Chapter-I

Introduction

1.1 General Introduction:

Small Business development as an issue has become more increasingly important in recent years in both developed and developing countries (Ray and Hutchinson, 1983). Substantial money and energy world-wide has been invested in support services for the small and mid-sized enterprises (SME) sector, as interest has grown in the development small enterprises (Bolton Committee, 1971; International Labour Organisation, 1992)

The attention in and significance of micro-enterprise development among economic architects and international assistance agencies stem from the need for more direct assistance to the reduction of poverty (Neck, 1977). In contrast to 'top down' economic planning and execution, micro (small) enterprise programs are based on several 'bottom up' development principles which include the need of the following (Harper, 1984, James and Rose Ackerman, 1986):

- Self-employment opportunities among the poor;
- Employment which is labour intensive rather than capital and education intensive;
- Economic growth based on small scale business initiatives;
- The use of natural resources in the economic development process;
- The use of natural resources in the economic development process;
- Development strategies that assist in the transformation of economic creativities and opportunities from the informal to the formal sector;
- Economic development opportunities for indigenous population as opposed to 'alien minorities' within a developing country's social and economic structure;
- Poverty alleviation through new sources of income;
- 'Another incubator environment' from which indigenous service and knowhow can be developed for expanding a country's economic base;
- Technology adaption to indigenous resources;
- Development of entrepreneurial skills and talents.

Small business units constitute a large number of establishments in most developed and developing countries around the world. On an average, this sector comprises more than 90 per cent of the total number of businesses either in developed countries or in developing countries. Fan (2003) pointed out the advantages of SMEs that are generally accepted worldwide as including;

- Engine of growth: SMEs contribute to the growth by being the largest provider of employment and as a source of technological improvement and development of new products.
- Competitive and efficient market: A large number of SMEs creates competitive market pressure. This sector also plays a major role in removing regional and sector inequalities in the economy and as subagents in the reducing, privatization and rearrangement of large companies.
- Critical for poverty alleviation: SMEs plays a very crucial role particularly in developing countries where poverty is most severe. SMEs are sometimes the only source of employment in poor regions and rural areas and this sector is the only source of income for many poor.

As mentioned above various advantages, the SME sector has gained interest of the policy makers in the governments of countries who hunt for to develop and strengthen this sector in order to help the growth of the nation.

In spite of long drawn planning efforts the strategy for industrialization adopted in India's economic policy, such as providing gainful employment to surplus labour, alleviation of poverty, egalitarian distribution of income and wealth etc., could not be achieved successfully. The growing dis-enchantment with the supposed virtues of large scale economic units, has helped to refocus attention on the "Small Business".

In India role of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well recognised. MSME sector is a nursery of entrepreneurship, often driven by individual creativity and innovation. This sector contributes 37.54 per cent of the country's GDP, 37.33 per cent of the manufactured output and 40 per cent of total exports. The MSME sector provide employment to about 117 million persons through 51 million enterprises. In the MSMEs labour to capital ratio and the overall growth is much higher than in the large industries. MSMEs are more evenly distributed in different geographic parts of the nation. Thus, MSMEs are important for the national growth objectives that is 'inclusive economic growth'.

(Annual Report 2015-16, Ministry of Micro Small and Medium Enterprises, Government of India.)

During the struggle for independence in India, Mahatma Gandhi-"Father of the Nation" has been keen on the protection and expansion of traditional, mainly rural, household enterprises. Another stand of thinking has been shaped by the report of the Ford Foundation team (Government of India 1954) which emphasised the role of modern small-scale units as an industrial structure.

It is small business firm running in an unorganised sector without any management structure that typically hire/ engage employees of marginal ability (unskilled labour). This term might apply to teen-agers seeking their first job. These individuals often cannot find employment with larger units. Another social benefit from small business is that of leadership training that the young people get in a more practical business environment.

Today most of the countries are suffering from huge economic depression and thereby economic growth slowed down. In this crucial juncture small business can act as a shock-absorber for these depressed economics. It has a "flexible element" in the economic growth (Odaka and Sawai, 1990). In ever changing economic climate, small business in different countries have demonstrated vitality and high level adoptability as they thrive everywhere and continue to seize upon new business opportunities. It is therefore, that small business which adjusts itself with the new requirement of the economy and at the same time they will successfully help to revitalise the stumbling economies.

Establishment of small business units would provide youth, their fruitful opportunities for self-expression and for increasing their natural well-being. Younger generation of the country feel frustrated because they do not have guarantee that their education and scientific talents would be fully utilised. Therefore, increasing the small and medium sectors of Indian economy would strengthen the back-bone of society and also curb social unrest in the economy (Barpujari,2002).It is more so in the North-Eastern Region(NER) of India, because all the states in this region are industrially backward, having insufficient infrastructure facilities and subsistence nature of agriculture where small business is the only ray of hope for large number of people for survival and Tripura is not the exception as an important state of North-East.

The existing literature strongly supports the view that in small business, financial accounting and reporting is one of the key issues for the success of the organisation. The major objectives of this study are to assess the level of perceived awareness of the owner-manager of small business about the financial accounting and reporting practices, to examine the actual uses of those tools and techniques available in different branches of accounting for decision making and financial performance analysis and their impact on the survival and well-being of the small units. The result of this study is expected to highlight the areas of Financial and Management accounting practices that require attention from the private and public organisations interested in development and growth of small business in India.

1.2 Statement of the problem:

It is understood that there is a significant role of MSMEs for the inclusive development of Indian economy as it contributes significantly to our countries GDP, creates employment and ensures effective use of natural resources. Good number of research work is available on small business and in particular about small business failure rates (Watson and Everett, 1996). Nevertheless, the most significant reason for this high failure rate is the inability of small business units to make adequate use of important business and management practices. Many small firms fail to develop an initial plan, and those who are able to establish a plan fail to make it up to date and use it as a benchmarking tool. Similarly, Wichmann (1983) claimed that one of the causes for business failure is inefficient management of business which includes accounting problem-solving. Accounting control is vital for success of a business whether small or large. Therefore, good financial records must be constantly maintained in business if it is to have effective financial control (Pickle and Abrahamson, 1990). Sound record keeping and analysis can generally increase the possibility of solving many unseen problems early. Financial management comprises essentially the planning and control of financial resources that is money. To be a good owner/manager, one has to cultivate the art of analysing and interpreting financial statements, which are prepared using money as a measure. To prevent their units from spinning 'out of financial control', a small business owner "should start with good control system right from the beginning so that there is constant knowledge about what is going on" (Peters and Waterman, 1994). Further, Hopper et al. (1999) using data based on the results from Japanese companies 'concluded that a failure to adopt management accounting practices

specially in the area of cost management systems in a similar way to their larger counterparts and to use of new forms of control techniques that are more profit oriented may be a factor in the currently high failure rate of small businesses.

Holmes and Nicholls (1989) in an Australian context, indicates that management accounting information, its usage or non-usage is associated with success (and failure) in SMEs. They also commented that SMEs has a potentially important influence on performance within the Australian economy. Considering these relative importance of SMEs as an initiators of economic well-being reinforces the significance for research in this particular area.

Accounting aspect of a small business is often assumed as most neglected area, because owners/managers of the small enterprises do not understand its functions and utilities for business survival and growth. As a result, the simplest items, like keeping track of cash or tracking exactly how the business is doing, get lost (Peters and Waterman, 1994). They recommended that small businesses owners/managers should "look at this kind of information as a proactive management tool, not merely as historical information". Another study by Potts (1992) on financial accounting and control techniques in small business concludes that "the clearest and most startling differences between successful and discontinued small business lies in their approach to the uses which can be made of accounting information"

For these reasons MSMEs offer a potentially rewarding location for investigating financial and management accounting practices and exploring the factors underlying their development. At present in Tripura there is a shortage of information on the perceived awareness and extent of use of financial and management accounting practices among the MSMEs of Tripura. Given their small size especially in the context of developing countries, there is a possibility that MSMEs do not aware about tools and techniques available for managing small businesses and inability to take full advantage of the opportunities that may create better accounting information for business decision making. The absence of data on financial and management accounting practices in MSMEs has perhaps prevented the Indian regulators/policy makers from taking actions that might improve the functioning of Indian MSMEs. Consequently, there are significant gaps in the knowledge base relating to awareness of financial and management accounting practices and their uses for better management of MSMEs in

Tripura and in India as well, which should be filled on the grounds that the information provided may strengthen government policy towards the sector.

Therefore given the significant economic importance of MSMEs and the gap in the literature, this researcher aims to obtain a broad overview of awareness and use of financial and management accounting practices within the MSMEs of Tripura, their roles in the management of MSMEs.

1.3 Conceptual Framework:

1.3.1 Evolution of definition of MSMEs:

There are several definitions of the term small and medium enterprises (SMEs), changing from country to country and varying between the sources reporting SME statistics. The commonly used measures at the international level to define SMEs are the number of employees, total net assets, sales and investment level. If employment is the measures to define, then there exists variation in defining the upper and lower size limit of a SMEs.

In India, Small Scale Industry (SSI) and Small Industrial Policies have been a widely known phenomenon. From the First Industrial Policy Resolution, 1948 later on the industrial policy statement, 1977, 1980 and 1991 with new policy measures for Small, Tiny and Village enterprises, reiterated than the main thrust should be on the effective promotion and development of SSI.

The policy framer also recognise that despite all the promotional measures through policy direction, the SSI must be appropriately defined with a view to determining the types of small business units which needed special support. It was considered necessary to develop an appropriate classificatory definition for SSI units for the first time under the Industrial Development and Regulation Act, 1951. Since then, the definition underwent many revisions during the last 50 years, where cut-off point has shifted from a workforce to an investment criterion (SIDBI, Report on SSI sector, 1999). In the Table No: 1.1 the periodic revisions in the official definition of SSI sector in India are summarised below:

Table 1.1: Evolution of official definition of SSI in India

Change over time (year)	**Investment criteria**		**Employment criterion**
	Normal small scale units	**Ancillaries**	
Up to 1958	Fixed capital investment up to ₹ .5 million	Fixed capital investment up to ₹ .5 million	Employment up to 50 workers if using power or up to 100 workers if not using power.
1959	The value of machinery was taken as the original price paid irrespective of new or old machinery.	The value of machinery was taken as the original price paid irrespective of new or old machinery	Employment up to 50 workers if using power or up to 100 workers if not using any power.
1960	Gross value of fixed assets up to ₹ .5 million	Gross value of fixed assets up to ₹ 1.0 million	Employment criteria dropped.

Table 1.2: Evolution of official definition of SSI in India using Investment Limit

INVESTMENT LIMIT **(APPLICABLE ONLY TO PLANT AND MACHINERY, RUPEES MILLION)**				
Year	Normal SSI (₹ in million)	Ancillary (₹ in million)	Export oriented small units (₹ in million)	Tiny units (₹ in million)
1966	0.5	1.0	--	--
1975	1.0	1.5	--	--
1977	1.0	1.5	--	0.1
1980	2.0	2.5	--	0.2
1988	3.5	4.5	--	--
1991	6.0	7.5	7.5	0.5
1997	30	30	7.5	2.5
1998	10	10	7.5	2.5

- For an ancillary unit there is a requirement to supply at least 50 % of its product/services to other under taking.
- Export-oriented units are under obligation to export at least 30% of the annual production by the end of the third year and onward from the year of commencement of production.
- A SSI unit cannot be controlled or owned by or be a subsidiary of any other industrial undertaking.

(**Source**: NPC *Research Division And Kashyap* (1995) for details until 1991 as cited by A. K. Das in 'Financial Management: A Study of Small Business in North Eastern Region of India')

Definition of MSMEs as per the MSME Development Act, 2006

Presently in India, micro, small and medium enterprises as per the MSME Development Act, 2006 has been defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment's for enterprises providing services. As per this act the Micro, Small and Medium Enterprises (MSME) are classified in two Classes these are as follows:

Manufacturing Enterprises- The enterprises engaged in the manufacture or production of goods relating to any industry specified in the first schedule to the industries (Development and Regulation Act, 1951). The Manufacturing Enterprise is defined in terms of investment in Plant & Machinery.

- A micro enterprise is an enterprise where investment in plant and machinery does not exceed ₹ 25 lakhs.
- A small enterprise is an enterprise where the investment in plant and machinery is more than ₹ 25 lakh but does not exceed ₹ 5 crores.
- A medium enterprise is an enterprise where the investment in plant and machinery is more than ₹ 5 crores but does not exceed ₹ 10 crores.

Service Enterprises: The enterprises involved in providing or execution of services and are defined in terms of investment in equipment.

- A micro enterprise is an enterprise where investment in equipment does not exceed ₹10 lakh.
- A small enterprise is an enterprise where the investment in equipment will be more than ₹10 lakh but does not exceed ₹2crores.
- A medium enterprise is an enterprise where the investment in equipment will be more than ₹2crore but does not exceed ₹5 crores.

The scope and coverage of the MSME sector has extended significantly under the MSMED Act, 2006, which included the concept of "enterprise" to include both manufacturing and services sector. Moreover, as per revised definition of small enterprises the medium enterprises also come under this sector. As a result the entire non-agricultural sector of economy was taken under the coverage of MSME sector.

1.3.2 Definition of financial accounting and related terminologies:

Financial Accounting: It is commonly termed as Accounting. The American Institute of Certified Public Accountants defines Accounting as "An art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are in part at least of financial character and interpreting the result thereof."

Cash book: The book assigned for recording business transactions involving receipts or payments of cash.

Sales book: Also known as Sales Journal, this subsidiary book is used to record all credit sales of goods in which the firm normally deals.

Purchase book: Purchases book is also known as the Purchases Journal or Invoice book. This book is used to record all credit purchases of goods.

Debtors book: It contains the accounts of customers to whom goods have been sold on credit.

Creditors book: It contains the accounts of suppliers or creditors from whom goods have been purchased on credit

Depreciation: Depreciation is an amount of the wearing out, consumption or other loss of value of a depreciable asset arising from use, passage of time or obsolescence through technology and market changes. Depreciation is distributed so as to charge a fair amount of the depreciable amount in each accounting period during the expected useful life of the asset.

Profit & Loss Account: The profit and loss account can be defined as a report that summarises the revenues and expenses of an accounting period to reflect the changes in various critical areas of firm's operations.

Balance Sheet: A balance sheet is a list of assets and claims of a business at some specific point of time and is prepared from an adjusted Trial balance. It shows the financial position of a business by detailing the source of funds and the utilisation of these funds.

Cash flow analysis: Cash flow analysis provides information regarding the cash inflows and outflows of an organisation during a particular accounting period.

Fund flow analysis: Fund flow analysis provides information regarding the movement funds of an organisation during a particular accounting period.

Trend analysis: Trend analysis is helpful in making a comparative study of the financial statements of several years. This analysis exhibits the upward or downward trend to which the concern is proceeding.

Return on Investment (ROI): A measure of income or profit divided by the investment required to obtain income or profit.

$$\text{ROI}=\frac{Net\ Profit\ after\ tax}{Shareholder\ Funds}x100$$

Gross Profit Ratio: The gross profit ratio measures the relationship of gross profit to net sales and is usually expressed as a percentage.

$$\text{Gross Profit Ratio}=\frac{Gross\ Profit}{Net\ Sales}x100$$

Operating Profit Ratio: The operating profit ratio is calculated by dividing operating profit by sales.

$$\text{Operating Profit Ratio}=\frac{Operating\ Profit}{Sales}x100$$

Net Profit Ratio: Net profit ratio shows the relationship between the net profit (after tax) and net sale. It is usually expressed as a percentage.

$$\text{Net Profit Ratio}=\frac{Net\ Profit}{Net\ Sales}x100$$

Return on Equity (ROE): Return on equity, shows the relationship between profits of a company and its equity capital.

$$\text{ROE}=\frac{Net\ Profit\ after\ tax}{Share\ Capital}x100$$

Return on Capital Employed (ROCE): The return on capital employed establishes the relationship between profits and the capital employed. It is the primary ratio and is most widely used measure to know the overall profitability and efficiency of the firm.

$$\text{ROCE}=\frac{Adjusted\ Net\ Profit}{Capital\ Employed}x100$$

Current Ratio: This is the most important liquidity ratio. It point out the firm's ability to pay its current liabilities out of its current assets. It shows the firm's obligation to meet its short-term liabilities.

$$\text{Current Ratio}=\frac{Current\ Assets}{Current\ Liabilities}$$

Liquid Ratio: This ratio is calculated by dividing the quick asset by current liabilities. It indicates the firm's ability to pay its current liabilities out of its most liquid assets.

$$\text{Liquid Ratio}=\frac{Liquid\ \ Assets}{Current\ or\ Liquid\ Liabilities}$$

Average Collection Period: This ratio signifies the average number of days for which a firm required to wait before its receivables are converted into cash.

Average Payment Period: Average payment period ratio denotes the average number of days needed by the firm to pay its creditors. Generally, lower is the ratio, the better is the liquidity position of the firm and vice versa.

Gearing Ratio: This ratio shows the relationship between the fixed interest-bearing securities and the equity shareholders fund.

$$\text{Capital Gearing Ratio}=\frac{Fixed\ Interest-bearing\ Securities}{Equity\ Shareholders\ Fund}$$

Interest Coverage Ratio: This ratio measures the debt servicing capacity of the firm. Lenders check this ratio before deciding on lending the money to any firm.

$$\text{Interest Coverage Ratio} = \frac{Net\ profits\ before\ interset\ and\ taxes}{Interest}$$

1.3.3 Definition of cost accounting and related terminologies:

Cost Accounting: According to the Chartered Institute of Management Accountant (CIMA), Cost accounting is defined as "application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability as well as the presentation of information for the purpose of managerial decision- making."

Absorption Costing: Absorption costing is a method of calculating the cost of a product or enterprise by taking into account indirect expenses (overheads) as well as direct costs.

Variable Costing: Variable costing consider only the variable costs to determine the cost of production of a product and the fixed costs are treated as period expenses.

Job Costing: Job costing system is used where it is required to ascertain the cost of a job or a particular order or of a batch of finished goods and also to determine profit or loss on each such job.

Batch Costing: Here the cost of a group of products is ascertained. Batch costing is used by engineering factories producing components or spare parts in economical batches and also by factories which produce a small number of items, but each item on mass scale.

Contract Costing: Contract costing is a variant of job costing system applicable particularly in case of organisations doing construction work. It is also known as Terminal costing.

Process Costing: Process costing has been defined by Kohler as "A method of cost accounting whereby costs are charged to processes or operations and averaged over units produced".

Target Costing: A market based cost that is determined using a sales price essential to capture a pre-determined market share. Symbolically, Target Cost= Sales price (for the target market share) - Desired profit

Activity Based Costing: A system that first accumulates overhead costs for each of the activities for which cost incurred and then allocates the costs of activities to the products, services or other cost objects that require that activity.

Cost of Quality (COQ): Cost of quality is a technique that measures the costs related to prevention and identification of defects the costs due to occurrences of defects.

1.3.4 Definition of management accounting and related terminologies:

Management Accounting: Management Accounting is concerned with the use of Financial and Cost Accounting information to managers within organizations, to provide them with the basis in making informed business decisions that would allow them to be better equipped in their management and control functions.

Budget: A quantitative expression of a plan of action and an aid to coordinating and implementing the plan.

Sales budget: The result of decisions to create conditions that will generate a desired level of sales.

Purchase Budget: Purchases budget is a special type of financial plan which reports the total estimated costs or units of commodities or inventory that are anticipated to be purchased by a manufacturer/business in an accounting period. In other words, this is the budget that owner or manager use to plan inventory purchases for the forthcoming periods.

Production Budget: The production budget determines the number of units of finished goods that must be produced, and is resulting from a combination of the sales forecast and the proposed amount of inventory as finished goods to have on hand.

Cash flow Budget: A statement of planned cash receipts and disbursements.

Monthly Budget: A budget which is prepared for a 30-days period. A monthly budget outlines both the income and expenditures that are expected to be received and paid over the coming month.

Annual Budget: An annual budget is any budget that is prepared for a 12-month period. An annual budget outlines both the income and expenditures that are expected to be received and paid over the coming year.

Continuous Budget (Rolling Budget): A common form of master budget that adds a month in the future as the month just ended is dropped.

Flexible Budget: In essence, a flexible budget is a range of budgets covering a number of different expected levels of activity.

Activity Based Budgets: Budgets that focus on the budgeted cost of activities require to produce and sell products and services.

Incremental Budgeting: An incremental budget is prepared using a previous year's budget or actual performance as a basis with incremental amounts added for the new budget period. The allotment of resources is based upon allotments from the previous period.

Zero Based Budgeting: I.C.M.A., London, defined ZBB as "A method of budgeting whereby all activities are re-evaluated each time a budget is formulated. Each functional budget starts with the assumption that the function does not exist and is at zero cost. Increments of cost are compared with increments of benefits culminating in the planned maximum benefit given by budgeted cost."

Internal rate of return (IRR): A capital-budgeting method that determines the interest rate at which the NPV equals zero.

Net present value (NPV): A discounted-cash-flow method of capital budgeting that calculates the present value of all expected future cash flows using a minimum desired rate of return.

Payback period: The time it will take to recoup, in the form of cash inflows from operations, the initial money invested in a project.

Activity Based Management: Using an activity-based costing system to improve the operations of an organisation.

1.3.5 Some other important definitions:

Awareness: Knowledge that something exists, understanding of a situation or subject at the present time based on exposure to the source of information supported by requisite attention.

Perceived Awareness: Knowledge that something exists, understanding of a situation or subject at the present time based on personalised experience.

1.4 Review of Literature:

1.4.1 Financial Accounting Practices:

A substantial body of perspective literature has evolved dealing in whole or part with use of financial accounting tools and techniques by the small business units. Modern literature also suggested that differentiated accounting and reporting practice is required for SMEs (now MSMEs in India). In recent times, the books written on financial management for small business emphasise the importance of developing skills in reading and interpreting historical financial statements to monitor financial health and progress (Black, 1950; Tungale, 1952; Harmon, 1979; Rausch, 1982; McMahon, 1986; Meredith, 1986; Walker and Petty, 1986; Barrow, 1988; Scarborough and Zimmerer, 1993; Kuchl and Lambing, 1994). In journals of small business, many articles strongly advocated the use of financial analysis for small business units (Mayo and Rosenbloom, 1975; Konstans and Martin, 1982; McMahon and Davies, 1994).

Rice and Hamilton, (1979) in their study observed that small businessman employed a multidimensional, stochastic, non-quantitative decision making process which are informal in nature. All the theories governing business operational decision making presume that the owner/manager is rational, cogent and calculating individuals should use "scientific decision making". However study findings was that for a majority of small businessmen decisions were the result of 'experience', 'intuition', or 'guesswork'. This implies that in small business units scientific decision making process does not take place.

D'Amboise and Gasse (1980) examined the use of financial statement analysis by small manufacturers in Quebec, Canada and from the study result they found that small manufacturers engaged with shoe and plastic production, formally accepted the analyses based on financial statements. Their findings revealed that manufacturing firm's managerial decisions were largely based on the financial reports prepared by the account.

Dunne, et. al. (1980) emphasises on accounting information on as an aid in planning and control for small businesses. This effort has resulted in the better utilization of projected contribution margin income statements which acts as an aid to decision making and policy formulation. It is important that small business owners/managers

have an awareness of this approach which is designed to provide better transparency and understanding of their financial situation.

Rao, (1984) observed the non-existence of financial analysis and accounting practices among the small business owners/managers. Researcher also identified another type of problem for small business and the problem is increasing the financial assistance to the small business by the Financial Institutions due to lack of accepted accounting practices and financial management.

Study conducted by DeThomas and Fredenberger (1985) observed that 81% of the small enterprises regularly maintained summary of financial information. 91% of that summary of information was in the form of traditional financial statements namely balance sheets, profit and loss statements and fund flow statements. The remaining summary of information being bank reconciliation statements and operating summaries. Whereas no one among the surveyed businesses was regularly receiving cash-flow information. The study also found that 61 % of respondents felt the financial statements provided the information they required for planning and decision-making. However, only 11 % of respondents reported that they had used financial statement information formally as part of managerial evaluation, planning and decision making, only 2% of businesses utilized financial ratio analysis, and very few of them made even simple historical comparisons.

Williams (1986) evaluated the sufficiency of accounting records for 10,570 failed and surviving small enterprises operating all over Australia. The results were very much similar with Peacock's (1987) findings, which is a significant proportion of owners/managers kept inadequate accounting records. Holmes (1988) conducted a survey on accounting information requirements over 928 small enterprises operating in Sydney, Melbourne and Brisbane. 57% of respondents indicated that they used the double entry systems for recording transactions. This finding contradicting with Peacock's (1987) findings of categories of records maintained by failed enterprises, where only 2.1% of respondents were found to use double entry systems.

Hutchinson and Ray, (1986) from their study result concluded that outcome of growth can result in financial stresses such as cash-flow difficulties and excessive use of debt. These financial problems create a critical need for improved financial control which can come about through an upgrading of financial reporting and analysis system.

A study by Holmes and Nicholls (1988) concluded that the amount and nature of accounting information prepared or acquired is dependent on a number of operating and environmental variables like business size, age, industrial grouping, owner-managers education etc. The study also shows that there is a big gap between the owner-managers, awareness and use of financial techniques (Siop and Ahmed, 2000). They (owner-managers of small business units) are venturing into business without proper accounting and financial (control) 'know-how'.

Studies have been undertaken to determine the uses of financial ratios by the small business owner-managers to monitor their business performances (Lewis and Toon, 1986; Holems and Nicholls, 1989; McMahon and Davies, 1991). These studies have attempted to measure business success as a function of knowledge and use of financial information.

McMahon and Holmes, (1991) observed that those who ignoring the financial aspect of their businesses, they are facing the risk of becoming another business failure. To achieve the objective of profitability the small business owners-managers must aware about firm's overall financial position and changes in financial position that takes place over the time.

Research work on small business at West Midland, UK (Nayek and Greenfield, 1994) 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 (McMahon and Davies, 1994).

There is a wide gap between theory and practice of management accounting in case of small business. On the other hand financial accounting system is based on the traditional 'Mahajani' system and is incomplete in nature (Soral and Jain, 1994). Past experience and intuition play an important role in financial decision making. Among other factors, the non-use of financial tools and techniques for economic decision making has resulted in a variety of financial problems, which the small units face (Vinayak, 1987)

A small company might not have the in-house accounting expertise like a large company and therefore need to rely more heavily on outside accounting expertise resulting in higher fees. Complex accounting issues occur less frequently in small firms. These therefore lack the possibility to develop routine processes in order to benefit from economies like large firms (Bollen, 1996).

The public interest in a company is determined by its economic and social significance justifying higher levels of responsibility, transparency and strictness of financial reporting regulations for larger entities. Size is also regarded to reflect the structural complexity of a firm. Stakeholders involved with smaller firms usually have a closer relationship with these firms and as a result have access to additional information to those included in financial statements (Bollen, 1996, p. 38; Canadian Institute of Chartered Accountants, 2002, note 35). In small firms owners are often also involved in management, making the provision of financial statements to reduce agency conflicts between management and owners redundant (Bollen, 1996, John and Healeas, 2000). However, due to a lack of separation of ownership and control owner-managers can more easily engage in opportunistic behaviour at the expense of outside stakeholders. As a result, agency conflicts with outside stakeholders (especially lenders) may even be more prevalent in owner-managed companies than in public firms demanding stricter accounting regulation.

The findings of the study conducted by Siop and Ahmed (2000) suggested that there is a big gap between the Owners/managers awareness and the use of financial management controls/techniques. It seems Small Enterprise Owners/managers are venturing into business without proper financial "know-how". However the degree of awareness and usage is found to be positively affected by the level of Owners/managers

education level. Those Owners/managers who have an education level higher than the secondary level are more aware of financial controls/techniques and use more of them.

Sen, D. K. et al., (2001) concluded from their study that financial executives of the enterprises and corporations and government authorities concerned with the affairs of nationalised undertakings admit the usefulness of modern techniques of financial management but express disappointment over the benefit from their application due the various problems connected with their application. Such as high inflationary trend, reliability of data, management's attitude, want of qualified and imaginative financial executives, capital structure and cost of capital, inadequate internal sources of fund, and inadequate feedback of information.

Riistama and Vehmanen (2004) argue that the needs of SME accounts users differ from user needs in multinational enterprises. For example, the value of the firms at any point in time is less relevant than their ability to generate positive cash flows, and their profitability and liquidity. According to ICAS (1998), SME accounts users need assurance on profitability, solvency, and events of the previous year, future prospects, and the quality of management. Venture capitalist investors in SMEs, however, have broader information needs than are satisfied by external financial reporting conventions additional information has to be prepared by firms.

A major argument used to advocate size-based financial reporting relaxations relates to the costs of adhering to accounting regulation. The logic is that smaller entities may incur relatively higher costs for complying with financial reporting requirements than larger companies because they do not enjoy the accounting-specific economy of scale effects of large firms (Murray and Johnson, 1983, Evans et al., 2005, Coppens et al., 2006).

Researchers agree over the needs of accounting and financial records: "All small enterprises will need to keep some kind of financial records in order to keep financial control over their businesses" (The Final Report of the Expert Group Accounting systems for small enterprises Recommendations and good practices issued by European Commission Enterprise and Industry Directorate – General Promotion of SMEs' competitiveness – November 2008, Page 24).

Halabi, A. K. et al., (2010) their in-depth analysis revealed that, very basic understanding of accounting information and problems with the financial literacy amongst these small firm owners. Accounting reports were not widely produced or used, so an informal assessment, such as how much cash was in the bank, was the primary means of assessing business performance. Accountants were used for taxation services, although some owners sought more general business advice.

Das and Dey, (2010) highlight the wide gap between theory and practice of financial management. Only 12 (out of 28 most commonly used financial management tools and techniques) financial management tools/techniques were known to owner-manager of North-Eastern region of India. The survey result revealed that, only 15 percent of the small business units of North-Eastern region of India kept their accounting information up to date on a daily basis; 36 percent on a monthly basis and 49 percent i.e. majority of them up to date their accounting records on yearly basis. The study also indicates that older business units were more knowledgeable and diligent enough in record keeping about their business than younger business. The study observed a different pattern of behaviour in financial record keeping in the field of cost accounting, pricing decision, credit management, inventory management and capital investment decision, which are at total variance with the prescribed standard rules of financial management and accounting.

Olawale Fatoki, (2012) study focused on six areas of financial management namely financial planning, analysis and control, accounting information, working capital management, investment management and management accounting. The results indicate that micro-enterprises do not engage in financial planning, analysis and control. In addition, under accounting information, most of microenterprises keep sales book and purchases book. However, the use of other accounting books such as drawings book is limited. Also, none of the micro-enterprises makes provision for depreciation. Pricing decisions of micro-enterprises are mainly to realise the objective of maximising profit, sales and market share. The results for working capital management are mixed. In addition, micro-enterprises do not engage in any form of evaluation when making investment decisions. However, micro-enterprises do engage in a limited level of accounting information and seem to have a pricing strategy.

1.4.2 Uses of Computer for Accounting:

Farhoodman and Hryck (1985), examined the most important applications of computers and they surveyed over 69 small enterprises across the USA, it was found that accounting ware rated as the highest percentage. Palmer (1994) also interviewed 36 small retail owner-managers and found that 33% of the responding small businesses used computerized accounting systems. Reviewing previous research results it can be concluded that accounting and financial management applications dominated the use of computers in small and medium enterprises in the North America in 1980's and 1990's.

Collis and Jarvis, (2002) opined that small firms should make parallel of their management information on the basis of changing computerised accounting systems, the firms' capacity and resource constraints may hinder the process. This results was confirmed by Marriott and Marriott (1999) qualitative study, where they observed that higher use of computerised accounting packages was highly used in small firms where the owner-managers possessed good financial skills.

Ushakiran and Karunasri, (2007) found that 35% of business entities computerised accounts on the advice of friends followed by self-motivation (30%), on suggestion of chartered accountant (21%) and motivation from software companies14%. Regarding use of computer in the business they observed that 70% of the business houses adopted computers for the maintenance of accounts only whereas 28% of the organisations using it for both accounts and billing. Just 2% of the organisations are using computer for billing.

Sian and Roberts, (2009) from their study it was found that most SMEs produce accounting records, often based on computerised packages. However, financial awareness varies significantly and there is evidence that most small enterprise owners rely on their accountants to prepare their financial statements and are often left bewildered by the complexity of the information provided. With UK and the future IASB standards being designed to meet the needs of the largest small and medium-sized enterprises (SMEs), there does appear to be a relatively high level of agreement that specific guidance for much smaller entities would be desirable. However, many of the accountants felt that some aspects of existing regulations, such as the UNCTAD

level 3 guidelines, were too complex, indicating that regulators need to carefully consider the contents of regulations for the smallest entities.

Survey conducted by Padachi (2010) among the manufacturing small business in Mauritius, observed that 20% and 46% of the enterprises claimed to have a computerised and partly computerised accounting system respectively. This indicates the level to which the enterprises trusted on IT and its extensive use validates previous research (Collis and Jarvis, 2002). The accessibility of ICT in organisations in itself should enable the implementation of proper control and management of enterprises of Mauritius.

Most of the micro businesses depend on manual methods, whereas small businesses are more likely to use computerized accounting systems. In case of accounting reports, the profit and loss statement is produced by 65% of micro businesses and 80% of small businesses, nevertheless significantly more number of small businesses produce a balance sheet. The use of accounting software packages by owner-managers in SMEs will improve accounting practices (Dyt and Halabi, 2007; Zhou, 2010).

This study Jamaliah S. et al., (2011) examines the implementation of computerised management accounting system (CMAS) among small to medium size construction companies in the Klang Valley, Malaysia. Specifically, this study examines whether the small to medium size construction companies have computerised their management accounting system. If they do, this study identifies the factors influencing the system implementation. The results show that all (100%) of the construction companies participated in this study do have computer facilities. This provides early indication of SME construction companies in Malaysia might be using CMAS in their accounting function such as management report, budgeting, cash flow, credit control letter, scheduling and resource planning and material control. Further investigation discovered that SME construction companies especially those located in Klang valley do adopt CMAS in their daily operation. This is line with the development of ICT, in the Seventh Malaysia Plan (1996-2000), the Malaysian Government providing various incentives to facilitate the greater adoption of ICT amongst construction companies.

Survey conducted by Lingga (2013) in Indonesia, observed that majority of the MSMEs (95%) did not provide financial statement regularly. In other words only 5% of MSMEs provide financial statement regularly. However they are regularly recording business transaction and completely keeping the documents needed. Type of accounting records being kept and maintained by MSMEs are sales book (36%); purchases book (29%); expenditure book (19%); asset register (14%) and payroll records (2%). Account or ledger being kept and maintained are: cash (31%), accounts receivable (29%), inventory (29%), accounts payable (5%), fixed assets (5%) and payroll (3%). Most of respondents choose cash basis (64%) as a method of recording the transaction while the others choose accrual basis (36%). Majority of respondents (79%) use computer in recording transaction and some of them (70%) use accounting software in operation.

1.4.3 Management Accounting Practices (MAPs):

Chow et al. (1988) reviewed previous studies on MAPs. They conducted survey on the area of cost accounting system design, decision making, planning, control, and the use of quantitative methods. The researchers concluded that while many common approaches were identified, there are areas where practices diverge.

Shields et al. (1991), who recapitulated the MAPs literature in U.S and Japan, encountered that there are many similarities as well as differences in the use of management accounting between Japanese and U.S companies. They cited example that: there is about the same use of direct (variable) costing and full (absorption) costing in both countries though the Japanese firms report more frequent use of process costing to accumulate product costs and a higher percentage of U.S. firms do not use any form of CVP modelling. One of the biggest differences reported by them which is about the usage of capital budgeting decision models between Japanese and U.S. firms. Among discounted cash flow models net present value and internal rate of return were commonly used by U.S. firms. On the other hand, Japanese firms more frequently used pay back as the primary model.

Alnamri (1993) conducted a comparative analysis of Saudi and western approaches to determine any difference in acceptance rate of newly developed MAPs. From the study results it is observed that the western joint venture companies have a more contemporary management accounting system and their accountants have a greater role

to play in decision making and control. In addition to that the managers of the joint venture companies have a higher dependency on accounting information in decision making and control compared to their Saudi counterparts.

Bruggeman et al. (1996) surveyed the use of management accounting practices within Belgian companies. The outcome of the study was that traditional techniques were still in use although companies had started to adopt new techniques such as Activity Based Costing.

Ghosh and Kai Chan (1997) conducted their survey on management accounting practices by the Singaporean large companies specially working in the area of manufacturing and services sectors. From their study results it is observed that high level of adoption of budgeting and capital budgeting techniques (80% and above), this result followed by long-range planning, breakeven point analysis, return on investment and standard costing (50 to 80%) and a very low use of ABC techniques (up to 11%).

Pierce and O'Dea (1998) investigated Management Accounting Practices among Irish management accountants and reported that traditional techniques continued to rule management accounting systems (financial measures of control and performance evaluation); and the adoption of more modern techniques was generally low (ABC and target costing). This suggests that the main contribution of newer techniques may be in supplementing, as opposed to replacing, traditional techniques.

In India, Joshi (2001) examined the MAPs by the Indian manufacturing companies. Their study results indicated that the adoption rate of traditional MAPs, such as budgeting and performance evaluation, was higher than for contemporary techniques like target costing, customer satisfaction surveys, ABC, product profitability analysis. Their study supports the view that size has a major influence in determining the adoption of newly developed practices. Other reasons for this low adoption are the conservative attitude of Indian management, autocratic leadership, and long term orientation.

Phadoongsitthi (2003) get the parallel results in Thailand to those established in Singapore and India (see Ghosh and Kai Chan, 1997 & Joshi, 2001). From the study results researcher reported that Thai companies in the manufacturing and services sectors the adoption of traditional MAPs like budgeting, planning and performance evaluation practices was high but the adoption of newly developed techniques such as target costing, product life cycle analysis and zero-based budgeting (ZBB) was low.

Waweru et al. (2004) analysed use of management accounting changes over time within four African retail companies and found significant changes in management accounting systems within the four cases. Such changes include increased use of contemporary MAPs notably activity-based cost allocation systems and the balanced scorecard (BSC) for performance measurement.

Sulaiman et al. (2004) précised the previous findings on MAPs in developing countries. They found that the use of traditional management accounting techniques remains very popular in the four surveyed countries namely China, Singapore, India and Malaysia. They also found that the use of contemporary management accounting tools is very low in the four countries under examinations. The probable reasons cited by them were: a lack of awareness about the new techniques; absence of expertise; and finally reluctance of top management support.

Hyvonen (2005) delivered experimental evidence on Management Accounting Practices in Finnish manufacturing companies. The study documented the degree of adoption of the MAPs, the perceived benefits from their use and determined intentions for future improvements in these practices. The outcomes showed that financial measures like product profitability analysis and budgeting for controlling costs will continue to be important in the future, but also observed that greater emphasis will be placed on newer non-financial practices like customer satisfaction surveys and employee attitude surveys in the future.

Hutaibat (2005) examined the state of MAPs within Jordan‘s industrial companies. From the study results they concluded that the Jordanian firms are still using traditional MAPs rather than newly-developed MAPs. In a recent study conducted by Leftesi (2008) explored the state of traditional and advanced MAPs in Libyan medium and

large manufacturing firms. The study reported that the adoption rates of MAPs in Libyan firms are noticeably lower than the adoption rates of MAPs currently described in the management accounting literature. Nevertheless, the results are coherent with findings from the previous studies regarding the relatively high use of traditional MAPs as opposed to modern MAPs.

Islam and Kantor (2005), their study is all about to evaluated the development of quality MAPs, and from the results they found that national culture and values practised for centuries by Chinese businesses played a greater role for information dissemination and the development of MAPs. They argued that a lack of understanding of Western MAPs had slowed the pace of development of Chinese MAPs.

Abdel-Kader and Luther, (2006) conducted a study on MAPs in the UK food and drink industry. They found traditional management accounting are the most preferred techniques in the industry though there are indications of an increased use of information relating to cost of quality; non-financial measures related to employees and analyses of competitors 'strengths and weaknesses'. Direct costing is widely practiced and important, in comparison with activity-based costing and full absorption costing in UK food and drink industry. In spite of the limitation of conventional budgets, they remain a fundamental management accounting tool and are frequently used in what if analysis. Perceived importance of balance scorecard and other non-financial performance measures are very high but never or rarely used by the companies. Product profitability analyses are regularly applied and unexpectedly, the profitability of supplying individual customers is frequently calculated by over half of the population. Respondents were doubtful about sophisticated DCF investment appraisals.

Frezatti (2007) examined the MAPs in Brazilian medium and large companies operating in manufacturing and non-manufacturing sectors. His study results also showed that adoption rate is less for recently developed management-accounting practices (e.g. ABC, BSC, in full and EVA) than traditional management accounting practices such as budgeting.

Wu et al. (2007) researchers concluded from their study results that the level of adoption of MAPs was mostly influenced by ownership type of the enterprise namely joint ventures or state owned enterprise. Techniques such as budgeting and target costing are perceived to be more advantageous for state owned enterprises than joint ventures. However, responsibility accounting and accounting for decision making is perceived to be less advantageous to state owned enterprises than joint ventures.

Irala and Reddy, (2007) conducted study on Indian corporate and they observed that Indian corporates are fast in catching the new methodologies-40 percent (24 out of 60 firms) of the respondents considered EVA as the goal of the firm. While 44 percent are using CAPM to estimate the cost of equity, 44 percent are still preferring Pay Back Period as a project selection tool.

Abdel-Kader, M and Luther, R (2008) examine the impact of a range of potentially contingent variables on a broad set of management accounting practices in a sample of companies selected from the UK's largest industry sector. The variables concern to external characteristics, organisational characteristics, and manufacturing or processing characteristics. The results, derived from a large scale questionnaire survey, indicate that differences in management accounting sophistication are significantly explained by environmental uncertainty, customer power, decentralisation, size, AMT, TQM and JIT. The data firm up that customer power should be considered as an additional external variable in the contingency theory paradigm. Expectations of relationships between competitive strategy, processing system complexity and product perishability, and management accounting sophistication were not, however, supported by the data.

Butt, Z et al., (2010) in their study measures the effect of financial management practices on organization performance. On the basis of results of the study, it can be concluded that capital structure decision, dividend policy, investment appraisal techniques, working capital and financial performance assessment all have positive and significant impact on organization performance. However, as per the study, financial managers perceive financial performance assessment, working capital policy and capital structure decision more important than dividend policy and investment appraisal techniques. The results reveal that the decision makers and practitioners are well aware

of and agreed to the importance of financial management practices in the corporate sector.

The findings of the study conducted by Chand and Dahiya (2010) suggested that management accounting techniques have a great impact on different firm's aspect especially on cost reduction and quality improvement. Further results indicate the major obstacles for application of management accounting techniques in Indian SMHEs relating to ownership size characteristics and extensive high cost.

The findings of the research Al-Nimer, (2010) reported that within the Jordanian financial sector traditional MAPs are still widespread and highly used, rarely using the more sophisticated or advanced MAPs, and there is a diversity of MAPs are used in the financial sector context. Budgeting practices and financial measures are heavily used in the Jordanian financial sector. Activity Based Costing (ABC) was ranked the lowest used practice among the costing practices. Regarding the sophistication level of MAPs, the research predicted that in the future there would be an improvement in terms of the adoption of more sophisticated or advanced MAPs in the Jordanian financial sector which provide information regarding the reduction of resource waste in business processes and for the creation of value through effective resource use.

Alleyne and Marshal, (2011) observed that in terms of a costing system, separation of variable cost, incremental costs and fixed costs, use of plant-wide overhead rate and department or multiple plant-wide overhead rates were the most widely used. Interestingly, popular techniques such as activity based costing and regression and learning curve techniques were not widely used. With respect to budgeting, it was seen that budgeting for planning and controlling costs, "what if" analysis, zero based budgeting, and budgeting for long term (strategic) plans were the most popular practices. Importantly, cost volume profit analysis was widely used. Finding shows that strategic analysis is perceived to be a critical management accounting practice within these companies.

Garcia and Martinez, (2012) they analyse the effects of working capital management on the firm's profitability, researcher used the return on assets (ROA) as the dependent variable. (They defined this variable as the ratio of earnings before interest and tax to

assets.) With regards to the independent variables, researcher measured working capital management by using the number of day's accounts receivable, number of days of inventory, number of day's accounts payable and cash conversion cycle. Researcher identified a significant negative relation between an SME's profitability and the number of days accounts receivable, days of inventory and cash conversion cycle.

Previous research in the area of MAPs indicates that the main purposes of budgeting are planning future performance; planning future cash flows; planning the future financial position; planning future day to day operations; and controlling costs (see for example, Lyne, 1988; Armstrong et al., 1996; Chenhall and Langfield-Smith, 1998; Sulaiman et al., 2004; Fruitticher et al., 2004; Abdel-Kader and Luther, 2006). Budgeting is also used for performance evaluation, communication of goals and strategy formation (Guilding et al., 1998; Hansen and Van der Stede, 2004; Sulaiman et al., 2004; Fruitticher et al., 2004), to coordinate activities across business units (Chenhall and Langfield-Smith, 1998); and for timely recognition of problems and to improve the next period‘s budget (Joshi et al., 2003).

1.4.4 Budgeting practices:

Former research point out that the main intentions of budgeting are planning of future performance; planning future financial position; planning future cash flows; planning future day to day operations; and controlling costs (Lyne, 1988; Amstrong et al., 1996; Chenhall and Langfield-Smith, 1998; Sulaiman et al., 2004; Fruitticher et al., 2004; Abdel-Kader and Luther, 2006). Budgeting is also used for performance evaluation, communication of objectives and strategy foundation (Guilding et al., 1998; Hansen and Van der Stede, 2004; Sulaiman et al., 2004; Fruitticher et al., 2004), to coordinate events across business units (Chenhall and Langfield-Smith, 1998); and for timely identification of problems and to develop the next phase's budget (Joshi et al., 2003).

The use of particular types of budgeting technique such as flexible budgets, operational budgets, rolling budgets and Zero Based Budgeting has been investigated. Nik Ahmad et al. (2003) found that the adoption of flexible budgets in Malaysia is higher associated to those in United Kingdom and New Zealand. Comparatively low results were also observed by few studies (Pierce and O‘Dea, 1998; Szychta, 2002; and Abdel-Kader and Luther, 2006). Szychta (2002) recommended that the reasons of low adoption include:

‘usually no major change in activity within a year’; volumes do not move that significantly’ and ‘too complicated to report to non-financial departments’. The adoption rate of Zero Based Budgeting is less than 20 per cent on an average. For example, Abdel-Kader and Luther (2006) reported a 16 per cent adoption in the United Kingdom; Szychta (2002) found 17 per cent adoption rate for budget in Poland and a study by Joshi (2001) showed only 5 per cent adoption in India. Evidence on rolling budgeting is limited to Hansen and Van der Stede (2004) who found that 23 per cent of U.S companies were using rolling budgets.

From the viewpoint of controlling aspects of budgeting, Puxty and Lyall (1989) observed that lion's share of UK industrial companies were using both standard costing and budgeting system in their firms. Similarly Guilding et al. (1998) noticed that standard costing systems remain to be popular and that the majority of accountants surveyed did not imagine dumping standard costing and variance analysis in advanced manufacturing technology environments. Their comparisons between budgeting and standard costing practices in NZ and the UK shown a high degree of uniformity. De Zoysa and Kanthi Herath (2007) who conducted a study in Japan discovered that standard costing is still being used by a large number of firms both in developing and developed countries which is consistent with Guilding et al. (1998). The research suggests that the importance of standard costing has not declined significantly despite technological changes. Sulaiman et al. (2004) found that standard costing is still being used by a large majority of Malaysian firms. Thus, Malaysian companies believed that the fundamental philosophies of standard costing remain reliable to them.

In spite of its extensive use, budgeting has been criticised over the years, on a number of grounds. Hansen et al. (2004) stated that the experts claim that budgets hinder the allocation of organizational resources to their best uses and promote short-sighted decision making and other dysfunctional budget *games*. Partially they recognised these problems of conventional budgeting in financial planning, top-down command and control orientation as rooted in annual budget planning and performance evaluation processes. Bourne (2004) commenced a worldwide review of budgeting. The study results showed an extensive dissatisfaction with the budgeting process. The list of complaints was in line with previous research: the process was too much time consuming, huge costly, can be distorted by gaming, it gives more focus on cost control

and so on. Most importantly, budgeting often seemed to be almost totally divorced from the company's overall strategic direction.

Dugdale and Lyne (2004) examined the present use of budgets in forty UK medium and large companies. All respondents covered under this research confirmed that their companies set budgets, normally starting this process four to six months before the start of the financial year. Eighty percent of the respondents agreed that there were frequent modifications to the budget during the budgeting process. In Polish firms a study were conducted by Szychta (2002), found that annual operating financial budgets are prepared by a substantial proportion of the companies studied, primarily large manufacturing and service enterprises (80% of the respondents). However, master budget is prepared (complete or nearly complete) by a much smaller percentage of enterprises (17%). The remaining enterprises prepare different types of component budgets, mainly sales, production and cost budgets. Joshi et al. (2003) exposed that most of the Bahrain companies surveyed prepared long-range plans and operating budgets.

However as noted above, regardless of all the limitations in traditional budgeting, the majority of researchers have realised that the use of traditional budgeting is still widespread. For example Hansen et al. (2003) argued that the great majority of U.S. firms maintain a formal budgeting process regardless of long list of problems and many calls for improvement in budgeting. Similarly Dugdale and Lyne (2004) observed that budgeting is alive and well in position. They concluded that while traditional budgeting is now more likely to be combined with increased use of non-financial indicators and its removal seems to be questionable.

1.4.5 Performance evaluation of small business:

Performance evaluation was one of the important function of management accounting (Emmanuel et al. 1990). Performance evaluation make available information for managers to support the success of their organization‘s strategic objectives (Jusoh and Parnell, 2008). Hall (2008) opined that in recent years organizations have wanted to develop extensive performance measurement systems (PMS) to provide managers and other employees with information to support their operations. He added that extensive

PMS include a more varied set of performance measures, and performance measures that are associated to the strategy of the firm. He mentioned the examples of the popular techniques for delivering a wider view of performance measures are the balanced scorecard (Kaplan and Norton, 1996), tableau de bord (Epstein and Manzoni, 1998) and hierarchies of performance (Lynch and Cross, 1991). However the selection of methods to monitor and evaluate the performance of enterprises is one of the most critical challenges that are facing organizations (Ittner and Larcker, 1998a). In the year 2002, CIMA highlighted the outlines for performance measurement and management which are the value-based management (VBM); ABC and activity-based management; Balanced scorecard (BSC); benchmarking; strategic enterprise management (SEM); and six sigma. Literature available in this particular subject indicates that in general both financial and non-financial methods are used to measure performance of the organization (Gomes et al. 2004 and Demirbag et al., 2006).

Return on investment (ROI), a financial measure and profit measures were widely used in most countries: In the U.K Abdel-Kader and Luther (2006); in Japan Abdel-Maksoud et al. (2008); in Portugal Gomes et al. (2004); in Singapore Ghosh and Kai-Chan (1997); in India Joshi, (2001); in Egypt Ismail (2007) and in Malaysia Jusoh and Parnell (2008). Gomes et al. (2004) claimed that the high acceptance of financial measures may be credited to the fact that information required for these techniques is the more readily available. Jusoh and Parnell (2008) indicated that comparatively new financial measures, like economic value-added (EVA), have been applied to some studies. Though, earlier studies recommended that the use of EVA was not very popular because it is too difficult for managers to understand and use (Ittner and Larcker, 1998a).

Newly developed performance measure techniques based on non-financial measures, have been more frequently used by business units over the time (Drury and Tayles, 1993; Gomes et al., 2004; Ismail, 2007). Banker et al. (2000) suggested that financial measures are better indicators of future financial performance than any accounting measures and that is the reason enterprises are using nonfinancial performance measures and they are also valuable in assessing and motivating managerial performance. This improvement is in response to the significant criticisms of excessive emphasis and focus on the targeting of financial indicators. For example critics argued that stressing financial indicators may lead to short-term thinking (Gomes et al., 2004).

Non-financial performance techniques, those are related to customers have a higher adoption rate in comparison to the other non-financial techniques. Survey conducted by Drury and Tayles (1993) in 260 UK SMEs to know the status of use of MAPs and the results supported the importance of non-financial measures, mainly measures of customer satisfaction, product quality, delivery and supplier reliability. Abdel-Maksoud et al. (2008) observed that customer related measures are widely reported and are perceived to be important, a number of other measures related to quality, timeliness and efficiency and utilisation are also widely examined and has been considered as very important. Other studies have focused on the BSC. Speckbacher (2003) showed that only a minimum number of German firms in his sample (26%) used BSCs and most of these seemed to use only a inadequate or incomplete version. Ismail (2007) reported that the BSC widely used in the surveyed Egyptian companies, but the extent of use of multi-dimensional indicators is low. Previous survey delivered a number of insights into hindrances preventing the adoption of the BSC in a developing country the most significant hindrance being the inadequacy of existing information systems.

Survey conducted by Mia and Clarke, (1999) observed that the performance of an organization may be viewed as successful on the basis of organizational attainment of its planned targets. As per their study performance measurement techniques includes: cost of production, productivity, promptness of delivery, quality of goods, market share, growth rate in sales, operating profit, cash flow from operation, return on investment, new product development, R&D activity, and human resource development. Though good number of researchers have opined that improved management accounting systems would lead to a better performance by firms (Mia and Clarke, 1999; Mitchell and Reid, 2000; and Reid and Smith, 2002), there is only limited research supporting this point. Recently, a number of studies have attempted to give a new thoughts in this particular area. The studies in this area have either examined a hypothesized direct relationship between the use of MAPs and performance of the organization or tested this association with MAPs as just one of a number of explanatory variables. Mixed results have been found in these studies in terms of the impact of MAPs on organizational performance.

Relevance of financial measures has been challenged in the current business environment. Immense competition has forced firms to apply management strategies and systems to overcome shortcomings of traditional financial measurement systems which has mainly short-term perspective (Said et al., 2003). As a result of this, in recent years organizations have required to develop more comprehensive PMS to provide managers and employees with information to support in managing their firm‘s operations (Hall, 2008). The BSC approach to management (Kaplan and Norton 1996) has gained importance in management accounting research as a way of incorporating financial and nonfinancial performance measures (Hoque and James, 2000). The implementation of BSC and its impact on performance was investigated by Hoque and James (2000), and Jusoh et al. (2008). Maiga and Jacobs (2003), who tested for complementary effects between BSC and ABC, found that ABC, when combined with BSC, had a significant positive impact on organizational performance. Investigation by Jusoh et al. (2008), suggested that the degree of multiple performance measures usage and effects on the performance of Malaysian manufacturers, advocated that the use of non-financial measures particularly, internal business process and innovation and learning perspectives of the BSC, boosted firm performance.

1.5 *Gap in the existing literature:*

The existing literature strongly support the argument that in small business, financial and management accounting is the key issue. It not only increase the success rate but also affects the level of performance.

Several studies (for example Dey, 1980; Das, 2006; Das and Dey, 2010) have been undertaken in North- Eastern India to determine the underlying problems of small businesses in the field financial management marketing, infrastructure etc. However, no study has been conducted exclusively so far on the awareness and uses of financial and management accounting tools and techniques by the MSME owner/manager of Tripura. This aspect of small business has been left untouched and has not been extensively researched.

The present study, therefore, is expected to contribute towards filling the present gap in the knowledge, prevailing in the area of small business in general and their financial and management accounting practices in particular. This study will also examine the impact of usage of financial and management accounting tools and techniques on the survival and growth of MSMEs in Tripura.

1.6 Objectives of the study:

Therefore given the significant economic importance of MSMEs and the gap in the literature, this research aims to obtain a broad overview of awareness and use of financial and management accounting practices within the MSMEs of Tripura, their roles in the management of MSMEs. Considering the importance and research gap for MSMEs in Tripura which has discussed above researcher set major objectives of the present study are as follows:

1) To assess the level of perceived awareness of the owner-manager of MSMEs about the tools and techniques of accounting system.

2) To examine the pattern of managerial use of the Accounting tools and techniques by the micro, small and medium enterprises.

3) To evaluate the impact of financial and management accounting practices on the survival and growth of the micro, small and medium enterprises.

1.7 Research Queries:

Proposed research works aims to address the following queries:

1. Whether the owner /manager of Micro, Small and Medium Enterprises (MSMEs) are aware of the Financial and Management accounting tools & techniques?

2. Whether they (owner /manager) make uses of the same in managing their enterprises?

3. Whether use of appropriate Financial and Management accounting tools and techniques can aid the growth and survival of MSMEs?

1.8 Hypotheses

On the basis of above research questions following hypotheses have been developed:

H_1: *There is a low level of awareness about the tools and techniques of accounting system among the owner/ manager of MSMEs.*

H_2: *There is a lack of synergy in the application of Financial and Management accounting tools and techniques among the MSMEs.*

H_3: *There is no impact of uses of accounting tools and techniques on the growth and survival of MSMEs of Tripura.*

1.9 Research Methodology

1.9.1 Research Design:

A research design provides the basic directions for carrying out the research project. In particular, a research design should provide relevant information that will most efficiently and effectively address the research questions or hypotheses (Hair et al., 2007). As suggested by Hair, there are three separate research designs: exploratory; descriptive; and causal. Out of these three, descriptive and causal research designs match the necessity to provide the relevant information for the above research questions and hypotheses. Descriptive data are needed to answer the first two research questions concerning the perceived awareness level about the financial and management accounting tools and techniques among the responding MSMEs and the extent of the use of financial and management accounting practices among the responding MSMEs of Tripura. Descriptive data will also provide the relationship between the extent of use of financial and management accounting practices and firm performance for the causal

research stage. Causal research which can also be called as explanatory research (Saunders et al., 2009) will test whether one variable (the independent variable) is responsible for changes in another variable (the dependent variable) (Emory and Cooper, 1991). The need for this research design reflects the hypotheses (hypothesis-3) developed in this study where both independent and dependent variables are included in order to form the required relationships. Specifically, the hypothesis will test the relationship between selected independent variables with the extent of the use of financial and management accounting practices (dependent variables). The third hypothesis will test whether there is the positive relationship between the extent of the use of financial and management accounting practices (independent variable) and the performance of the firm (dependent variable). Thus, given the requirements for descriptive data and hypotheses testing, this research calls for a descriptive and causal research design to make easy for meeting these needs. The exploratory research design, which attempts to discover a new relationships, patterns, themes or ideas and does not aim to test specific research hypotheses (Hair et al., 2007), does not conform to the study objectives and hence is not suitable for this study.

1.9.2 Sample selection method

According to Hair et al. (2007) representative samples are generally obtained by following a set of well-defined procedures, which are: defining the target population; selecting a sampling method; and determining a sample size. Therefore as recommended by Hair et al. (2007), this section will concisely explain the study's method to these three main procedures for selecting the representative sample.

1.9.2.1 Target population

Research questions in this study concern the perceived awareness, use of financial and management accounting tools and techniques by the MSMEs of Tripura and their impact on firm's performance. The target population identified for this research work is MSMEs of Tripura from the various industries comprises of manufacturing sector, handloom and service sector. For the present research work, Micro, Small and Medium Enterprises within the purview of MSMED Act, 2006 has been considered as population for the study. Definition of MSMEs as per MSMED Act, 2006 has already been discussed in section 1.3.1. As per the working definitions of MSMEs, there are 2289 registered MSMEs are there in Tripura (As per Annual report 2012-13, by the

Ministry of MSME, Government of India). In additions to that some unregistered organisations are also there.

1.9.2.2 Sampling method

The target sample of this study comprises of three subgroups: micro, small and medium sized enterprises as defined in section **1.3.1**. Considering the dominance of micro enterprises as per fourth all India census of MSMEs, it is important to ensure that cases from each group are adequately represented in the full sample. To control the relative size of each subsample, a stratified random sampling procedure has been used. In this procedure, a proportion of sample is taken from each stratum as per the weights of the each sub-groups and the subsamples are then joined to form the total sample (Judd et al., 1991). The concept of stratified random sampling is to make sure that every stratum gets proportionate representation (Ghauri et al., 1995) through the stratification process. With the help of this stratification researcher can compare the results from subgroups to ascertain whether or not size difference affects the use of financial and management accounting practices.

In order to determine the due proportion between the three subgroups, the stratification process can be done either by using proportionate or disproportionate stratified sampling. According to Hair et al. (2007), in a proportionate stratified sampling, the number of elements chosen from each stratum is proportionate to the size of particular strata, relative to the overall population size. On the other hand, disproportionate stratified sampling independently determines the sample size from each stratum without considering the size of the stratum relative to the overall sample size. In this procedure, the sample elements are chosen either according to another factor, such as their relative economic importance, or the variability of the data within each stratum (Hair et al., 2007). The variability among micro, small and medium enterprises here relates to how the use of financial and management accounting practices varies between micro, small and medium-sized enterprises. However the information on this variability is unknown since no research has been done in this topic on these particular groups in Tripura.

To determine the appropriate procedure, a comparison of sample sizes between a proportionate and a disproportionate stratified sampling approach is made. For disproportionate sampling, it will be based on economic importance of the subgroups (medium sized enterprise) since the information of the variability of the use of financial and management accounting practices in all the subgroups are unknown. Accordingly,

Table-1.4, 1.5, 1.6, 1.7 and 1.8 shows the effect of proportionate stratified sampling based on the number of establishments and Table-1.4 shows the effect of disproportionate stratified sampling based on economic contribution (in case of medium enterprises).

The importance of small business units in the economy of India as well as Tripura is well accepted fact. The present study, therefore, restricted itself to the study of micro, small and medium enterprises located in Tripura.

For the present research the working definition of MSME which will fulfil the quantitative characteristics as stated above, (in the population definition) will be considered. Due care has been given to include the sample of different segments of the small business population. The segments are Manufacturing units, Service units and trading units.

1.9.2.3 Sample Size

The determination of sample size is influenced by many factors that need to be taken into account simultaneously. The factors include the cost and time constraints, variability of elements in the target population, required estimation precision and whether the findings are to be generalized and, if so, to what degree of confidence (Hair et al., 2007). In determining the sample size, there is often an adjustment between the cost and time and large sample size. A larger sample size obviously involves more expenditure on collecting and analysing data (Henry, 1990). Thus this research must balance the trade-offs of attaining a sufficient sample size within budget and time constraints. To know whether the sample size can work within these constraints, it is essential to discuss aspects in determining the sample size. Good number of statistical formulas available to calculate an appropriate sample size but these manually require data on variability (standard deviation), estimation precision and degree of confidence. However, information on variability is unavailable since the variability of awareness and use of financial and management accounting practices among MSMEs of Tripura has not yet been assessed in any of the previous research.

Other guides take account of references to consistent rules of thumb provided by statisticians to help in determining sample size. Roscoe (1975) suggested that sample sizes larger than 30 and less than 500 are appropriate for most of the research. This is supported by Stutely (2003) who recommends a minimum number of 30 for statistical

analyses. The minimum sample size arises because statisticians have proved that a sample size of 30 or more will usually result in a sampling distribution for the mean that is very close to a normal distribution; a position which is important to ensure that spurious results do not occur (Saunders et al., 2009). Thus with the larger absolute size of a sample, the more closely its distribution will be to the normal distribution and thus the more robust it will be (Saunders et al., 2009). From another point of view, Kent (2001) suggested that for any kind of quantitative analysis, a minimum of 100 cases is needed. This would help to get a more workable statistical analysis and more meaningful result. On the other hand, Sekaran (2004) noted that for multivariate research (including multiple regression analyses), the sample size should be several times (preferably 10 times or more) larger than the number of variables in the study. In addition to the above guidelines, Oppenheim (1992) and Sekaran (2004) advise a minimum sample size for research that has a number of subsamples. According to Oppenheim (1992), the more subgroups, the larger the sample needed. As this study involves bivariate analysis with up to five variables, it would be sensible to aim to have at least 100 cases to ensure successful quantitative analysis. Details of sample selection has been shown in table-1.3, 1.4, 1.5, 1.6, 1.7 and 1.8.

Table 1.3: Summary of MSME of Tripura

District Name	Micro	Small	Medium	Total
West Tripura	1863	___	3	1866
North Tripura	248	0	0	248
South Tripura	167	0	0	167
Dhalai	08	0	0	08
TOTAL				2289

Source: *DIC of West Tripura, North Tripura, South Tripura & Dhalai District.*

Table 1.4: District wise sample selection from MSME of Tripura

District Name	Micro	Small	Medium	TOTAL	Sample selection			
					Micro	Small	Medium	Total
West Tripura	1863	___	3	1866	267	--	3	270
North Tripura	248	0	0	248	35	--	--	35
South Tripura	167	0	0	167	24	--	--	24
Dhalai	08	0	0	08	1	--	--	1
TOTAL				2289	327	0	03	330

Source: *Researcher's own Calculation from published data.*

Note: From 21st January, 2012 onwards there are 8 district in Tripura. The newly created four Districts are Khowai Unakoti, Sipahijala and Gomati but no separate administrative setup has been developed yet by government of Tripura, due to this reason only old district has been considered for sample selection.

Table 1.5: Summary of sample selection from different categories of MSMEs in West Tripura district.

Micro/Small/ Medium (Column-I)	Units registered under different category (Column-II)	Total number of units registered under different category (Column-III)	Weights (Column IV=(Desired sample for the district/Total number of registered MSME of that district)	Units selected for sample (Column-V=Col-III x Col-IV)
MICRO	Agarbatti/Bio-Fertilizer	15	.43770	7
	Agro based	11	.43770	5
	Bakery Product/Fish Feed/ Processing of edible nuts/Rice Milling/Packaged drinking Water/Dairy Products/Ice-Cream/Chiral(Beaten Rice)/Pickles/Chanachur	28	.43770	12
	Bamboo & Cane articles/ Wooden Products.	29	.43770	13
	Beauty Parlours	14	.43770	6
	Bricks/Cement Products	38	.43770	17
	Chemical and Chemical based	23	.43770	10
	Cotton textile	19	.43770	8
	DTP, Screen Printing, Still Photography/Computer Service	31	.43770	14
	Electrical machinery and transport equipment	21	.43770	9
	Engineering units	28	.43770	12
	Filtering & Purifying machinery/Iron removal plant/Repairing of pumps & Compressors	20	.43770	9

Cont…

Cont…

Micro/Small/ Medium (Column-I)	Units registered under different category (Column-II)	Total number of units registered under different category (Column-III)	Weights (Column IV=(Desired sample for the district/Total number of registered MSME of that district)	Units selected for sample (Column-V=Col-III x Col-IV)
	Jute & jute based	13	.43770	6
	Leather based	15	.43770	7
	Making of Candle/Decorative article/Mfg. of Stamps	29	.43770	13
	Metal based (steel fab)	44	.43770	19
	Mineral based	13	.43770	6
	Paper and Paper products	16	.43770	7
	Readymade garments & embroidery	35	.43770	15
	Repairing and servicing	27	.43770	12
	Rubber Sheets/Rethreading of Tyres/Moulded Industrial Accessories/plastic and petro based	32	.43770	14
	Soda water	9	.43770	4
	Wood/wooden based furniture	26	.43770	11
	Woollen, silk & article Thread based cloths	18	.43770	8
	Others	56	.43770	25
Small	NIL	0	0	0
Medium	3	3	100%	3
	TOTAL	**613**	**----------**	**270**

Source: *Researcher's own Calculation from published data.*

Table 1.6: Summary of sample selection from different categories of MSMEs in North Tripura district.

Micro/Small/ Medium (Column-I)	Units registered under different category (Column-II)	Total number of units registered under different category (Column-III)	Weights (Column IV=(Desired sample for the district/Total number of registered MSME of that district)	Units selected for sample (Column-V=Col-III x Col-IV)
M I C R O	Readymade garments & embroidery	26	.141129	4
	Wood/wooden based furniture	12	.141129	2
	Leather based	7	.141129	1
	Chemical and Chemical based	1	.141129	0
	Rubber, Plastic and petro based	7	.141129	1
	Mineral based	2	.141129	0
	Metal based (steel fab)	21	.141129	3
	Engineering units	34	.141129	5
	Repairing and servicing	42	.141129	6
	Others	96	.141129	13
Small	NIL	0	0	0
Medium	NIL	0		0
TOTAL		**248**	**------**	**35**

***Source**: Researcher's own Calculation from published data.*

Table 1.7: Summary of sample selection from different categories of MSMEs in South Tripura district.

Micro/Small/ Medium (Column-I)	Units registered under different category (Column-II)	Total number of units registered under different category (Column-III)	Weights (Column IV=(Desired sample for the district/Total number of registered MSME of that district)	Units selected for sample (Column-V=Col-III x Col-IV)
MICRO	Fabricated Metal Products	61	.1437125	8
	Bricks/Cement Products	32	.1437125	5
	Bakery Product/Fish Feed/ Processing of edible nuts/Rice Milling/Packaged drinking Water/Dairy Products/Ice-Cream/Chira(Beaten Rice)/Pickles/Chanachur	23	.1437125	3
	Maintenance & Repair of Motor Vehicle/Cycle/Automobile exhaust testing Centre	11	.1437125	2
	Making of Candle/Decorative article/Furniture & Fixture (Wooden)/Mfg. of Stamps	9	.1437125	1
	Servicing of Automobile Battery	1	.1437125	0
	Rubber Sheets/Rethreading of Tyres/Moulded Industrial Accessories	3	.1437125	1
	Beauty Parlour	2	.1437125	0
	Water Well drilling General Mech. Engg	1	.1437125	0

Cont…

Cont…

Micro/Small/ Medium (Column-I)	Units registered under different category (Column-II)	Total number of units registered under different category (Column-III)	Weights (Column IV=(Desired sample for the district/Total number of registered MSME of that district)	Units selected for sample (Column-V=Col-III x Col-IV)
	Industrial Consultancy	1	.1437125	0
	DTP, Screen Printing, Still Photography/Computer Service	3	.1437125	1
	Bamboo & Cane articles/ Wooden Products.	4	.1437125	1
	Jute articles	1	.1437125	0
	Basic Metals	2	.1437125	0
	Filtering & Purifying machinery/Iron removal plant/Repairing of pumps & Compressors	5	.1437125	1
	Textile garments/Tailoring	2	.1437125	0
	Repair of Cycle/Rickshaw	1	.1437125	0
	Agarbatti/Bio-Fertilizer	5	.1437125	1
Small	------	0	0	0
Medium	------	0	0	0
TOTAL		**167**	----------	**24**

Source: *Researcher's own Calculation from published data.*

Table 1.8: Summary of sample selection from different categories of MSMEs in Dhalai district of Tripura.

Micro/Small/ Medium (Column-I)	Units registered under different category (Column-II)	Total number of units registered under different category (Column-III)	Weights (Column IV=(Desired sample for the district/Total number of registered MSME of that district)	Units selected for sample (Column-V=Col-III x Col-IV)
M I C R O	Agro based	1	.125	0
	Wood/Wooden based furniture	1	.125	0
	Paper & Paper products	1	.125	0
	Electrical machinery and transport equipment	1	.125	0
	Others	4	.125	1
Small	------	0	0	0
Medium	------	0	0	0
TOTAL		**8**	**---------**	**1**

Source: *Researcher's own Calculation from published data.*

NOTE:

1) Total sample size for the survey has been determined by using online Raosoft sample size calculator with 95% confidence level, which is came out as 330 MSME units of Tripura. To calculate this sample size total registered MSMEs (2289 units) as on 31.03.2012 has been considered as population for the survey.

2) Industry wise classified data is available only after 01.04.2007 onwards as the new MSME Act came into existence from October 2006. As the classified data is not available for all the registered MSME units, researcher framed sample structure on the basis of available classified data for MSME in Tripura (i. e. considered such MSME data which has been registered within 1.4.2007 to 31.3.2012).

3) Though, by applying stratified random sampling, 330 respondents were identified from the respective districts, category wise on the basis of observation and they were interviewed with the schedule.

1.9.3 The method of data collection:

This research employs direct distribution of schedules among the respondents to collect the data. To achieve the above mentioned research objectives researcher went and meet with the respondents to collect the required data and/or to conduct interview with the respondents. Noteworthy to mention here in few cases, well trained surveyor has been sent to collect the data and also meet with the respondents to conduct interview with them.

Pilot survey is important to collect feedback about the schedule, the response rate and the timing of responses. Moreover, a pilot test will allow an examination of patterns of respondent's answers and thus their understanding of the questionnaire (Dillman, 1978). Accordingly, the schedule developed for this study was administered after taking feedback among fellow academics at ICFAI University, Tripura. The feedback on schedule aimed to clarify the wording of both the schedule instructions and questions. No significant issues were raised. A pilot study was conducted on 40 MSMEs, a response rate of 100% was achieved, which was in line with expectations. It was also noted that completion of the schedule did not appear to present problems for the target audience. Therefore it was decided to proceed with the selected surveyor by the researcher.

1.9.4 Measurement and scaling

The schedule was split into six sections: general information about the firm; status of financial accounting practices; status of management accounting practices; accounting information communication system; performance of the firm and functions of accounting. Responses to questions in these sections will be measured through the use of scales (except part A of section 2). A scale is a measurement tool that can be used to measure a question with a predetermined number of outcomes (Hair et al., 2007). There are five scales available: nominal, binary, ordinal, interval and ratio. Of these scales, two of them has been utilized in designing the schedule. These scales are the nominal scale and the ordinal scale. Nominal scales help to identify and classify some characteristics of the respondents (Hair et al., 2007) and allow the researcher to qualitatively distinguish groups by categorizing them into mutually exclusive and collectively exhaustive sets (Sekaran, 2004). This scale will be mainly used to measure the profile of the firms and also for the sort of industry. The data analysis for this scale

is restricted mostly to counts of the number of responses in each category, calculation of the mean or percentage for a particular question, and the use of the Chi-square statistic (Hair et al., 2007). Binary scale are of two categories, one for cases that posse a characteristic and one for those that do not (Kent, 2001). Binary scales (which sometimes called 'dichotomies') have interesting statistical properties not possessed by scales which have three or more categories (Kent, 2001). On the other hand, the ordinal scale is used to measure concepts such as attitudes, perception, feelings, opinions and values through the use of rating scales (Hair et al., 2007) and will help to the order of the magnitude of the differences in each variable (Sekaran, 2004). The ordinal scale can be simplified with the use of a summated rating scale or Likert scale. Summated scales frequently use a five-point or seven-point scale to assess the strength of agreement about a group of statements. Once the scales for all the statements are added it is referred to as a summated rating scale. When the scale is used individually it is referred to as a Likert scale (Hair et al., 2007). For the purpose of this research three point Likert type scale has been used to measure the perceived awareness about the financial and management accounting tools and techniques among the respondents of Tripura. Five-point Likert scale has been used to know the status of usage of financial and management accounting practices, the perceived performance of the firm and the roles of accounting practices in organisational planning and determining future strategies. The use of three point and five-point scale is aligned with previous studies in the management accounting area for example those by Drury et al. (1993); Guilding et al. (1998); Hoque and James (2000); Hoque (2004); and Abdel-Kader and Luther (2006).

The use of a five-point Likert scale is not only in harmony with the previous studies, but also provides a shorter scale to help respondents to complete the questionnaire. According to Hair et al. (2007), the desire for a higher level of precision must be balanced with the demands placed on the respondents. They claimed that respondents exposed to scaling questions less often, can more easily respond to scales with fewer categories. Since survey research among MSMEs is still new in Tripura, especially in the area of accounting practices, the fewer categories in Likert scales will probably help respondents understand the information required and thereby increase the response rate.

1.9.4.1 Designing of Schedule

The most important aspect in drafting a schedule is how to select the variables that will be the subject of questions. The questionnaire used by previous researchers to examine financial accounting as well as management accounting practices by the firm, has been considered as standard for developing schedule for this present study. Majority of those questionnaires, concentrated on large companies, have been adjusted by choosing only variables that suit to the environment of MSMEs and also those that can be easily understood by the target respondents. The objective of this schedule is to seek information only on conventional practices of financial and management accounting that are relevant to the MSMEs of Tripura. The final version of the schedule comprised 25 main questions covering 135 specific items. Questions were put into six sections so as to gather data on the key topics in an organized way. The details of the topics are as follows:

First Section: General information about the firm

This section used nominal and ordinal measures in identifying the profiles of the firm. All questions were in a close-ended form and asked:

(a) Years of operations/business;

(b) Who is responsible for managing the business?

(c) Gender of the Owner/Manager.

(d) Age of the Owner/Manager.

(e) Educational qualification of Owner/Manager

(f) Manufacturing/Service activities (sector)

(g) Please specify your investment in Plant & Machinery (When you are a manufacturer)

(h) Please specify your investment in Equipment's (When you are a service provider)

(i) Annual sales turnover;

(j) Number of employees.

Section-2: Status of Financial Accounting Practices

This section applied only ordinal measures for identifying perceived awareness as well as the extent of use of financial accounting practices among MSMEs. Financial accounting practices were grouped into four major parts; Part-A deals with basic accounting information (Q. No. 11 to 13 by using 19 items); Part-B; contains Financial accounting practices followed by a firm; Part-C; deals with accounting tools used to monitor/track financial performance and profitability of business; and Part-D; is all about the use of accounting ratios to understand/read the financial statement of business. Respondents were asked to specify the frequency of use of 33 financial accounting practices using a five point Likert-type scale (S1 indicating never and S5 indicating very often). They were also asked to judge the level of awareness about of each techniques using either 'not important', 'moderately important' or 'important'. The format of this scale is the same in each part under section 2 except in part-A which seeks only basic information about accounting practices. The detailed items which need to be answered by each respondent are as follows:

Part A: Basic Accounting Information

There are only three questions with 19 specific items, the purpose of this part is to know about the following:

a) Who is responsible for keeping accounting records?

b) How the financial information is recorded?

c) Compulsion for accounting practices.

Part B: Financial accounting practices followed by the firm

These categories were based on a synthesis of those used in previous research studies by Das, A. K. (2006) and Das and Dey (2010) after making necessary updates by choosing specific items carefully. The details of items covered under this section is as follows:

(a) Cash book
(b) Sales book
(c) Purchase book
(d) Expenses book
(e) Provision for depreciation
(f) Fixed asset register
(g) Stock book for material
(h) Debtors book
(i) Creditors book
(j) Profit & Loss account
(k) Balance sheet
(l) Cash flow analysis
(m) Computer for recording transaction

Part C: Accounting tools used to monitor/track financial performance and profitability of business

These categories also based on a synthesis of those used in previous research studies by Das, A. K. (2006) and Das and Dey (2010). Specific items under this head has been chosen in a similar manner as mentioned in previous section. The details of items covered under this section is as follows:

(a) Cash & bank balance
(b) Profit & Loss account
(c) Balance sheet
(d) Cash flow analysis
(e) Fund flown analysis
(f) Comparative financial statement analysis
(g) Trend analysis

Part D: Uses of accounting ratios to understand/read the financial statement of your business

These categories also based on a combination of those used in previous research studies by Soral and Jain (1994), DeThomas and Fredenberger (1985), Das, A. K. (2006) and Das and Dey (2010). For this particular part also consulted with good books namely Mukherjee and Hanif for choosing the appropriate ratios for the schedule. The details of ratios covered under this section is as follows:

- *To test the profitability of the firm*

(a) Gross profit ratio
(b) Operating profit ratio
(c) Net profit before and after tax
(d) Return on equity
(e) Return on capital employed

- *To test the liquidity of the firm*

(f) Current ratio
(g) Acid test ratio

- *To test the operational efficiency of the firm*

(h) Average collection period
(i) Days stock held
(j) Circulation of working capital

- *To test solvency position of the firm*

(k) Gearing ratio
(l) Interest coverage ratio

Section 3: Management accounting practices (MAPs)

This section applied ordinal measures in identifying the perceived awareness and extent of use of Management accounting practices (MAPs) among MSMEs. MAPs were grouped into six major parts; Part-A deals with cost collection system, Part-B; contains costing system followed by a firm; Part-C; deals with budgeting system used by a firm; Part-D; covered specific items used by any firm for performance evaluation, Part-E; contains information used for decision making and finally Part-F deals with use of management accounting for strategic analysis. Respondents were asked to specify the

frequency of use of 58 management accounting practices using a five point Likert-type scale (1 indicating never and 5 indicating very often). They were also asked to judge their perceived awareness about each of these techniques using either 'not important', 'moderately important' or 'important'. Here also format of the scale is the same in each part under section 3. The detailed items which need to be answered by each respondent are as follows:

Part-A: Cost collection system used by a firm

This section contains specific items from cost collection system. These items were based on a synthesis of those used in previous research studies by Shields et al. (1991); Drury et al (1993); Innes and Mitchell (1995); Wijewardena and De Zoysa (1999); Lamminmaki and Drury (2001); Joshi, P.L. (2001); Abdel-Kader and Luther (2006) and Ahmad K (2012). The items under this head are as follows:

(a) Job costing

(b) Batch costing

(c) Contract costing

(d) Process costing

(e) A separation is made between variable/incremental costs and fixed/non-incremental costs

(f) Using plant- wide overhead rates

(g) Departmental or multiple plant wide overhead rates.

Part-B: Costing system used by a firm

This section contains specific items from costing system. These items were also based on a synthesis of those used in previous research studies by Shields et al. (1991); Drury et al (1993); Innes and Mitchell (1995); Wijewardena and De Zoysa (1999); Lamminmaki and Drury (2001); Joshi, P.L. (2001); Abdel-Kader and Luther (2006) and Ahmad K (2012). The items under this head are as follows:

(a) Absorption costing

(b) Variable costing

(c) Variable costing and absorption costing

(d) Target costing

(e) Activity-based costing (ABC)

(f) The cost of quality

Part-C: Budgeting techniques used by a firm

The extent of use of budgeting practices by the MSMEs of Tripura is collected under this section. The items under each heading are consistent with previous research by Shields et al. (1991); Szychta (2002); Joshi et al. (2003); Nik Ahmad et al. (2003); Hansen and Van der Stede (2004); and Abdel-Kader and Luther (2006). The followings are the details of the items covered in this section.

(a) Sales budget

(b) Purchasing budget

(c) Production budget

(d) Cash flow budget

(e) Monthly budgeting

(f) Annual budgeting

(g) Continuous/rolling budget

(h) Flexible budget

(i) Activity- based budgeting

(j) Incremental budgeting

(k) Zero-based budgeting

(l) Budgeting for planning

(m) Budgeting for controlling cost

(n) Budgeting for long term plans (strategic plans)

Part D: Performance evaluation system

The questions on the extent of use of performance evaluation systems are clustered under two headings: performance evaluation based on financial measures; and performance evaluation based on non-financial measures. The categories reflect a synthesis of previous work by Drury and Tayles (1995); Chenhall and Langfield-Smith (1998); Joshi (2001); Gomes et al. (2004); Abdel-Kader and Luther (2006); and Abdel-Maksoud et al. (2008). The information wanted under this heads are as follows;

- *Performance evaluation based on financial measure(s):*

(a) Operating income

(b) Return on investment

(c) Variance analysis

(d) Sales growth

(e) Operating income and sales growth

(f) Cash flows

- *Performance evaluation based on non-financial measure(s):*

(a) Number of customer complaints

(b) Survey of customer satisfaction

(c) Number of warranty claims

(d) On-time delivery

(e) Manufacturing lead time/cycle time

(f) Defect rate

(g) Employee turnover

(h) Absentee rates

Part E: Information used for decision making

The techniques covered were selected with reference to past research by Klammer et al. (1991); Shields et al. (1991); Tayles and Drury (1994); Yoshikawa (1994); Joshi (2001); Szychta (2002); Lazaridis (2004); Abdel-Kader and Luther (2006); and Hermes et al. (2007). Questions were asked about the extent of use of the following techniques:

(a) Cost-volume-profit analysis (break-even analysis) for major products

(b) Product profitability analysis

(c) Customer profitability analysis

(d) Stock control models

(e) Evaluation of major capital investments based on discounted cash flow methods (NPV,IRR & PI)

(f) Evaluation of major capital investments based on payback period and/ or accounting rate of return.

(g) Evaluation of major capital investments, non-financial aspects are documented and reported.

(h) Evaluating the risk of major capital investment projects by using probability analysis or computer simulation.

(i) Calculation and use of cost of capital in discounting cash flow for major capital investment evaluation.

Part F: Use of accounting information for strategic analysis

Part-F collects data on strategic management accounting (SMA). The items used in this study are based on the study by Guilding et al. (2000); Abdel-Kader and Luther (2006) and Ahmad, K. (2012). The eight selected indicators of SMA which is applicable for the MSMEs of Tripura, will be used in this study are as follows.

(a) Long range forecasting

(b) Target costing in the design of new products?

(c) An analysis of costs incurred in each of the activities in the firm's value chain.

(d) Industry analysis

(e) Analysis of competitive position

(f) Product life-cycle analysis

(g) Strategic costing in determining the firm's strategy

(h) Product pricing decision

Section 4: Accounting information communication system

The techniques covered under this section were selected with reference to past research by Abdel-Kader and Luther (2006), in addition to 38 MAPs separate questions were asked by them concerning the communication of management accounting information. Four items has been selected under this section after making necessary modification within the items. The items covered in this section are as follows;

(a) Detailed management accounting/financial accounting information is available on a systematic, regular, short-term basis (e.g. weekly or monthly).

(b) Detailed management accounting/financial accounting information is available immediately upon request.

(c) Detailed management accounting/financial accounting information is updated and made available on a real-time basis.

(d) Detailed management accounting/financial accounting information is reported directly to line managers.

Section 5: Performance of the firm

As discussed in the literature review, the unavailability of objective data on performance from SMEs forced the schedule to request subjective, self-reported measures of performance to gauge the level of performance of firms. Respondents were asked to indicate the changes in the performance in the last three years using a self-rating scale. The data collected in this section will act as a proxy for recent improvements in actual firm performance and will give information for empirical testing of the research hypothesis 3. The constructs used are based on studies by Hoque (2004); Jusoh and Parnell (2008); and Ahmad, K. (2012). The performance of the firm based on various measures is determined using a five-point Likert scale. The scale is indicated by S1 = Decreased significantly, S2 = Decreased, S3 = No change, S4 = Increased, and S5 = Increased significantly.

The following are five variables were used.

(a) Level of productivity

(b) Product quality

(c) Sales growth rate

(d) Operating profit growth rate

(e) Cash flow growth rate

Section 6: The functions of accounting

The roles of accounting in MSMEs are derived from the traditional roles of management accounting as an information provider to the management of the firms. The questions are based on management accounting roles using the six headings provided by the International Federation of Accountant (IFAC) in their statement on Management Accounting Concepts (see appendix page 99; IFAC, 1998) and Ahmad, K. (2012). For each role, respondents will be requested to indicate on a five-point Likert scale the extent that these roles apply in their firms. On the scale, S1 = strongly disagree, S2 = Disagree, S3 = slightly agree, S4 = Agree, and S5 = strongly agree.

The following are six roles used as the indicators:

(a) Planning the firm‘s future strategies, tactics and operations

(b) Controlling the current activities of an organization

(c) Optimizing the use of the firm‘s resources

(d) Measuring and evaluating performance

(e) Reducing subjectivity in the decision-making process

(f) Improving internal and external communication

1.9.4.2 Reliability and validity

To ensure the accuracy and consistency of the variables reliability and validity tests are important. According to Hair et al. (2007) for a scale to be reliable the questions must be answered consistently by respondents in a manner that is highly correlated. If they do not, the scale would not be reliable. For the purpose of this research, the reliability of the schedule have been determined through Cronbach’s α. This method allows for the calculation of α coefficient if one variable is removed from the original set, making it possible to identify the subset that has the highest reliability coefficient. If all the results are above 0.7, the scales are judged to be reliable (Sousa et al., 2006). However Hair et al. (2007) stated that lower coefficients may be acceptable depending on the research objectives. For example, Nunnally (1978) suggested that alpha coefficients of 0.50 to 0.60 will be deemed acceptable for exploratory research. The reliability checks of the pilot schedules (using 40 schedule with a 100% response rate) produced a Cronbach’s α value of .961 indicating a highly satisfactory internal reliability for the scale.

1.9.5 Method of data analysis

The data collected in this study will be used to generate descriptive statistics, and the dependent and independent variables for hypotheses testing using bivariate statistical analysis. The descriptive measures that it has been used are frequency distributions, measures of central tendency and measures of dispersion. Frequency distributions will display the number of responses associated with each value of a variable in the schedule. Measures of central tendency will locate the centre of the distribution of the respective data using measure of the mean. Measures of dispersion such as standard deviation will describe the tendency of data to depart from the central tendency. The descriptive approach will only help to answer the first two research objectives and the details of this analysis will be set out in Chapter-IV.

Finally, it was determined that data analysis will involve descriptive statistics for the first two research objectives. Z proportion test has been conducted to validate hypothesis number-1 and hypothesis number-2. To get the answer of objective number-3 and hypothesis number-3 Kendall's Tau correlation coefficient test has been conducted. Kendall's Tau correlation coefficient test has been done with the help of crosstab analysis. The results of the analyses will be discussed separately in the chapters IV and V.

1.10 Organization of the Study:

***Chapter*-I: Introduction:**

This chapter establishes the importance of MSMEs in today's modern economy in general and for India in particular and the importance of accounting tools and techniques (both financial and management accounting) for efficient management of all types of organizations. The problem statement for this research discusses the failure of the MSMEs and the importance of adopting proper financial and management accounting practices to reduce the failure rate. The existence of a research gap in the accounting literatures especially in the MSME context is also outlined. The chapter mentioned the definition of MSMEs based on Indian context, three main sizes of MSMEs (micro, small and medium) and their sectors. This chapter also describes the research objectives, research questions and hypotheses for this study followed by literature review, research methodology and organization of the study. This chapter specifies the research methodology which elaborately explains how the data has been collected, the sampling method, designing of schedule, method of data analysis and finally reliability and validity test of the schedule.

***Chapter*-II: Role of MSME in Indian economy.**

This chapter explains the development of MSMEs in India and outlines the role of this sector in the Indian economy. This chapter also discuss the significance of MSME sectors in light of different five year plans. In this chapter analysed the contribution of MSMEs in different segment of the economy with the help of some graphical representation. Finally, this chapter ends with discussing issues related to Indian MSMEs.

***Chapter*-III: Brief profile of Tripura**.

This chapter starts with describing general profile of Tripura. After that, this chapter describe the development of MSMEs in Tripura and also outlines the role of MSMEs in the economy of Tripura. This chapter also explains the problems and prospects of small businesses in Tripura. As an agricultural based economy several thrust areas of industries has been (especially rubber, tea and pineapple) identified and discussed in this chapter which may help policy maker to frame policy, which in turn may help growth of small businesses in Tripura.

***Chapter*-IV: Perceived awareness and use of financial and management accounting tools and techniques by MSMEs in Tripura –Data analysis and interpretation.**

This chapter analyses and discusses findings from the data collected. This chapter also provides the information related to demographic profile of owners/managers of MSMEs in Tripura. The main purpose of this chapter is to provide a descriptive analysis that helps to answer the first two research questions: Whether the owner /manager of Micro, Small and Medium Enterprises (MSMEs) are aware of the Financial and Management accounting tools and techniques?; and Whether they (owner /manager) make uses of the same in managing their enterprises? This chapter also provides descriptive data on perceived performance of firms and that has been used for bivariate association analysis and finally this chapter also provides descriptive data on function of accounting information. In addition to that, this chapter also examine the test result of first two hypothesis ($\mathbf{H_1}$ and $\mathbf{H_2}$).

***Chapter*-V: Impact of financial and management accounting practices on the survival and growth of MSMEs in Tripura - Data analysis and interpretation.**

In addition to chapter-IV, analysis continued to this chapter to get the answer of third research queries: Whether the use of appropriate financial and management accounting tools and techniques can aid the growth and survival of MSMEs? This chapter analyse the interactive effect by focusing on particular independent variables on the dependent variable. Specifically, Kendall's tau crosstab analysis has been used to investigate the influence of the use of financial and management practices on firm performance if the interactive effect between explanatory variables is taken into account. In this chapter test result of hypothesis number-3 ($\mathbf{H_3}$) has been discussed using the same table of crosstab analysis but only considering significant value.

***Chapter*-VI: Summary of findings, suggestions, limitations future research directions and conclusion.**

This chapter offers reflections on the main findings of the study and a discussion of the findings contribution to the existing literature. The implications of these findings for financial and management accounting research has been considered taking into account limitations that may be of significance to future research. From the present research findings, relevant suggestions has been made. Limitations of present research has been identified and discussed in this chapter. In light of these implications, suggestions for future research and recommendations are formulated. Finally chapter's ends with the conclusion.