 25% were aware of basic rules of accounting.
- Out of 44 respondents who keep accounts pertaining to their business, only 15.9% used electronic accounting system for record keeping while 84.1% do use manual or paper based record keeping. This indicates that majority of the micro enterprises in Lunglei use the old method of record keeping which is monotonous, costly and time consuming.
- 26.67% respondents adopted cash basis of accounting while 20% respondents adopted accrual basis of accounting. Another 53.33% respondents adopted hybrid basis accounting that is they apply both cash basis accounting and accrual basis accounting.
- The study revealed that 76.76% respondents used both cash and cheque for payment of financial transactions while 23.33% respondents adopted cash transactions only. This indicated that the entrepreneurs did not resort to online banking and digitalized payment systems.
- Out of 44 respondents keeping financial records, almost all of them record financial transactions on daily basis constituting 97.73%. Only 1 respondent records financial transactions on a weekly basis.
- The study revealed that higher proportion of respondents i.e, 76.7% do not prepare financial reports or statement Only 23.3% prepared financial reports or statement out of 60 respondents.
- Among the group of entrepreneurs who prepared financial report/statement, 18.3% prepared financial reports on monthly basis while 5% prepared financial report/statement on annual basis.



- Regarding the person in-charge for financial record keeping, 56.7% entrepreneurs did the recording themselves. However, 15.0% have managers who do the financial record keeping and 1.6% respondent hired an accountant to do financial record keeping.
- As for the necessity to maintain proper or complete set of accounting records more than half of the respondents (56.7%) do not find it necessary and this can result in the absence of proper maintenance and complete set of books of accounts. Only 43.3% responded it is necessary to maintain proper books and complete set of accounting records.
- Among the 22 manufacturing enterprises who maintained accounts, the most frequent books maintained were Sales book with Debtors book which is prepared by 40.9% respondents.
- Sales book along with Debtors book and Creditors book were maintained by 18.2% respondents.
- 13.7% respondents each prepared Cash book only, Sales book and Purchases book and Sales book and Purchases book with Expenditure book.
- Among the servicing enterprises that prepared accounting records, the most common book prepared by them are Sales book with Debtors book which is prepared by 36.4% followed by Sales book with Debtors book and Creditors book (27.3%), Purchases book and Sales book (18.2%) and Cash book only and Sales book with Purchases book and Expenditure book were prepared by 9.1% each respondents respectively.
- Majority of the respondents constituting 76.7% of the total respondents did not prepare financial statement or report pertaining to their business. It is found that only 23.3% prepared financial statement or report to support their financial position of their business. Out of the respondents preparing financial report/statement, 6.7% prepared Balance sheet while 16.6% prepared Profit & Loss account with Balance sheet.

- With regards to the entrepreneurs' main reason for not maintaining complete or proper accounting records, it was observed that the most important reason was "It calls for expertise & knowledge" with a mean of 4.8. This indicated that the respondents do not have adequate accounting and technical knowledge and also they do not have prior education regarding the basic principles of accounting. The factor having the lowest mean score is "it reveals the financial status" with mean of 4.5 and standard deviation of 1.
- Respondents attributed that "It calls for expertise & knowledge" was the most important challenge of using and keeping accounting records with a mean of 3.98. The factor having the lowest mean score is "it reveals the financial status" with mean of 2.85 and standard deviation of 0.89.
- Majority of the respondents agreed (53.3%) that the challenges in financial record keeping hinder the operation of the business. While 25% and 21.7% responded with disagree and strongly disagree respectively.
- While determining the impact of improper and incomplete accounting records "difficulty in determining the results of operation" ranked highest. A maximum of respondents (66.7%) agree, 13.3% respondents moderately agree and 20% respondents disagree.
- As regards to "difficulty in determining the financial position of the business" a maximum of respondents (56.7%) agree and a minimum of respondents 13.3% moderately agree.
- "Inability to detect losses and theft in the business" as an impact of improper and incomplete accounting record ranked third which is agreed by 46.7 percent, disagreed by 38.3% and moderately agreed by 15%.
- Regarding "difficulty in accessing credit/finance and loans", a maximum of respondents (38.3%) agree and a minimum of respondents (11.7%) strongly disagree.

- A maximum of 48.3% the respondents disagree and a minimum of 25% respondents agree with “Inefficient, improper & untimely decision making” as an impact of improper and incomplete accounting records.
- Regarding the GST registration the micro enterprises, 55% respondents had registration under GST and the other 45% shows no response. Among the respondents who responded they had GST registration, only few can file GST by themselves and majority of the hire someone to file for them.

### **Hypothesis**

- There is no significant difference between gender of the respondents and the awareness of accounting practices.
- There is a significant difference between educational qualification of the respondents and the awareness of accounting practices.
- There is no significant difference between age group of the respondents and awareness of accounting practices.
- There is a significant relationship between the difficulty in assessing credit or finance & loans and absence of proper records of financial transactions.

## **4.2 Suggestions**

After careful analysis of the conditions of micro enterprises in Lunglei, there are some recommendations and suggestions for the improvement of the accounting system in this region. Some suggestions and recommendations made from the study are as follows:

1. *Common books of account to be prepared by micro enterprises:* It is unfortunate to note that most of the entrepreneurs do not keep proper records of their business transactions and do not seem to give importance of making it mandatory to maintain complete or proper accounting records. Even the micro entrepreneurs who had accounting records failed to produce complete and proper record of the business transactions. Therefore, it is suggested that

accounting records in micro enterprises may be followed and it is desirable that it is made mandatory. If the entrepreneurs maintain proper books of accounts, it will make it easier for systematic recording of all business transactions and to know the financial position of their business. And this information will also serve as a source of knowledge for interested parties and data for research. The study recommended the accounting records of micro enterprises should include sales book, purchases book, cash receipt book, cheque payment book, payroll records, expenditure book, asset register, debtors' ledger and creditors' ledger. It is also desirable for the micro enterprises to prepare Profit & Loss account and Balance Sheet in order to understand their financial position and to measure their performance more effectively.

2. *State Level or District Level Special training programme*: It is desirable that workshops, seminars and accounting training programmes should be initiated in State Level and/or District Level to create awareness on the importance of accounting practices. Also special training programmes may be organized under the supervision of Ministry of MSMEs among the entrepreneurs to encourage them in keeping proper books of accounts. These strategies will encourage the entrepreneurs to advance their accounting practices and make it possible to validate their performance.
3. *Inclusive growth*: Entrepreneurship is concentrated mainly on urban areas of Aizawl and Lunglei and a few enterprises are distributed in other districts of the state. It is suggested that the faculty and students of Department of Commerce, Mizoram University and affiliated colleges may organize workshop in remote and rural areas for new or aspirant entrepreneurs with no fee for participation to promote inclusive growth.

4. *Internship course:* The study shows that entrepreneurs were aware of accounting practices but they do not understand the need for maintaining complete accounting system. To promote the practice of accounting within the State, it is suggested to offer internship courses to the commerce students of Mizoram which will enable them to put their learning into practice and will enhance their knowledge of accounting. Furthermore, it will benefit the entrepreneurs as they can have their accounts prepared and that with a little or no cost (if they desire to pay the interns or not is up to them) since the cost of hiring accountant professionals is a reason behind incomplete preparation of accounting records by the micro enterprises.
5. *Maintain books of account:* The main cause for the inability of micro enterprises to access credit from the banks is due to lack of proper records of financial transactions. 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. Banks also have certain responsibilities at the time of granting financial assistance such as loans. An account which shows the financial performance and position of the micro enterprise may be checked and this will make the micro enterprises to resort to proper preparation of accounting records.
6. *Improving competitiveness through digital payments:* As majority of the micro entrepreneurs implement cash and cheque payment mostly which is traditional payment system. The study recommends for utilization of digital payment like internet banking, debit cards, credit cards and mobile banking application. This technique will make the financial transactions transparent and easier to trace as every transactions will be recorded while making payments.

## **Appendices**

### **Questionnaire for the respondents on Accounting Practices**

Sir/Madam,

I am conducting a study on ‘Accounting Practices of Micro Enterprises in Lunglei, Mizoram’ for my M.Phil dissertation. I prepare the following questions to collect empirical data for this study. I would be very grateful if you could give a few minutes to answer the questions and I sincerely request you not leave any questions unattended. All information will be used for academic purpose only and will be kept strictly confidential.

Thank you for your generous support.

With regards,

C. Lalrinsangi

#### **I. SOCIO-ECONOMIC PROFILE OF RESPONDENTS**

**1. Name of the enterprise:** \_\_\_\_\_

**2. Address :** \_\_\_\_\_

**3. Marital Status of the respondent:**

- a) Married
- b) Unmarried
- c) Divorced
- d) Widowed

**4. Gender of the respondent:**

- a) Male
- b) Female
- c) Others

**5. Educational qualification of the respondent:**

- a) Under matric
- b) Class 12
- c) Under Graduate
- d) Post Graduate

**6. Age group of the respondent:**

- a) Below 25
- b) 25-35
- c) 35-45
- d) 45-60
- e) Above 60

**7. Religion of the respondent:\_\_\_\_\_**

**8. Caste of the respondent :\_\_\_\_\_**

**9. Annual income of other family members (Rs in Lakhs)**

- a) Below 2
- b) 2-3
- c) 3-4
- d) Above 4

**10. Native or immigrant to the town:**

- a) Native
- b) Immigrant

**If immigrant, from where: \_\_\_\_\_**

**11. Form of organization of the enterprise:**

- a) Sole proprietor
- b) Joint Family
- c) Partnership
- d) Cooperative

**12. Annual income from the enterprise alone (Rs in Lakhs)**

- a) Below 5
- b) 5-10
- c) 10-20
- d) 20-25

**13. Total number of workers employed:**

- a) 1-2
- b) 2-3
- c) 3-5
- d) More than 5

**14. Type of location of the enterprise:**

- a) Rented
- b) On lease
- c) Own property

**15. Period of establishment of the enterprise:**

- a) Before 1990
- b) 1991-2000
- c) 2001-2010
- d) After 2010

**16. Amount of capital invested (Rs in Lakhs):**

**Manufacturing enterprise**

- a) Upto 5
- b) 6-10
- c) 10-20
- d) 20-25

**Service enterprise**

- a) Upto 2
- b) 2-4
- c) 4-6
- d) 6-10



**17. Amount of sale at the initial stages approximately (Rs in lakhs):**

- a) 0-1
- b) 1-2
- c) 2-3
- d) 3-5
- e) More than 5

**18. Do you obtain license/permit for starting the business?**

- a) Yes
- b) No

**If yes, please specify where: \_\_\_\_\_**

## **II. ACCOUNTING PRACTICES**

**19. Are you aware of accounting practices/tools?**

- a) Aware
- b) Not aware

**20. Are you keeping proper records of financial transaction?**

- a) Keep
- b) Do not keep

**21. What method do you use for recording financial transactions?**

- a) Manual
- b) Computerized method

**22. Are you aware of the basic accounting principle?**

- a) Aware
- b) Not aware

**23. Accounting basis adopted by the micro entrepreneur:**

- a) Cash basis
- b) Accrual basis
- c) Hybrid basis
- d) None

**24. Payment method used by the customers:**

- a) Cash
- b) Cheque
- c) Credit Card
- d) Others; debit or online

**25. Do you have GST registration?**

- a) Yes
- b) No

**If yes, GSTIN: \_\_\_\_\_**

**26. On what basis are the financial transactions recorded?**

- a) Daily basis
- b) Weekly basis
- c) Monthly basis
- d) Not prepared

**27. How often are financial reports prepared?**

- a) Monthly
- b) Quarterly
- c) Half Yearly
- d) Annually
- e) Not prepared

**28. Who is the person responsible for keeping accounting records?**

- a) Owner
- b) Accountant
- c) Manager
- d) Sales personnel

**29. Accounting records kept by Micro enterprises:**

<b>Industrial sector</b>	<b>Purchase Book</b>	<b>Sales Book</b>	<b>Expenditure Book</b>	<b>Cash book</b>	<b>Debtors book</b>	<b>Creditors book</b>
Manufacturing sector						
Service sector						

**30. Financial statements (or accounts) prepared by the Micro enterprises:**

<b>Industrial sector</b>	<b>Statement of income</b>	<b>Profit &amp; Loss account</b>	<b>Balance sheet</b>	<b>None</b>
Manufacturing sector				
Service sector				

**31. In your opinion, is it necessary for entrepreneurs to maintain proper books of accounts?**

- a) Yes
- b) No

**32. What are the reasons why proper accounting records are not kept?**

	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Moderately agree</b>	<b>Agree</b>	<b>Strongly agree</b>
It takes time to record					
It is costly					
It calls for expertise & knowledge					
It demands additional staffs					
It reveals the financial status					
Additional tax needed to be paid					
Maintenance of accounting records is not necessary					
There are complications in maintaining accounting records					

**33. What are the challenges of using and keeping accounting records?**

	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Moderately agree</b>	<b>Agree</b>	<b>Strongly agree</b>
It takes time to record					
It is costly					
It calls for expertise & knowledge					
It demands additional staffs					
It reveals the financial status					
Additional tax needed to be paid					
Maintenance of accounting records is not necessary					
There are complications in maintaining accounting records					

**34. Challenges in financial accounting practices hinders the operation of business:**

- a) Strongly agree
- b) Agree
- c) No Opinion
- d) Disagree
- e) Strongly Disagree

**35. Improper accounting records will lead to:**

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Moderately agree</b>	<b>Agree</b>	<b>Strongly agree</b>
Inefficient, improper & untimely decision making					
Difficulty in assessing credit/finance and loans					
Difficulty in determining the results of operations					
Difficulty in determining the financial position of the business					
Inability to detect losses and theft in the business					

**Note: Values are given to each scale**

**SA= 5 points A= 4 points MA=3 points D=2points SD=1point**

## **Bibliography**

- Abdulrasheed A, Khadijat A, and Oyebola FE, 2012, 'Accounting Principles of Small Enterprises in Ilorin Metropolis of Kwara State', *Nigeria Research Journal of Finance and Accounting*, Vol 3, No 2.
- Abor, J & Biekpe, N, 2006, 'Small Business Financing Initiatives in Ghana', *Problems and Perspectives in Management*, Vol. 4 no. 3, pp 69-77
- Abor, J & Quartey, P, 2010. 'Issues in SME Development in Ghana and South Africa'. *International Research Journal of Finance and Economics*, issue 39.
- Adjie, LN, Oteng, E & Fianu, A, 2014, 'Accounting Practices and Control Systems of Small and Medium Size Entities: A Case Study of Techiman Municipality', *Journal of Finance and Accounting*, Vol. 2, No. 3, pp. 30-40.
- Ademola, GO, Samuel OJ & Ifedolapo O, 2012, 'The Roles of Record Keeping In the Survival and Growth of Small Scale Enterprises in Ijumu Local Government Area of Kogi State', *Global Journal of Management and Business Research*, Vol. 12 no 13 Version 1.0
- Amidu, M, Effah, J & Abor, J, 2011, 'E-Accounting Practices Among Small and Medium Enterprises in Ghana', *Journal of Management Policy and Practice*, Vol. 12 no. 4, pp 146-155
- Amoake, GK, 2013, 'Accounting Practices of SMEs: A Case Study of Kumasi Metropolis in Ghana', *International Journal of Business and Management*, vol. 8 no 24, pp 73-83
- Annual Report, 2017-2018. Ministry of Micro, Small and Medium Enterprises, Government of India (Retrieve from the website: [www.msme.gov.in](http://www.msme.gov.in)).

- Ankrah, E, Mensah, CCY & Ofori-Atta K, 2015, 'The Relevance of Accounting Information in the Management of Small Scale Businesses in the Yilo Krobo District in Ghana', *European Journal of Business and Management*, Vol.7 no. 8.
- Aryeetey, E, Baah-Nuakoh, A, Duggleby, T, Hettige, H, & Steel, WF, 1994, 'Supply and Demand for Finance of Small-Scale Enterprises in Ghana'. *World Bank Discussion Paper No. 251. Washington, D.C.: The World Bank.* (<http://dx.doi.org/10.1596/0-8213-2964-2>).
- Asaduzzaman, MD, 2016, 'Accounting and Financial Reporting Practices of SMEs: Bangladesh Perspective', *Malaysian Journal of Business and Economics*, Vol. 3 no. 1, pp 57-67
- Bohman, H & Boter, H, 1984, 'Planning in small and medium sized firms - The challenges and premises of the strategic planning', *Department of Business Administration and Economics, Umea University Sweden.*
- Bowen, M, Morara, M & Mureithi, S, 2009, 'Management of Business Challenges among Small and Micro Enterprises in Nairobi – Kenya', *KCA Journal of Business Management*, vol. 2 no. 1.
- Caruthers, BG & Espeland, WN, 1991, 'Accounting for Rationality: Double-Entry Bookkeeping and the Rhetoric of Economic Rationality'. *The University of Chicago Press. The American Journal of Sociology*, Vol. 97 No. 1.
- Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation.
- Conference on Startups and MSMEs in Food Processing organized by ASSOCHAM in conjunction with Ministry of Food Processing Industries (MoFPI), NABARD and Mizoram University. (<https://knnindia.co.in/news/newsdetails/state/mizoram-has-ample-opportunities-for-startups-and-msmes-in-food-processing-sector-governor-of-mizoram>)

- Das, AK & Dey NB, 2010, 'Financial and management accounting practices in small business: An exploratory study in India', *Independent Business Review*, Vol. 3, November-2.
- Dey, NK, Kumar, B & Hassan, S, 2017, 'Financial accounting practices of MSMEs', *The Management Accountant*, Vol. 52 no. 1, pp 95-100.
- Dhar, PK, 2005, 'Indian Business Environment', *Kalyani Publishers*, New Delhi, pp. 99
- District Industries Centre, Lunglei (<http://dcmsme.gov.in>)
- Dyt, R and Halabi, AK, 2007, 'Empirical evidence examining the accounting information systems and accounting reports of small and micro business in Australia', *Small Enterprise Research*, vol. 15 no 2, pp. 1-9.
- Economic Survey, Mizoram 2017-2018. Planning & Implementation Department (Research & Development Branch), Government of India
- Ezejiolor, RA, Emmanuel, E & Olise, MC, 2014, 'The Relevance of Accounting Records in Small Scale Business: The Nigerian Experience', *International Journal of Academic Research in Business and Social Sciences*, vol. 4 no. 12, pp 69-82
- European Commission, E (2008), 'Enterprise and Industry Directorate-General: Find Report of the Expert Group: Accounting system for small enterprises - Recommendations and good practices.'
- Gebremedihin, 2019, 'Challenges to Implement Proper Accounting Practices in Micro and Small Scale Enterprises (MSE), in case of Wolaita Sodo Town, Ethiopia', *International Journal of Advanced Research*, Vol. 7 no.3, pp 270-278
- Goltz, 2011 in Boame, L, Kudadze, S & Sulemana, L, 2014, 'Adoption of Accounting Practices and Its Effect on SMEs: Financial Perspective of Sachet Water Producers in Northern Region of Ghana', *Research Journal of Finance and Accounting*, Vol. 5 no. 17, pp 166-180



- Holmes, S and Nicholls, D, 1989, 'Modeling the Accounting Information Requirement of Small Businesses', *Accounting and Business Research*, Vol. 19 no. 74, pp 143-150.
- Howard, P, 2009. 'Good Recording Important for Successful Business', *Angelo State University*.
- IASB, 2006, 'Draft International Financial Reporting Standard for Small and Medium Sized Entities'.
- Ismail, NA & King, M, 2005, 'Firm performance and AIS alignment in Malaysian SMEs', *International Journal of Accounting Information systems*, vol. 6 no. 4, pp 241-259.
- Jones, P, Simmons, G, Packham, G, Beynon-Davies, K & Pickernell, D, 2012, 'An exploration of the attitudes and strategic responses of sole proprietor micro-enterprises in adopting information & communication technology', *International Small Business Journal*.
- Jeyaseeli, DEH & Justus, ER, 2014, 'Accounting Practices of Micro, Small and Medium Enterprises (MSMEs) in the Tirunelveli Municipal Corporation of Tamilnadu', *Global Journal for Research Analysis*, Vol. 3 no. 11, pp 16-19
- Koperunthevy, K and Vijayarani, K, 2013, 'Accounting System In Small Scale Enterprises: A Case study', *Primax International Journal of Commerce and Management Research*, Vol.1 no 1, pp 1-8.
- Keasy, K & Short, H, 1990. 'The Accounting Burdens Facings Small Firms: An Empirical Research Note', *Journal of Accounting Business Research*, vol. 20 no. 80, pp 307-313.
- Kinney, WR, 2001, 'Accounting scholarship: Why is uniquely ours?', *The Accounting Review*, Vol.76 no.2, pp 275-284.

- Lalhunthara, 2015, 'Financial inclusion and Entrepreneurship: A study of micro enterprises in Aizawl district, Mizoram', *ZENITH International Journal of Business, Economics & Management Research*, Vol.5 no.9, pp 31-40.
- Lybaert, N, 1998, 'The Information use in an SME; Its importance and some elements of influence', *Small Business Economics*, Vol. 10 no. 2, pp 171-191
- Madurapperuma, MW, Thilakerathne, PMC & Manawadu, IN, 2016, 'Accounting Record Keeping Practices in Small and Medium Enterprises (SME) in Sri Lanka', *Journal of Finance and Accounting*, Vol. 4 no. 4, pp 188-193
- Mahfar, R & Omar, N, 2004, 'The Current State of Management Accounting Practices in Selected Malaysian Companies: An Empirical Evidence', *University Tenaga National International Business Management Conference*.
- Maheshwari, SN & Maheshwari, SK, 2003, 'An Introduction to Accountancy', Eighth Edition, *Vikas Publishing House Pvt Ltd*.
- Maseko, N and Manyani, O, 2011, 'Accounting practices of SMEs in Zimbabwe: An investigative study of record keeping for performance measurement', *Journal of accounting and taxation*, vol. 3 no 8, pp. 171-181.
- McChlery, S, Godfrey, AD and Meechan, L, 2005, 'Barriers and Catalysts to sound Financial management Systems in Small-Sized Enterprises', *The Journal of Applied Accounting Research*, Vol.7(iii), pp1-26
- McMahon, RGP & Holmes, S, 1991, 'Small business financial management practices in North America: A literature review'. *Journal of Small Business Management*, vol. 29 no 2, pp 19-29.
- McMahon, RGP, 1999, 'Recent SME research: A critical review. Small Enterprise Research', *The Journal of SEAAANZ*, vol. 7 no 1, pp 68-75.

- Mensah, JV, Tribe, M, & Weiss, J, 2007, 'The small-scale manufacturing sector in Ghana: A source of dynamism or of subsistence income?', *Journal of International Development*, vol. 19 no 2, pp 253–273
- Mensah S, 2004, A Review of SME Financing Schemes in Ghana“, Presented at the UNIDO Regional Workshop of Financing Small and Medium Scale Enterprises, Accra, Ghana, 15-16
- Michael B, Makarius, M and Samuel M, 2009, 'Management of business challenges among small and micro enterprises in Nairobi-Kenya', *KCA journal of business management*, vol. 2 no 1.
- Millichamp AH, 1984, 'Auditing: An Instructional Manuel for Accounting Students, 3<sup>rd</sup> Edition, *Hampshire DP Publication Ltd*, pp 235
- Mitchell, F, Reid, G, & Smith, J, 2000, 'Information system development in the small firm: The use of management accounting.' *London: CIMA Publishing*.
- Micro, Small and Medium Enterprises Development (MSMED) Act 2006, Ministry of Micro, Small and Medium Enterprises, Government of India.
- Mwangi, BW, 2011, 'Accounting Systems in Small and Micro Enterprises in Kenya', *Journal of Language, Technology and Entrepreneurship in Africa*, Vol. 3 no.1, pp 78-98.
- Okoli, BE, 2011, 'Evaluation of the Accounting Systems Used by Small Scale Enterprises in Nigeria: The Case of Enugu- South East Nigeria', *Asian Journal of Business Management*, vol. 3 no 4, pp 235–240.
- Oladejo, M, 2008, 'Essentials of Management and Accounting' (2nd Ed.). *Ikeja, Peace Concept*, pp 93.
- Olatunji, TE, 2013, 'The Impact of Accounting System on the Performance of Small And Medium Enterprises in Nigeria- A Survey of SMEs In Oyo State-Nigeria',

*International Journal of Business and Management Invention*, Vol. 2 no 9, pp 13-17

Onaolapo AA, and Adegbite, TA, 2014, 'The Analysis of the impact of Accounting Records Keeping on the Performance of the Small Scale Enterprises', *International Journal of Academic Research in Business and Social Sciences*, Vol. 4, No. 1

Onaolapo, AA, Fasina, HT, Opoola, NA & Olatunji, A, 2011, 'Basic Accounting One', *Ogbomoshoh Johnny Printing Works*.

Osuala, EC, 1993. 'Principles and practices of small business management in Nigeria: A didactic approach.' *Nsukka: Fulladu Publishing Company*.

Padachi, K, 2012, 'Why SMEs Ignore Formal Accounting Systems? Entity Concept Explanation' *International Conference on Applied and Management Sciences*, pp 16-17.

Pasha, AD, 2017, 'A Study on Accounting Practice and Financial Reporting in SMEs: In Case of Arba Minch Town, Southern Ethiopia'.

Pavtar & Agir, A, 2017, 'Accounting Practices of SMEs: Challenges and Effects: A Survey Of SMEs in Makurdi Metropolis- Benue State- Nigeria', *World Journal of Finance and Investment Research*, Vol. 2 no. 1, pp 16-29

Penno, M, 1990. 'Accounting Systems, Participation in Budgeting, and Performance Evaluation, American Accounting Association'. *The Accounting Review*.

Perren, L & Grant, P, 2000. 'The evolution of management routines in small businesses: A social construction perspective', *Management Accounting Research*, vol. 11, pp 391-411.

Prasad, S, Green, C & Murinde, V, 2001. 'Corporate financial structures in developing economies: Evidence from a comparative analysis of Thai and Malay corporations'.

*Working Paper Series, Paper No 35. Finance and Development Research Programme, University of Manchester, Manchester.*

- Priskil Lalremruati & Lalneihluangi Fanai, 2018, 'Financial inclusion with reference to food & grocery shop owner in Aizawl', *International Journal of Management Studies*, Vol. 5 no.4, pp 37-44.
- Ram KV, 1988, 'Modern Small Industry in India-Problems and Prospects', *Sage Publications*, New Delhi, pp 119
- Sathyamorthi, G, 2001. 'Accounting and Control Systems in selected Small and Micro Enterprises in Botswana', *Africa Journal of Finance and Management*, pp 96-109.
- Sharma, KR, 2004, 'Accounting Education in South Asia', *Concept Publishing Company, New Delhi*
- Sian S & Roberts C, 2006, 'Micro-entity Financial Reporting: Some Empirical Evidence on the Perspectives of Preparers and Users Information', *Paper prepared for Small and Medium-sized Practices Committee. IFAC. NY.*
- Siop, P & Ahmed, K, 2000, 'The use of accounting information by small enterprise owner/manager in emerging economics: The case for Papua, New-Guinea', *Journal of Accounting and Finance*, Vol. 4 no. 2, pp 41-45.
- Srinivasan, R, 2015, 'A study on Financial Performance of select steel industries on Tamil Nadu', *Finance India*, Vol. 29 no. 2.
- Stefanou, C, 2006. 'The Complexity and the Research Area of AIS', *Journal of Enterprise Information Management*, Vol. 19 No. 1, pp. 9-12.
- Tagoe, N, Anuwa-Amarh, E & Nyarko, E, 2008. 'SME access to bank finance in an emerging economy: The role of information management practices'. *International Journal of Financial Services Management*, vol. 3 no. 2, pp 148–170.

- Uddin, R, Biswas, T, Julfikar, A & Khatun, MS, 2017, 'Accounting Practices of Small and Medium Enterprises in Rangpur, Bangladesh', *Journal of Business and Financial Affairs*, Vol. 6 no. 4, pp 1-12
- United Nations Conference on Trade and Development, 2000
- Wichman, H, 1983, 'Accounting and marketing – Key small business problems'. *Am. J. Small Bus*, vol. 7 no. 4, pp 19-26.
- Williams, JR., Haka, SF., Bettner, MS., & Carcello, JV, 2008. *Financial and Managerial Accounting*. New York, NY: Mc Graw-Hill Irwin.
- Wood, F, 1979, 'Business Accounting 1 Third Edition Essex', *ELBS and Longman*, pp 251
- Zahra A, 2011, 'An empirical study on the causes of business failure in Iranian context', *African Journal of Business Management*, Vol. 5 no 17.
- Zhou, L, 2010, 'The Research on Issues and Countermeasures of Accounting Information of SMEs', *International Journal of Business Management*, vol. 5 no 3, pp 223–225.
- Zotorvie, JST, 2017, 'A study of Financial Accounting Practices of Small and Medium Scale Enterprises (SMEs) in Ho Municipality, Ghana', *International Journal of Academic Research in Business and Social Sciences*, Vol. 7 no. 7, pp 29-39

### **BIO-DATA**

Name : C. LALRINSANGI  
Father's Name: C. LALLUNGHNEMA  
Date of Birth : 10<sup>th</sup> February, 1995  
Permanent Address: House No 100, Section IV  
Lunglawn, Lunglei, Mizoram  
Sex : Female  
Email Address : lalrinsangi.c@yahoo.com  
Mobile Number : 8974637119

### **EDUCATIONAL QUALIFICATION**

<b>Examination Passed</b>	<b>Name of Institution</b>	<b>Name of University/Board</b>	<b>Year of Passing</b>	<b>Division</b>
<b>HSLC</b>	Sacred Heart School	Mizoram Board of School Education	2011	I
<b>HSSLC</b>	Baptist Higher Secondary School	Mizoram Board of School Education	2013	I
<b>B.com</b>	Higher and Technical Institute, Mizoram	Mizoram University	2016	I
<b>M.com</b>	Mizoram University	Mizoram University	2018	I
<b>NET</b>		UGC	2019	LS

## **PARTICULARS OF THE CANDIDATE**

NAME OF THE CANDIDATE: C. LALRINSANGI

DEGREE: MASTER OF PHILOSOPHY

DEPARTMENT: COMMERCE

TITLE OF DISSERTATION: ACCOUNTING PRACTICES OF MICRO  
ENTERPRISES IN LUNGLEI, MIZORAM

*DATE OF ADMISSION:* 2<sup>nd</sup> August, 2018

### **APPROVAL OF RESEARCH PROPOSAL**

1. DRC: 22<sup>nd</sup> April, 2019
2. BOS: 29<sup>th</sup> April, 2019
3. SCHOOL BOARD: 10<sup>th</sup> May, 2019

M.Phil REGISTRATION NO. & DATE: MZU/M.Phil./506 of 07.05.2019

*DATE OF SUBMISSION:*

EXTENSION (IF ANY): No. 16-2/MZU(Acad)/19/162

Head

Department of Commerce



## **Introduction**

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 persons (Maheshwari & Maheshwari, 2003). Accounting provides crucial information to the business for the planning, evaluating, controlling and decision making process and thus forms an essential part of the management process in an organization (Mahfar & Omar, 2004).

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. Micro enterprises follow different accounting system. Mwangi (2011) said that they have a unique unrecorded accounting system and they may follow the accounting practices directly or indirectly (Uddin et al 2017). A micro enterprise's accounting practice refers to the procedure by which its accounting policies are implemented and observed on routine basis, typically by the owners and/or auditor or a team of accounting professionals.

There is no globally accepted definition of MSMEs. Different countries use different criterion, most of the definitions are based on investment ceiling and number of people employed. In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are defined where investments characterize MSMEs. However, the Government has announced about making changes to the MSME definition where turnover will define an MSME, and not the investment put into it.

**TABLE 1.1: Classifications of MSMEs**

<b>Investment and Annual Turnover</b>			
<b>Classification</b>	<b>Micro</b>	<b>Small</b>	<b>Medium</b>
<b>Manufacturing &amp; Servicing enterprises</b>	Investment>Rs 1cr. & Turnover>Rs 5cr.	Investment>Rs10cr. & Turnover>Rs 50cr.	Investment>Rs20cr. & Turnover>Rs100cr.

Source: Revised MSMEs Definition, 2020, Ministry of Micro, Small and Medium Enterprises

### **Significance and scope of the study**

An inadequate accounting system is a prime factor for failures in small business failures. Accounting contributed a significant part in the success/failure of an entity as it documents, interprets and evaluates the performance of business entities. It also helps in maintaining the documents for filing of tax and project information for interested outside parties. Accounting systems supply information to the owners and managers of small and micro enterprises for measuring their financial performance. The significance of keeping an updated book of accounts and keeping track of its financial position cannot be overlooked by any business entity regardless of its size. A reliable accounting method is a necessity for ensuring a sound functioning of any business irrespective of the size of the business. Henceforth, the accounting records of SMEs should empower the entrepreneurs with necessary information and in-turn enhances the economy.

The scope of this study is confined to the Micro enterprises in Lunglei. Lunglei is the second biggest district in Mizoram in terms of population, covering 4,536 sq km, with a population of over 1.61 lakh (census 2011). There are 873 micro enterprises in Lunglei. It is observed that micro entrepreneurs in Mizoram do not maintain proper books of accounts and have little knowledge about the accounting tools and techniques. 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. Priskil & Fanai (2018) stated that the food and grocery shop owners of Mizoram do not

have proper records of their business transactions and therefore cannot determine their net profit. The main aim of the study is to examine the status of micro enterprises in Lunglei District towards the awareness and adoption of financial accounting practices.

### **Review of literature**

An intensive literature review is undertaken to familiarize with the financial accounting practices, to identify the research problem and to develop appropriate methodology. Both relevant Indian and International research works are reviewed here:

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.

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.

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.

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.

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.

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.

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, cost of hiring and fear of tax.

There are many studies related to the accounting practices among micro enterprises, however, such studies are minimal in the context of Mizoram. The proposed study is expected to fill up the research gap that exists in the body of knowledge.

### **Statement of the problem.**

Small scale entities are said to be the stimulant for the development and expansion of a country's economic condition and have dominated the industrial sectors of developed and underdeveloped countries. The uniqueness of small scale businesses call for careful contemplation while designing of the accounting systems. Small/micro and medium 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.

Nikhil, Brajesh and Safiqul (2017) studied the accounting practices of 330 MSMEs in Tripura. Their findings show 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.

Studies by Lalhunthara (2015) and Priskil & Fanai (2018) on the entrepreneurs of micro enterprises and grocery shop owners in Aizawl showed that there is a lack of knowledge and practices of accounting tools and techniques by the micro entrepreneurs in Mizoram. The results of the studies show similarities to other studies conducted on the accounting practices of micro enterprises in the country.

So, there is a need to identify whether the micro enterprises in Lunglei are aware of the accounting practices. Further it aims to study the accounting tools and techniques used by the micro enterprises in Lunglei for recording financial transactions.

### **Objectives**

These are the main objectives of the present study:

1. To identify the socio-economic profile of select Micro entrepreneurs in Lunglei.
2. To study the accounting practices and pattern adopted by Micro entrepreneurs.

### **Research Question**

The following research questions are developed for the present study;

1. Do micro entrepreneurs in Lunglei maintain basic books of accounts namely cash book, stock register, income and expenditure account and final account? If not, why?
2. Do micro entrepreneurs know basic rules of accounting?
3. Do micro entrepreneurs maintain their account themselves or hire someone?
4. Do micro entrepreneurs face difficulty in taking loans due to absence of proper records of financial transactions?

## **Hypothesis**

The following null hypotheses have been framed for the purpose of this study

H<sub>0</sub>1: There is no significant difference between the gender of the respondents and awareness of accounting practices.

H<sub>0</sub>2: There is no significant difference between the educational qualification of the respondents and awareness of accounting practices.

H<sub>0</sub>3: There is no significant difference between the age group of the respondents and awareness of accounting practices.

H<sub>0</sub>4: There is no significant difference between the difficulty in assessing credit or finance and loans and incomplete or improper records of financial transactions.

## **Research Methodology**

### *Data Collection*

For the purpose of the study, primary data and secondary data have been collected.

For the collection of primary data, a structured questionnaire was developed. A questionnaire with open ended and close ended questions was framed for the collection of primary data from the micro enterprises in Lunglei. The questionnaire is prepared in English which is then translated into local language i.e, Mizo while interviewing the respondents for better response. The questionnaire consists of 2 parts namely, 'Socio-economic Profile of Micro Entrepreneurs in Lunglei District' and 'Accounting Practices and Pattern Adopted by the Micro Enterprises in Lunglei'.

Secondary data needed for the research is 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.

### ***Sampling***

The study is confined to the micro enterprises of Lunglei Town, the second capital of Mizoram. Lunglei district is sub-divided into four rural blocks, i.e., Lunglei block, Lungsen block, Hnahthial block and West Bunglei block. Lunglei block was selected for drawing sample for the present study as majority of the micro enterprises have their establishment in the area. According to the reports of District Industries Center, Lunglei, there are 881 MSMEs in Lunglei District and micro enterprises constitute the vast majority with 873 establishments.

The present study uses purposive sampling method selecting a total number of 60 respondents, 30 respondents each from manufacturing unit and services unit. Micro enterprises which are in existence of at least 3 years or more were selected as samples.

### ***Tools***

The Statistical Package for Social Sciences (SPSS) version, 22.0 and Microsoft Excel were used to analyze data and presented in frequency tables and percentages. For testing the formulated hypotheses of the study, independent sample t-test and chi-square test were used.

## **1.6 Chapterization**

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

### **Chapter 1: Introduction**

Introduction presents an overview of the Micro enterprises and their accounting practices, significance and scope of the study, review of literature, research design such as statement of the problem, objectives of the study, research questions and research methodology, and chapterization, limitations of the study and conclusion drawn from the chapter.

## Chapter 2: Socio economic Profile of Micro Entrepreneurs in Lunglei, Mizoram

This chapter highlights the socio economic profile of the entrepreneurs of micro enterprises such as marital status, gender, educational qualification, age group, religion, caste and nativity. The analysis of this chapter also aims to study the nature of the micro enterprises such as form of organization, annual income of the enterprise, number of workers employed, type of location, period of establishment, sales and legal existence based on the data collected from 60 respondents from the Micro enterprises of Lunglei.

## Chapter 3: Accounting Practices and Pattern Adopted by the Micro Enterprises in Lunglei

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 Lunglei. This chapter also analyses the reasons and challenges for not maintaining detailed or complete books of accounts, and the effect of maintaining incomplete or improper accounts.

## Chapter 4: Findings & Suggestions.

This chapter highlights the findings of the study from the data collected from 60 respondents and give suggestions that could improve or solve the problems faced by the respondents regarding accounting practices.

### **Major Findings**

#### **Socio economic profile of Micro Entrepreneurs in Lunglei, Mizoram**

- With regard to the gender composition among the entrepreneurs, it was found that 60% of the micro enterprises were owned by male entrepreneurs and the remaining 40% were female entrepreneurs.
- The study also revealed that 83.33% of the entrepreneurs were married. Only 6.67% were unmarried and 10% female entrepreneurs were widowed.



- A maximum number of respondents were matriculates (51.67%), followed by 25% respondents passing higher secondary. The under graduates constitutes 20% of the respondents and only 3.33% respondents were post graduates.
- The study also reveals that the maximum of respondents (51.67%) were earning above Rs 25 lakhs as annual income followed by 25% respondents earning an annual income between Rs 10 to Rs 20 lakhs and 13.33% respondents having annual income between Rs 5 to Rs 10 lakhs. The number of respondents having annual income between Rs 20 to Rs 25 lakhs and below Rs 5 lakhs constitutes 5% each to its respective total.
- The age group 45 to 60 years has the highest proportion among the entrepreneurs (58.33%). The second largest age group consists of 35 to 45 years which constitutes 25 percent and 11.67 percent respondents belong to the age group of 25 to 35 years. The age group above 60 years constitutes 5 percent with the least number of respondents.
- With regard to the period of establishment, highest proportion of the micro enterprises (63.3%) were established between 2001&2010 which is followed by 16.7% micro enterprises established during 2010-2015. 13.3% micro enterprises were established during 1991-2000 and the least number of micro enterprises that is 1.7% was established before 1990.
- 51.67% respondents have joint family business and 45% respondents were sole proprietors. The remaining 3.33% were in partnership firms and cooperative organizations.
- 68.33% respondents have more than Rs. 5 lakhs amount of sales at initial stage. 15% respondents were having sales below Rs. 1 lakhs at the initial stage, 11.67% respondents were having an amount of sales between Rs. 1-2 lakhs at initial stage and only 5% respondents were having sales between Rs. 2-3 lakhs during the initial stage.
- Out of total 60 respondents, 70% respondents are on rented/leased property and 30% respondents are on their own property.

- It is found that a high percentage of respondents that is 95% are native of the town and only 5% respondents are immigrant to the town.
- 60% respondents have more than 5 workers and 26.66% respondents have a total number of workers from 3-5 in their business enterprise. 6.67% respondents were having workers between 1 and 2 and 6.67% respondents were employing 2 to 3 workers
- All the respondents obtained license or permit for conducting business. The micro enterprises in Lunglei obtained license from District Industries Center, Lunglei.
- All the respondents in the present study are Christian by religion belonging to ST category.

#### **Accounting Practices and Pattern Adopted by the Micro Enterprises in Lunglei**

- 80% respondents were aware of accounting practices while 20% respondents were not aware of accounting practices.
- It was found that 73.33 % of the micro enterprises kept any form of financial records while 26.67 % do not keep records at all. This denotes that majority of the micro entrepreneurs appreciate the importance of financial records keeping to a business. However, respondents who did not prepare books of accounts kept note or memorize it to guide them to keep track of trade debtors and creditors.
- Majority of the respondents i.e., 75% were not aware of basic rules of accounting while 25% were aware of basic rules of accounting.
- Out of 44 respondents who keep accounts pertaining to their business, only 15.9% used electronic accounting system for record keeping while 84.1% do use manual or paper based record keeping. This indicates that majority of the micro enterprises in Lunglei use the old method of record keeping which is monotonous, costly and time consuming.

- 26.67% respondents adopted cash basis of accounting while 20% respondents adopted accrual basis of accounting. Another 53.33% respondents adopted hybrid basis accounting that is they apply both cash basis accounting and accrual basis accounting.
- The study revealed that 76.76% respondents used both cash and cheque for payment of financial transactions while 23.33% respondents adopted cash transactions only. This indicated that the entrepreneurs did not resort to online banking and digitalized payment systems.
- Out of 44 respondents keeping financial records, almost all of them record financial transactions on daily basis constituting 97.73%. Only 1 respondent records financial transactions on a weekly basis.
- The study revealed that higher proportion of respondents i.e, 76.7% do not prepare financial reports or statement Only 23.3% prepared financial reports or statement out of 60 respondents. Among the group of entrepreneurs who prepared financial report/statement, 18.3% prepared financial reports on monthly basis while 5% prepared financial report/ statement on annual basis.
- Regarding the person in-charge for financial record keeping, 56.7% entrepreneurs did the recording themselves. However, 15.0% have managers who do the financial record keeping and 1.6% respondent hired an accountant to do financial record keeping.
- As for the necessity to maintain proper or complete set of accounting records more than half of the respondents (56.7%) do not find it necessary and this can result in the absence of proper maintenance and complete set of books of accounts. Only 43.3% responded it is necessary to maintain proper books and complete set of accounting records.
- Among the 22 manufacturing enterprises who maintained accounts, the most frequent books maintained were Sales book with Expenditure book which is prepared by 40.9% respondents. Sales book along with Debtors book and Creditors book were maintained by 18.2% respondents. 13.7% respondents each

prepared Cash book only, Sales book with Purchases book and Sales book with Purchases book and Expenditure book.

- Among the servicing enterprises that prepared accounting records, the most common book prepared by them are Sales book with Debtors book which is prepared by 36.4% followed by Sales book with Debtors book and Creditors book (27.3%), Purchases book with Sales book (18.2%) and Cash book only and Sales book with Purchases book and Expenditure book were prepared by 9.1% each respondents respectively.
- Majority of the respondents constituting 76.7% of the total respondents did not prepare financial statement or report pertaining to their business. It is found that only 23.3% prepared financial statement or report to support their financial position of their business. Out of the respondents preparing financial report/statement, 50% prepared Income statement along with Profit & loss account and Balance sheet, 28.6% prepared balance sheet while 21.4% prepared Profit & Loss account with Balance sheet.
- With regards to the entrepreneurs' main reason for not maintaining complete or proper accounting records, it was observed that the most important reason was "It requires technical skills & knowledge". It has a mean of 4.8 and standard deviation of 0.48. This indicated that the respondents do not have adequate accounting and technical knowledge and also they do not have prior education regarding the basic principles of accounting. The factor having the lowest mean score is "it exposes your financial position" with mean of 4.5 and standard deviation of 1.
- Respondents attributed that "It requires technical skills & knowledge" was the most important challenge of using and keeping accounting records. It has a mean of 3.98 and standard deviation of 0.7. The factor having the lowest mean score is "it exposes your financial position" with mean of 2.85 and standard deviation of 0.89.

- Majority of the respondents agreed (53.3%) that the challenges in financial record keeping hinder the operation of the business. While 25% and 21.7% responded with disagree and strongly disagree respectively.
- While determining the impact of improper and incomplete accounting records “difficulty in determining the results of operation” ranked highest. A maximum of respondents (66.7%) agree, 13.3% respondents moderately agree and 20% respondents disagree.
- Regarding the GST registration the micro enterprises, 55% respondents had registration under GST and the other 45% shows no response. Among the respondents who responded they had GST registration, only few can file GST by themselves and majority of the hire someone to file for them.

#### Test of hypotheses

- There is no significant difference between gender of the respondents and the awareness of accounting practices.
- There is a significant difference between educational qualification of the respondents and the awareness of accounting practices.
- There is no significant difference between age group of the respondents and awareness of accounting practices.
- There is a significant relationship between the difficulty in assessing credit or finance & loans and incomplete or improper records of financial transactions.

#### **Suggestions**

1. *Common books of account to be prepared by micro enterprises:* It is suggested that accounting records in micro enterprises may be followed and it is desirable that it is made mandatory. If the entrepreneurs maintain proper books of accounts, it will make it easier for systematic recording of all business transactions and to know the financial position of their business.

2. *State Level or District Level Special training programme:* It is desirable that workshops, seminars and accounting training programmes may be initiated in State Level and/or District Level to aware the entrepreneurs regarding the usefulness for maintaining accounting records and encourage them for the same.
3. *Inclusive growth:* It is suggested that the faculty and students of Department of Commerce, Mizoram University and affiliated colleges may organize workshop in remote and rural areas for new or aspirant entrepreneurs with no fee for participation to promote inclusive growth.
4. *Internship course:* To promote the practice of accounting within the State, it is suggested to offer internship courses to the commerce students of Mizoram which will enable them to put their learning into practice and will enhance their knowledge of accounting.
5. *Maintain books of account:* It is suggested that at the time of granting financial assistance such as loans, accounts which shows the financial performance and position of their enterprises needed to be checked by the bank so that benefits trickle down to enterprises which accounts are up to date and reliable
6. *Improving competitiveness through digital payments:* As majority of the micro entrepreneurs implement cash and cheque payment mostly which is traditional payment system. The study recommends for utilization of digital payment like internet banking, debit cards, credit cards and mobile banking application.

## **References**

Ademola, GO, Samuel OJ & Ifedolapo O, 2012, 'The Roles of Record Keeping In the Survival and Growth of Small Scale Enterprises in Ijumu Local Government Area of Kogi State', *Global Journal of Management and Business Research*, Vol. 12 no 13 Version 1.0

Annual Report (2017-2018). Ministry of Micro, Small and Medium Enterprises, Government of India (Retrieve from the website: [www.msme.gov.in](http://www.msme.gov.in)).

Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation.

Conference on Startups and MSMEs in Food Processing organized by ASSOCHAM in conjunction with Ministry of Food Processing Industries (MoFPI), NABARD and Mizoram University. (<https://knnindia.co.in/news/newsdetails/state/mizoram-has-ample-opportunities-for-startups-and-msmes-in-food-processing-sector-governor-of-mizoram>)

Das, AK & Dey NB, 2010, 'Financial and management accounting practices in small business: An exploratory study in India', *Independent Business Review*, Vol. 3, November-2.

Dey, NK, Kumar, B & Hassan, S, 2017, 'Financial accounting practices of MSMEs', *The Management Accountant*, Vol. 52 no. 1, pp 95-100.

District Industries Centre, Lunglei (<http://dcmsme.gov.in>)

Economic Survey, Mizoram 2017-2018. Planning & Implementation Department (Research & Development Branch), Government of India

European Commission, E, 2008, 'Enterprise and Industry Directorate-General: Find Report of the Expert Group: Accounting system for small enterprises - Recommendations and good practices.'

Gebremedihin, 2019, 'Challenges to Implement Proper Accounting Practices in Micro and Small Scale Enterprises (MSE), in case of Wolaita Sodo Town, Ethiopia', *International Journal of Advanced Research*, Vol. 7 no.3, pp 270-278

Howard, P, 2009. 'Good Recording Important for Successful Business', *Angelo State University*.

- Jeyaseeli, DEH & Justus, ER, 2014, 'Accounting Practices of Micro, Small and Medium Enterprises (MSMEs) in the Tirunelveli Municipal Corporation of Tamilnadu', *Global Journal for Research Analysis*, Vol. 3 no. 11, pp 16-19
- Jones, P, Simmons, G, Packham, G, Beynon-Davies, K & Pickernell, D, 2012, 'An exploration of the attitudes and strategic responses of sole proprietor micro-enterprises in adopting information & communication technology', *International Small Business Journal*.
- Kinney, WR, 2001, 'Accounting scholarship: Why is uniquely ours?', *The Accounting Review*, Vol.76 no.2, pp 275-284.
- Lalhunthara, 2015, 'Financial inclusion and Entrepreneurship: A study of micro enterprises in Aizawl district, Mizoram', *ZENITH International Journal of Business, Economics & Management Research*, Vol.5 no.9, pp 31-40.
- Madurapperuma, MW, Thilakerathne, PMC & Manawadu, IN, 2016, 'Accounting Record Keeping Practices in Small and Medium Enterprises (SME) in Sri Lanka', *Journal of Finance and Accounting*, Vol. 4 no. 4, pp 188-193
- Maheshwari, SN & Maheshwari, SK, 'An Introduction to Accountancy', 2003, Eighth Edition, *Vikas Publishing House Pvt Ltd*.
- Micro, Small and Medium Enterprises Development (MSMED) Act 2006, Ministry of Micro, Small and Medium Enterprises, Government of India.
- Mwangi, BW 2011, 'Accounting Systems in Small and Micro Enterprises in Kenya', *Journal of Language, Technology and Entrepreneurship in Africa*, Vol. 3 no.1, pp 78-98.
- Priskil Lalremruati & Lalneihtluangi Fanai, 2018, 'Financial inclusion with reference to food & grocery shop owner in Aizawl', *International Journal of Management Studies*, Vol. 5 no.4, pp 37-44.



- Ram K. Vepa, 1988, 'Modern Small Industry in India-Problems and Prospects', *Sage Publications*, New Delhi, pp 119
- Siop, P & Ahmed, K, 2000, 'The use of accounting information by small enterprise owner/manager in emerging economics: The case for Papua, New-Guinea', *Journal of Accounting and Finance*, Vol. 4 no. 2, pp 41-45.
- Uddin, R, Biswas, T, Julfikar, A & Khatun, MS, 2017, 'Accounting Practices of Small and Medium Enterprises in Rangpur, Bangladesh', *Journal of Business and Financial Affairs*, Vol. 6 no. 4, pp 1-12
- Wichman, H, 1983. 'Accounting and marketing – Key small business problems'. *Am. J. Small Bus*, vol. 7 no. 4, pp 19-26.