

# A Study of Accounting Information System in Micro Small and Medium Enterprises.

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**ABSTRACT-** The main objective of this paper to study the effects of accounting information system (AIS) in micro small and medium enterprises (MSMEs). Small medium enterprise sector considered to be the backbone of Indian economy. Its importance is openly highlighted by large share of economy, whether in terms of Companies, total number of employees, value of shipment or GDP. Efficiently managed accounting information system practices significantly contribute to organizational performance. Accounting information system is a system that records and processes data of transaction and events into meaningful information for further use in planning, controlling and operation of businesses. The quality of the accounting information that a firm has would influence the nature of reporting and thus performance. There is need to develop affordable, easy and user-friendly training kits for accounting and financial management. This will majorly be useful in improving skills so as to boost proper decision making based on factual realities by management and owners of these enterprises.

**KEYWORDS-** Accounting information system (AIS), Micro small and medium enterprises (MSMEs), Accounting, Financial information.

## I. INTRODUCTION-

Accounting play a very crucial role in the business institution for its management and success or failure. It helps in maintaining records ascertaining profit and loss and estimating financial position of business. Accounting information systems (AIS) are responsible for recording, analyzing, monitoring and evaluating the financial condition of companies, processing of documents necessary for tax purposes and providing information support to many other organizational functions, (Amidu et al., 2011). Accounting information system consist of the people, records and methods used to gather financial information to end users and decision makers. Its basic objective

is to record financial data and turn it into useful financial information.

Micro small medium enterprises are considered as the backbone of the economy in contributing to the growth and development and generating employment opportunities. India gears up to retrace the high growth path, the MSMEs sector assumes a pivotal role in driving the growth engine. They are not only contributing in generating employment but also enable less skilled to start at entrepreneur level. MSMEs employ around 40% of India's workforce, which is an estimated 80 million people, who are given an opportunity for livelihood and employment via low-skilled jobs India as a country is one of the largest consumers of its own produce. We consume large part of what we produce locally. Our ever-rising population is boon during financial crises. Around 1.3 million SMEs contribute 45% to India's manufacturing output and 40% of India's total export. In a way, they form the backbone of the Indian economy. The number is estimated to be at 42.50 million. A staggering 95% of the total industrial units in the country. From the study it is found that MSMEs can be considered as a boon for Indian economy in near future. This paper is attempted to examine the contribution of MSMEs sector in the nation growth and also the areas which are required to strengthen the MSMEs to its continuous contribution to the development of India.

Small business is generally defined in the terms of size business enterprise. There are various parameters to measure the size of a business units like number of people employed, capital investment and volume or value of output, power consumed etc. In India, MSMEs define on the basis of investment in plant and machinery/ equipment that is as per MSME Act 2006. MSME Act (Micro, small and medium enterprise development act 2006) was established for developing and enhancing the competitiveness of micro, small and

medium enterprises and for matter connected therein.

A-Manufacturing Enterprises- These enterprises are defined in terms of investment in plant and machinery.

B-Service Enterprises- These enterprises are engaged in providing services are defined in terms of investment in equipment.

Classification criteria: Investment and Annual Turnover

| Classification                         | Micro  | Small  | Medium  |
|--|--|--|---|
| Manufacturing and service enterprises. | Investment < Rs 1 cr.<br>And<br>Turnover < Rs 5cr. | Investment < Rs10cr.<br>And<br>Turnover < Rs 50cr. | Investment < Rs20cr.<br>And<br>Turnover < Rs 100cr. |

## II. ACCOUNTING INFORMATION SYSTEM IN MICRO SMALL AND MEDIUM ENTERPRISES. -

In the context of MSMEs, accounting information is important because it helps the firm's manager make decisions in critical areas such as costing, expenditure and cash flows by providing information to support monitoring and control (Mitchell et al.; Son et al., 2006). Most MSMEs are owned and managed by a family unit, however; the workforce is drawn from non – family members. Therefore, MSMEs operates under a different environment and is influenced by the management style and the culture that the family inherited from generation to generations (Peter and Buhalis, 2004). According to Romney and Steinbart (2000) definition, an accounting information system is a system that processes data and transactions to provide users with information they need to plan, control and operate their business. In this definition, accounting information systems are considered as tools that help management in planning and controlling processes by providing the relevant and reliable information for decision making. From this perspective, accounting information system functions are not solely for purpose of producing financial reports rather the role goes beyond this traditional view and can also be used as a controlling mechanism such as budgeting. Complete adoptions of the system will essentially require attainment of all the benefits of the system. It is proved from a number of studies reveals that MSMEs financial accounting has remained the principle source of information for their managers. These studies have also found that most MSMEs have ineffective information management, poor system control and therefore most decision making is ad hoc despite having fully adopted an accounting information system (Homes & Nicholas, 1988, Mc Mahon & Davies, 1994, Nayak & Greenfield, 1994, Mairead, 1977). The problem of poor adoption of accounting systems

can be attributed to the initial objective of adoption of information technology (IT) that was essentially to replace manual accounting process that has now hindered further usage and exploration on the system benefits (Mauldin & Ruchala, 1999). Marriot and Marriot (2000) argue that financial awareness amongst MSMEs varies considerably and the use of computers for the preparation of management information is not fully utilized to its potential.

As per today's scenario accounting information system play an important part in smooth functioning of any business institution its proper implementation and systemic utilization can reduce the overlapping work in the organization and helps in avoiding clerical errors. Investment in information technology can benefit the business in the long run. This can be possible because of increased productivity, timely generation of reports, reduce direct human interface in record management as well as enhances the credibility of reports and help in quick decision making. This can be better helpful in cost and time effectiveness as it helps in reduction of manual work and helpful in better accuracy and less prone to errors. As the other side of the coin it has some disadvantages also, it includes huge cost in initial installation manual interference is not completely eliminated that can cause inefficiency to AIS that might not eliminate errors completely, information might be stolen or hacked. As MSMEs does not have huge budget that may do not able to trained their employees that may lead to inaccurate data preparation and presentation. In the era of rapidly changing environment there are major changes in accounting information system. This has accounting much easier and convenient as compared to old ways of accounting.

## III. CONCLUSION-

As we have seen that MSMEs play a very important role in the socio economy of Indian

economy that it contributes a huge part in the economy. It contributes the industrial production and 45% of the total export from India. It helps to promote regional balance development and it is the second largest employment after agriculture it also helps to prevent migration to urban area improving economic condition by providing ample formant opportunities and this overall leads to rural development and which leads to development of the country. In spite of being a huge share in economy small medium enterprises are not able to work with the complete effectiveness, this is due to lack of accounting information system because MSMEs are more involved with manual work that result in inefficiency of data maintaining. Adopting of information technology will help in more efficient work in MSMEs that will help to better contribution in the economy.

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