

Adoption of Accounting and Financial Management Practices among SMEs in Uttar Pradesh (India)

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Abstract

Accounting is the backbone of the business world. After all, accounting was created in response to the development of trade and commerce. The concepts of assets, liabilities, and income and the need to reconcile these areas is still the basis for all accounting functions today. Accounting gives us the financial snapshot of the business in order to make solid decisions about the current status or projected future health of business. One of the factors that determine the performance of business organizations is effective use of accounting and financial management reports. However, the applications of these techniques are limited in Small and Medium Enterprises (SMEs) in India. This study aims to examine the accounting and financial management practices among SMEs in Uttar-Pradesh of India and to investigate perceived usefulness of these practices for their decision making. A survey was carried out on SMEs in the manufacturing sector listed by SME Directorate of Uttar Pradesh State. A random sample of 76 SMEs was interviewed with a well structured pre-tested questionnaire for the present study. The findings from the survey provided useful insights about the current accounting and financial management practices and the level of apparent usefulness of the accounting reports among SMEs. Overall, the study concludes that there is a wide gap between theory of accounting and financial management and actual practices by the manufacturing SMEs in U.P. While exploratory nature of the study does not allow its results to be generalized, but it suggests the need for further theory development in the field of accounting and financial management for SMEs.

Keywords: Accounting practices, SME, Financial management, manufacturing sector.

1. Introduction

Small and medium enterprises (SMEs) play an important role in the development of the Indian economy through their significant contributions in terms of manufacturing outputs and job creations. Small & Medium Enterprises sector constitute the growth engine of the economy with contribution to GDP estimated at 40%, contribution to exports estimated at 50% and employment opportunities to nearly 4 crore persons. The SMEs lead to entrepreneurial development and diversification of the industrial sector, and also provide depth to industrial base of the economy. More employment opportunities are generated and the capital cost per employee is low. With the Services sector dominating the SME, and MNCs outsourcing their various requirements to Indian service providers, the scope for SME finance has increased even further. SMEs' contribution is crucial in India's quest to be an industrialized country through the strengthening of both the forward and backward industrial linkages. SMEs complement the activities of the larger scale industries through the integration into the mainstream of the industrial development by providing the industries with critical parts and components as well as expanding into the international markets.

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A well-debated issue, the definition of small and medium enterprises in India was very recently ratified. The Micro, Small and Medium Enterprises Bill, 2006, which is likely to take effect from October 2006, define the segment on the basis of investments in plant and machinery. Small enterprises are those with an investment of not more than Rs 50 million in plant and machinery, and medium enterprises with an investment of over Rs 50 million but less than Rs 100 million in plant and machinery. Uttar Pradesh is home to largest number of Small Scale industrial units in the country, with 12% of over 2.3 million units. But, industrial output has been adversely affected by erratic power supply from the UP State Electricity Board and remains far below its full production capacity. Unavailability of adequate raw materials at competitive prices is another negative factor. Also, like in most parts of India, traders and middlemen make most of the profits while the labour class lives at subsistence level.

Escalation in competition as a result of globalization and trade liberalizations has changed the business-environment internationally as well as on the domestic front. The rapid pace of technological advancements in the manufacturing as well as in information and communication technologies (ICT) has transformed the business environment to become much more complex and challenging. In order to survive and remain competitive, SMEs must respond to these changes in a timely manner. Unfortunately, many SMEs are unable to sustain their positions in long term. Among the factors that are argued to contribute to the failures of SMEs is lack of proper financial management and cost control such as inadequate or inaccurate financial records, inability to manage fluctuating costs and prices effectively, undercapitalization, poor stocks and credit controls, lack of financial planning and unproductive use of assets, which are crucial in determining business performance. Sound financial management requires good and reliable source of information which could be obtained from adequate, timely and effective financial reporting as well as management accounting and control practices.

Despite the importance of financial reporting, management accounting and control practices, it is unfortunate to find that these practices are often inadequate and lacking among SMEs. Except for yearly taxation returns and some form of profit and loss statements, other statements such as balance sheet, cash flow statement, fund statement, production report, variance report, etc., are infrequently used. These rather limited usage of financial and management accounting reports could be attributed to SMEs' inability to employ professional managers with functional specialization especially in the financial area due to their limited financial resources. Without adequate, effective and timely financial reports and analysis, the SMEs are losing out on the benefits from those practices such as improved monitoring of financial health and progress, improved ability to anticipate fortunes or failures, better assessments of financial risks and greater ease in financial planning and control. Most importantly, in the context of SMEs requiring extra capital to grow, regular financial reports can provide indications on their ability to produce steady cash flows and to service debt. While it has been established that the use of appropriate financial reporting and management accounting practices could be one of the determinants of company survival particularly SMEs (Gorton, 1999; McMahon & Holmes, 1991), not much research has been carried out in this area in India.

2. Objectives and Significance of the Study

In view of the lack of evidence on accounting practices among SMEs in India, this study aims to examine accounting & financial management practices among SMEs in India and to assess the usefulness of accounting & financial management reports. Specifically, the objectives of the study are as follows:

1. To examine accounting & financial management practices among SMEs.
2. To investigate the level of perceived usefulness of financial and management accounting reports for decision making.

The findings of this study provide information on the extent of accounting & financial management practices as well as perceived usefulness of accounting reports for decision making. Based on these findings, further research can be carried out to investigate whether accounting practices and performance are related. The information on SMEs' accounting practices and performance would provide invaluable insights and inputs especially to the government in assessing whether further assistance could be provided to the SMEs.

3. Literature Review

Empirical evidence on accounting practices by SMEs is anecdotal and patchy (Gorton, 1999). In Australia, there have been a large number of empirical studies conducted on SMEs such as McMahon and Davies (1994), McMahon (1998, 2001) and others. These studies investigate the types of financial reports produced by SMEs, the frequency of their preparation, and their perceived usefulness for management purposes. The findings indicate that financial reports for SMEs are prepared predominantly by external accountants at annual intervals, and they normally comprise just the balance sheet and the profit and loss statement. The content and presentation of financial reports appear to be greatly influenced by taxation and corporate statutory reporting requirements.

Based on a literature review on financial management practices of SMEs in North America, McMahon and Holmes (1991, p. 27) concluded that "... the state of knowledge about financial management and the exercise of financial controls and techniques remains inadequate in small businesses." Gorton (1999) cited a study by Nayak and Greenfield (1994) on 200 manufacturing firms employing less than ten people in the U.K. which provides evidence that only one third of business formally monitored profits and applied any form of budgeting. A study by Hopper et al. (1999) found similarities between costing systems used by SMEs and larger companies. The costing systems and cost management practices used by the SMEs were mainly for product costing and budget and less emphasis for decision making or performance evaluation. They also found that sophisticated detailed process of cost management was commonly used for engineering and quality control.

In a study involving more than 1,000 SMEs in Australia, McMahon (1998) found that majority of the respondents (85.7%) have a computer-based in-house general ledger accounting system. Larger enterprises tend to statistically use more of computer-based general ledger accounting system compared to smaller enterprises. In addition, 64.6 per cent of the companies surveyed also indicate that they have an in-house computer-based budgeting system.

Collis and Jarvis (2002) examined private limited companies in the UK. Their findings show that 57 per cent of the respondents had a computerised accounting system and 25 per cent had a partly computerised system suggesting moderate level of sophistication of accounting system. Similarly Gorton (1999) found that SMEs that are concerned with procedural controls activities and use financial plan as part of their preparation for start up are more likely to employ computerized accounting system. In addition to their internal accounting staff, SMEs often employ outside professionals to provide accounting advice. It has been found that the most frequently form of outsourced accounting services are for taxation purposes and preparation of accounting reports (eg. Collis & Jarvis, 2002; McMahon, 1998).

Studies were conducted in various countries to examine the usefulness of accounting reports within the context of SMEs, for examples, McMahon (1998, 2001) in Australia, Collis and Jarvis (2002), Gorton (1999) and Nayak and Greenfield (1994) in the UK; and Hopper et al. (1999) on small and medium sized Japanese companies. These studies found evidence that financial reports are not considered particularly useful for decision making purposes by SMEs owner-managers. These studies also found that there is limited usage of accounting & financial management reports by SMEs. In addition, it has been argued that accounting reports produced by SMEs are usually limited to a few types of simple reports comprising mainly profit and loss account and balance sheet. Using a postal questionnaire to small private limited companies in the UK, Collis and Jarvis (2002) found that 82 per cent of the companies use monthly or quarterly management accounts, 87 per cent of the companies prepare profit and loss statement and 78 per cent prepare balance sheet. On the other hand, Collis and Jarvis (2002) argued that SMEs consider the most frequently used sources of information are the periodic management accounts, cash flow information and bank statements, to a lesser extent budgets, the state of order book and the additional annual accounts.

4. Methodology of Study

Data was collected using questionnaire survey. Despite the approach's limitations such as non-response, questionnaire permits data to be collected from a representative sample across many industries and geographical regions (Hussey and Hussey, 1997). The sample was selected from directory of SME directorate U.P. (2008). A total of 76 useable questionnaires were obtained and used for the final analysis. The area of study was GIDA (Gorakhpur Industrial Development Corporation), Chinhath Industrial Area, Lucknow and Jagdishpur Industrial area. For the purpose of data analysis from the survey, standard statistical techniques using SPSS including frequencies, descriptive analysis, regression analysis and test for differences in responses were used. Independent sample t-test was conducted to detect non-response bias but the results did not show any significant difference between early and late respondents.

The questionnaire used in this study was designed based on a study done by McMahon (1998). McMahon's study covers enterprise characteristics and performance, and financial management characteristics and practices. However, since the focus of this study is on accounting & financial management practices, only relevant questions were extracted.

5. Results and Findings

This next section provides the descriptive statistics on the profile of the sample firms and the respondents and the results of the statistical analysis related to financial accounting and management accounting practices among SMEs as well as the purpose and perceived usefulness of accounting reports for decision making.

5.1 Profile of Sample Firms and Respondents

Table 1 shows the frequencies related to the characteristics of the sample firms. It shows that the firms which participated in the survey are relatively 'young' as less than 40 per cent are in business for more than 15 years. In terms of number of employees, a majority of the firms, almost 90 per cent, have 150 or less full time employees, which fit them in the small and medium firms category. As for firm ownership, 34 per cent of the firms are owned by rural-entrepreneurs while 46 per cent are owned by non-rural-entrepreneurs. Forty nine per cent are local and only 8 per cent are foreign owned. Firms from two industries, electrical and electronics machinery and appliances and food, beverage and tobacco, make up the largest group of respondents with 16 and 21 per cent of participation.

Table-1 Profile of Sample

Organizational Information	Frequency	Percent
Years of operation:		
1 to 5 years	6	8.30%
6 to 10 years	21	29.20%
11 to 15 years	17	23.60%
More than 15 years	28	38.90%
Total	72	100%
Number of full time employees:		
1 to 50 employees	47	65.30%
51 to 100 employees	10	13.90%
101 to 150 employees	9	12.50%
151 to 200 employees	3	4.20%
More than 200 employees	3	4.20%
Total	72	100%
Firm ownership (firms may belong to more than one categories):		
1. Rural-entrepreneurs	22	34%*
2. Non-rural-entrepreneurs	35	46%
3. Local owned	37	49%
4. Foreign owned	6	8%
*Percentage is based on the total number of firms, 76.		
Type of Industry:		
1. Electrical and electronics machinery and appliances	12	16%

2. Food, beverage and tobacco	16	21.30%
3. Textiles, clothing and foot ware	3	4%
4. Transport and automotive	1	1.30%
5. Wood and timber products/Furniture manufacturing	3	4%
6. Metallurgical or metal goods	7	9.30%
7. Others	33	44%
Total	75	100%
Annual Turnover:		
< Rs.10 million	41	55.40%
Rs.10 million – Rs.25	21	28.40%
> Rs25 million	12	16.20%
Total	74	100%

Table 2 displays the profile of the respondents. More than 50 per cent of the respondents are directors and managers, while 27.7 and 9.2 per cent are executives and accountants, respectively. A majority (70.3%) of the respondents has worked for the company for more than 3 years and almost 80 per cent have a diploma or higher academic qualification. In addition, more than 90 per cent indicated involvement in decision making. From the profile of the respondents, it can be assumed that most of them have adequate work experience and knowledge about the operations of their firms thus able to provide reliable information about their firms.

Table-2 Profile of Respondents

Respondents Information	Frequency	Percent
Position:		
Director	19	29.2
Manager	20	30.8
Executive		
Accountant	6	9.2
Other	2	3.1
Total	65	100
Experience:		
Less than 1 year	4	5.4
1 – 3 years	18	24.3
More than 3 years	52	70.3
Total	74	100
Involvement in accounting decision making:		
Yes	66	91.7
No	6	8.3
Total	72	100
Gender:		
Male	43	59.7
Female	29	40.3
Total	72	100

5.2 Accounting & financial management Practices

5.2 (a) Financial Accounting Practices

The results in Table 3 show that all respondents (100 per cent) prepare balance sheet and profit and loss account. The finding is similar with findings of previous studies in Australia (McMahon, 1998) which suggest that financial reports of SMEs normally comprise balance sheet and profit and loss account. Apart from the main financial statements, the respondents also prepared cash flow statements, fixed asset record, tax returns and inventory analysis.

In terms of the frequency of report preparation, more than half of the respondents indicate that they prepare these reports on a monthly basis. It might be a reflection of a conventional monthly accounting cycle on which general ledger systems are usually based on. Other explanation might be due to a typical monthly business patterns. Annual financial reporting comes second, followed by quarterly and semi-annually.

With regard to the individual financial accounting report, as reflected by the above statistic, out of 76 respondents, 56 SMEs or 69.7 per cent of the total respondents prepare monthly profit and loss statement, followed closely by balance sheet with 60.5 per cent. Profit and loss statement allows the management to measure the profitability of their business undertakings and balance sheet will allows management to monitor their net asset balances.

Table-3 Frequency of Financial Accounting Reports

Financial Accounting Reports	Frequency of Reporting						
	Weekly	Monthly	Quarterly	Semi-annually	Annually	Other	Total
	N (%)	N (%)	N (%)	N (%)	N (%)	N (%)	N (%)
Balance Sheet	3 (3.9)	46 (60.5)	6 (7.9)	4 (5.3)	17 (22.4)	-	76 (100)
Profit & Loss	2 (2.6)	53 (69.7)	7 (9.2)	3 (3.9)	11 (14.5)	-	76 (100)
Cash Flow	12 (16.9)	44 (58.7)	1 (1.3)	1 (1.3)	15 (20.0)	-	75 (98.7)
Tax Returns	-	5 (6.7)	6 (8.0)	6 (8.0)	58 (77.3)	2 (2.7)	75 (98.7)
Inventory Analysis	7 (9.2)	45 (61.6)	3 (4.1)	3 (4.1)	14 (19.2)	1 (1.4)	73 (96.1)
Fixed Asset Record	1 (1.3)	30 (39.5)	2 (2.6)	8 (10.5)	34 (44.7)	1 (1.3)	76 (100)

In addition, consistent with previous researchers, which suggest that cash flow information is critical to the success and survival of SMEs, 58.7 per cent of the respondents prepare monthly cash flow statement. With regard to annual accounting reports, balance sheet takes the lead with 22.4 per cent or 17 SMEs prepared balance sheet annually. Requirements of accounting standards for companies to prepare annual financial statements might be the reason for the results. Cash flow statement is second place with 20 per cent which might show that SMEs are more concerned with cash conditions and financing requirements as compared to profit and loss statement which comes third with only 14.5 per cent of respondents preparing it. From the study, there was little evidence that SMEs were producing reports on quarterly and semi-annually basis. For example, only 7.9 per cent of respondents stated that they produce balance sheet quarterly, and even fewer (5.3%) stated that they produce balance sheet semi-annually. For profit and loss statement, a slightly higher percentage (9.2%) prepared the report quarterly but only 3.9 per cent prepared semi-annually. Surprisingly, only 1 per cent of the SMEs prepared quarterly and semi-annually cash flow statement.

Apart from the main financial accounting reports, tax returns, inventory analysis and fixed asset record are also prepared by the SMEs but to a lesser extent of frequency. Tax returns are mainly produced annually with 77.3 per cent which might reflect the statutory requirements by the Inland Revenue Board for each year of assessment. Fixed assets record is also prepared annually (44.7%) and monthly (39.5%). Inventory analysis, in contrast, is mainly produced monthly (61.65) only under 20 per cent annually. This might be a reflective of the new inventory system requirement which require companies to analyse their inventory in a shorter time span. The findings on frequency of reporting are similar to an Australian SME research by McMahon (1998) where the frequency of reports for financial accounting statement is overwhelmingly 'monthly'.

5.2 (b) Management Accounting Practices

The management accounting reports studied include budgets and different types of budget, variance analysis, production cost statement, cost volume profit (CVP) analysis and benchmarking report. The findings as displayed in Table 4 show that among the

management accounting reports, majority of the respondents (92.1%) prepared budget, followed by production cost statement (82.9%), variance analysis (80.3%), CVP analysis (73.7%) and benchmarking reporting (57.9%). The findings might indicate that most of the SMEs are mainly utilising a traditional management accounting techniques as compared to the more contemporary management techniques such as activity based costing or total quality management. Among the different types budgets, cash budget is the most frequently prepared (93.4%), followed by sales budget (92.1%), expenses budget (86.8%) and lastly production budget (85.5%).

The least prepared management accounting report is benchmarking report. One plausible explanation for this is the difficulty in finding the appropriate firms to benchmark since large number of SMEs operates in a niche markets. Another reason might be that most SMEs only produce abbreviated accounts, so a comparison might be difficult.

The frequency of management accounting reporting is quite similar to those of financial accounting reports. With the exception of budget and benchmarking report, most respondents predominantly prepared monthly reporting, followed by annual reporting. Over 60 per cent of the respondents stated that they prepared production cost statement on a monthly basis. Slightly more than half (52.5%) of the respondents prepares variance analysis on a monthly basis and 50 per cent of the respondents also prepare monthly Cost Volume Profit (CVP) analysis.

With regard to annual reporting, only 24.6 per cent of the respondents prepared variance analysis report, followed by CVP analysis (19.6%) and production cost statement (7.6%). In contrast, for budget report, nearly half (48.6%) of the respondents prepared the report on annual basis, and only 30 per cent on a monthly basis. Similarly, 40.9 per cent of the respondents prepared annual benchmarking report and 9 per cent prepared the report on a monthly basis. Again, similar to the financial accounting reporting, quarterly and semi-annually reporting for management accounting reports is not so common among SMEs. It can be concluded that most SMEs produce their financial and management accounting reports a monthly and annually basis.

Table-4 Frequency of management Accounting Reports

Management Accounting Reports	Frequency of Reporting						
	Weekly	Monthly	Quarterly	Semi-Annually	Annually	Other	Total
	N (%)	N (%)	N (%)	N (%)	N (%)	N (%)	N (%)
Budget	2(2.9)	21 (30)	6 (8.6)	6 (8.6)	34 (48.6)	1 (1.4)	70 (92.1)
Cash Budget	9 (12.7)	24 (33.8)	8 (11.3)	6 (8.5)	22 (31)	2 (2.8)	71 (93.4)
Sales Budget	3 (4.3)	29 (41.4)	13 (18.6)	6 (8.6)	17 (24.3)	2 (2.9)	70 (92.1)
Production Budget	8 (12.3)	26 (40)	11 (16.9)	5 (7.7)	13 (20)	2 (3.1)	65 (85.5)
Expenses Budget	8(11.9)	24 (35.8)	10 (14.9)	4 (6)	20 (29.9)	1 (1.5)	66 (86.8)
Variance Analysis	-	32 (52.5)	9 (14.8)	3 (4.9)	15 (24.6)	2 (3.3)	61 (80.3)
Production Cost St	2 (3.2)	40 (63.5)	7 (11.1)	5 (7.9)	8 (12.7)	1 (1.6)	63 (82.9)
CVP Analysis	1 (1.8)	28 (50)	10 (17.9)	5 (8.9)	11 (19.6)	1 (1.8)	56 (73.7)
Benchmarking Report	1 (2.3)	9 (20.5)	6 (13.6)	8 (18.2)	18 (40.9)	2 (4.5)	44 (57.9)

6. Preparation of Reports

In preparing financial reports, majority of the respondents use accrual accounting as the basis. As shown in Table 5, 83 per cent adopted accrual basis while only 9 per cent adopted modified basis.

Table 5: Accounting Basis

Basis of Accounting	Frequency	
	N	%
Accrual	63	83
Modified cash	4	5
Modified accrual	3	4
No response	6	8

Collis and Jarvis (2002) stated that SMEs show a degree of sophistication in the preparation of reports through the use of accounting software packages and by outsourcing external accountants for the purpose. Collis and Jarvis suggested that SMEs should utilize computerized accounting systems to meet management's information needs. Table 6 shows that out of 76 respondents, 95 per cent indicate the use of computerized system in the preparation of financial and management accounting reports. Some of them use both computerized and manual systems. Out of those that indicated the computerized system in use, majority (87%) purchased standard (or off-the-shelf) accounting software package while 13 per cent of them had a tailored computer-based accounting system.

As shown in Table 7, the findings also show that slightly more than half of respondents (59% or 45 out of 76 respondents) engaged the service of external accountants in preparing the accounting & financial management reports. Out of this, 84 per cent engaged accountants with professional qualification. In addition to the outsource accountants to prepare financial and management accounting reports, the respondents also indicated that they employed accounting personnel.

Table 6: Preparation of Reports

Preparation of accounting & financial management reports	YES		NO	
	N	%	N	%
Computersised Standard (off the-shelf)	46	61	30	40
Tailored	7	9	69	91
Manual	4	5	72	95
Both	35**	46	41	54

Note: * Some of the respondents who indicated their computerized system also indicated that they utilize both computerized and manual system.

** Not Mutual Exclusive.

Table 7: Outsourced Preparers of Reports

Outsourced Accountants	Frequency	
	N	%
Diploma in Accounting	3	7
Degree in Accounting:	4	9
Professional Accountants	38	84
Total	45	100

Referring to Table 8, only three of the respondents employ more than 3 accounting staff. The rest of the respondents had between one and three accounting personnel. In terms of qualification, 65 per cent of the respondents employed staff with diploma in accounting, 37 per cent with a degree in accounting and 28 per cent with professional qualification.

Table 8: Internal Preparers of Reports

Internal Accounting Staff	Number of staff involved*		
	1 – 3	> 3	Total
Diploma in Accounting	41(62%)	2 (3%)	49(65%)
Degree in Accounting	27(35%)	1 (2%)	28(37%)
Professional Accountants	21(28%)	-	21(28%)
Other	21(28%)	-	21(28%)

Note: * Answers are not mutually exclusive

7. Purposes and perceived usefulness of Accounting Reports

A. Purposes of Accounting Reports

Table 9 and Table 10 display the purposes of accounting & financial management reports as perceived by the respondents. A ranking for the purposes was developed based on the frequency obtained for each category. In terms of frequency, Table 9 shows that 'prepare tax return' was the highest (85.3%) ranked purpose of financial accounting reports. 'Provide information to shareholders' is the second highest (69.3%) ranked purpose followed by 'provide information to relevant government agencies' (68.0%), 'provide information to creditors' (61.3%), and 'management decision making for planning and control' (44%). The lowest rank purposes of financial accounting reports are 'managers/employees performance evaluation' (25.3%) and 'product pricing' (26.7%).

Table 9: Purpose(s) of Financial Accounting Reports

Purposes	Financial Accounting Reports		
	YES N (%)	NO N(%)	Rank
Prepare tax return	64(85.3%)	1(14.7%)	1
Provide information to Share Holders	52(69.3%)	23(30.7)	2
Provide information to relevant govt. agencies	51(68.0%)	24(32.0%)	3
Provide information to Creditors	46(61.3%)	29(38.7%)	4
Management decision making for planning and control	33(44%)	42(56%)	5
Firm performance evaluation	31(41.3%)	44(58.7%)	6
Inventory valuation	30(40.0%)	45(60.0%)	7
Product costing	24(32.0%)	51(68.0%)	8
Product pricing	20(26.7%)	55(73.3%)	9
Managers/employees performance evaluation	19(25.3%)	56(74.7%)	10

Table 10 shows that the top three ranked purposes of management accounting reports are 'management decision making, planning and control' (78.7%), followed by 'product pricing' (77.7%) and 'managers/employees performance evaluation' (73.3%). 'Product costing' was ranked the fourth (72%) in terms of purposes of management accounting reports,

followed by 'firm performance evaluation' (68%) and 'inventory valuation' (61.3%). The lowest ranked purposes of management accounting reports are 'prepare tax return' (20%) and 'provide information to creditors' (28%).

Table 10: Purpose(s) of Management Accounting Reports

Purposes	Management Accounting Reports		
	YES N (%)	NO N (%)	Rank
Management decision making for planning and control	59(78.7%)	16(21.3%)	1
Product pricing	58(77.3)	17(22.7%)	2
Managers/employees performance evaluation	55(73.3%)	20(26.7%)	3
Product costing	54(72%)	21(28%)	4
Firm performance evaluation	51(68%)	24(32%)	5
Inventory valuation	46 (61.3%)	29 (38.2%)	6
Provide information to shareholders	32(42.7%)	43(57.3%)	7
Provide information to relevant government agencies	23(30.7%)	52(69.3%)	8
Provide information to creditors	21(28%)	54(72%)	9
Prepare tax return	15(20%)	60(80%)	10

B. Perceived Usefulness of Accounting Reports

In measuring perceived usefulness of accounting reports, the respondents were asked to rate the level of usefulness of accounting reports for decision making on a Likert scale of 1 (least useful) to 5 (most useful). Overall, most respondents considered financial accounting reports (mean=4.11) are more useful than management accounting reports (mean=3.55) as indicated by Table 11. When asked to rate on the usefulness of each report, profit and loss statement was ranked first (mean=4.43), followed by cash flow statement (mean=4.04), and balance sheet in the third place (mean=3.87). On the other hand, management accounting reports comprising production report (mean=3.69), budget (mean=3.63) and variance analysis (mean=3.35) were considered as least important occupying the fourth, fifth and last ranking, respectively. The fact that profit and loss account and cash flow statements were ranked the highest in terms of usefulness (mean values above 4.0) indicates the importance placed on profitability and controlling cash by the SMEs, which previous research (Birley & Niktari, 1995; Jarvis et al., 2000) suggests is critical to the success and survival of a small business.

Table 11: Usefulness of Accounting & financial management Reports

Accounting Reports	Mean	Standard Deviation	Rank
Overall Usefulness:			
Financial Accounting Reports	4.11	0.92	1
Management Accounting Reports	3.55	0.94	2
Usefulness of Each Report:			
Profit & Loss	4.43	1.06	1
Cash Flow	4.04	1.25	2
Balance Sheet	3.87	1	3
Production report	3.69	1.2	4
Budget	3.63	0.97	5
Variance analysis	3.35	1.19	6

Cronbach alpha = 0.77, Scale: 1 (Least useful) to 5 (Most useful)

Summary:

Small and medium enterprises (SMEs) are going to play greater role in the Indian economy. However, little is known whether the SMEs are ready to the face the challenges from increasing uncertainties and competition in the global market particularly in terms of their application of adequate accounting & financial management practices for decision making. This study attempts to find out the extent of accounting & financial management practices employed by the SMEs and to investigate the perceived usefulness of the accounting reports for decision making. The findings of this study reveal that accounting & financial management practices in the SMEs are relatively sophisticated. The results provide evidence that the majority of companies prepare financial and management accounting reports such as profit and loss, balance sheet, and cash flow statements on regular basis and there were adequate evidence to suggest high use of computerized accounting system. In terms of usefulness of accounting reports, financial accounting reports are considered to be more useful than management accounting reports.

8. Conclusion

The results of the study, however, are limited in several ways. First, the study is associated with the usual limitations of cross-sectional survey research, namely data collected at a single point of time. Second, this study covers only a small number manufacturing firms. Hence, the findings of the study might limit their generalisability. Future research can be conducted to explore further the accounting practices among SMEs in other sectors such as the service industry. In addition, studies can also be carried out to investigate the relationship between accounting practices and performance. Other approach to research such as case study and in-depth interviews can be employed to gain insights into the contextual factors affecting accounting practices in SMEs. Future research can also be undertaken to identify problems and areas of improvements which can be used by the relevant government agencies to formulate policies to ensure survival of SMEs in India.

9. Reference

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