CHAPTER - 6

FINDINGS AND RECOMMENDATIONS

In this conclusive chapter the researcher has made an effort to summarize the major findings emerged out of the study and to offer some suggestions. It will not be out of place to mention here that the study is mostly based on the information gathered directly from the sample business enterprises through schedule of questions, personal interview and observation. The findings and suggestions are completely based on these factors.

6. A Major Findings:

1. Educational background of respondents: All of the owners of the sample enterprises are well educated. 81 percent of these are graduates, 14 percent are undergraduates, 4 percent are having master degree and only 1 percent has professional degrees.

2. Accounting knowledge of respondents: So far as accounting knowledge of the owners is concerned it is found that 94 percent have at least some sort of accounting knowledge. 92 percent of the sole proprietors and 100 percent (at least one of the partners in the firm) possess basic accounting knowledge.

3. Computerised Accounting: In respect of computerised accounts it is found that all the respondent businessmen use computers to maintain accounts. Out of the total respondents, 37 percent maintain only
computerized accounts while remaining 63 percent maintain both manual and computerised accounts.

4. **Basis of Accounting:** Another important finding is that no firm is following a pure cash basis of accounting. 95 percent of the sample business enterprises use accrual basis to maintain accounts and others are following some sort of hybrid type of accounting. All of the Partnership firms and 93% of the sole proprietorship firms apply accrual concept in recording business transactions and in preparing accounts. The business firms under study considers credit sale as income, and hence follow accrual system. But 11% of the retailers do not consider accrued interest as income while prepaid expenses as well as outstanding expenses are considered as expenses of the accounting year. Thus, majority of the respondents use accrual basis of accounting which proves that it is more popular among the respondents.

5. **People to maintain Accounts:** Majority of the respondents have entrusted the work of maintaining accounts with the employees or professional on payment of hire charge. The most probable reasons are that some owners lack accounting skills or lack interest while some may have no time to spare for maintaining accounts and hence delegate the work to employees who are experts in the field. The study reveals that there are three important reasons for employing accounts personnel. These are (i) it will be more convenient if accounting personnel are
employed (ii) The owners do not have time for this work (iii) The owners do not have interest in maintaining accounts due to accounting intricacies. It is also seen that the business having lesser amount of annual turnover may devote time for recording/keeping accounts and the business whose annual turnover is comparatively more they employ persons for keeping business accounting records. Thus, majority of the respondents get their final accounts prepared by employees while some others entrust the work to others. Very few i.e. only 5 percent of the total sample respondents prepare their Financial Statements themselves either because of their accounting expertise or because they cannot afford to get it done by employees/others or to maintain business secrecy.

6. Books of accounts maintained: All the sample business units maintain necessary books of accounts such as sales and purchase records, ledgers, cash book, stock book etc as required by taxing authorities. The frequency of recording transactions may be daily, weekly, fortnightly etc. depending upon the number of transactions. All of the sample units maintain books of accounts as per the rules under Assam Value Added Tax Act 2003. It is found that for official purposes respondent business units maintain necessary books of accounts in softcopy and hardcopy format. It is also found that in addition to the books of accounts maintained for official purposes, they also maintain other sets of books of accounts in traditional way i.e. in lakhata (Red book). But it is not
disclosed by the respondents whether the financial and operating results under these two set of books are same. On enquiry it is found that all the respondents maintain records of sales and purchases (both cash and credit). Records of goods sold to registered dealers having TIN are shown separately.

7. **Business enterprise as an accounting entity:** A business firm shall have a distinct accounting entity. This has not been understood by some of the owners or accountants of the firm under study. It has been found that a distinct accounting entity of a business firm dictates to account separately for any withdrawals of goods and capital from the business. But it has been found in some cases that no separate entry has been made in the books of accounts for such withdrawals.

8. **Understanding of Accounting Intricacies:** The study on Accounting Practices by sole proprietorship and Partnership Enterprises further reveals that the sample enterprises face certain problems mostly related to the understanding of the meaning of certain terms used in accounting language. Some of these owners do not know the meaning and implication of the terms Debit, Credit, Accrual System, GAAP, revenue Recognition etc. But it has also been found that some of these owners of business entities apply accrual system or follow revenue recognition principle without having any theoretical background.
9. **Time interval for recording of transaction:** So far as time interval for recording of transaction is concerned, it is found that 74 percent of the sample entities record their transactions on daily basis, while in case of 19 percent, accounts are recorded on alternate days. However, it is found that 5 percent of the respondents record their transactions on weekly basis and 2 percent of the business units records are maintained fortnightly.

It is found that the sample business units conduct verification of stock position time to time. 57 percent of sample respondents verify their stock on a monthly basis while 14 percent sample businessmen do this on quarterly basis. 7 percent respondents verify stock on half-yearly basis while remaining 22 percent verify stocks only once in a year.

10. **Revenue Recognition principle:** Revenue Recognition principle: It is also observed that the owner and accountants have very poor understanding of the meaning of basis of accounting namely, cash and accrual. In most of the cases it is found that outstanding liabilities are treated as expenses of the concerned year where as accrued interest has not been treated alike. Hence Revenue Recognition principle on cash or accrual basis has been mixed which is not a sound accounting practice.

11. **Recording of loss/damages/theft of goods in books of accounts:** It is quite common for a business to incur loss of stock due to various reasons such as pilferage, damage, theft etc. While some business houses record
such losses in books of accounts to arrive at true profits while some others do not do so. It is found that, out of total 200 sample respondents, 188 i.e. 94 percent keep records of loss of goods while remaining 12 i.e. 06 percent sample businessmen do not keep such records of loss of goods. On enquiry it is revealed that proper documents are required if loss of stock is to be recorded. But when such loss occurs due to pilferage or theft by employees, it is not possible to collect documents for such loss. Some of the proprietors revealed that since such loss cannot be indemnified, so there is no point to lodge a complaint before the police. But it is reported by all the respondents that they lodge a complaint before the police if there is an insurance policy against loss of stock for theft or burglary.

12. Application of Going concern Concept: Field survey reveals that the sample firms do not own any land and building as a separate entity, but these are in the name of the owners. So, there is no reporting of such assets in the name of the firm. Hence application of going concern does not take place in this case. But compliance with this concept has been found in case of their fixed assets like furniture and equipments, and also in case of the firm as a unit. All the sample firms have applied this concept while reporting to the tax authorities and to the banks where there is bank loan. The firms prepare Profit and Loss Account and the
Balance sheet as a going concern and submit the same to the appropriate authorities.

13. **Application of Dual Aspect Principle**  The sample firms are largely guided by the provisions of the Value Added Tax Act, 2003 of the Government of Assam. Section 55 (1) of the Act states that every registered dealer or every dealer liable to pay tax under this Act shall keep a true and up-to-date account of the value of goods purchased or manufactured and sold by him or goods held by him in stock, in respect of each class of goods taxable at different rate of tax under this Act including input tax paid and output tax payable and, in addition to the books of account that a dealer maintains and keeps for the purpose referred to in this sub-section, he shall maintain and keep such registers and accounts in such form and in the manner as may be prescribed.

As compliance to the above requirement all the sample enterprises maintain their books of accounts properly. By and large proper accounts means accounts kept following Double Entry System of book keeping. Ledgers are maintained under this system and, thus, the Balance Sheet so prepared shows equation as,

\[ \text{Capital} + \text{Liability} = \text{Asset}, \]

Trading and Profit and loss account shows equation as,

\[ \text{Profit} = \text{Incomes} - \text{Expenses}. \]
14. Application of Consistency Concept: It has been found during field survey that the sample enterprises more or less follow consistency concept in accounting process. The methods of stock valuation and depreciation are applied consistently. When enquired it is revealed that application of this principle largely depends upon the requirements of banks when they are approached for loan.

15. Application of Matching principle: Application of this principle is depends upon the application of principle of revenue recognition. During field survey it is found that all major costs are taken into account on the debit side of the Trading and Profit and loss Account. Thus these costs are matched with the sales revenue. But it is also found in some cases that some expenses which are incurred for the coming financial/accounting year are also recognized as expenses of current year and are matched with the income of this year. For example, prepaid rent, prepaid insurance, advance to the suppliers etc. Such anomalies are found in case where cash basis and accrual basis of accounting are followed simultaneously. There are only 11% of the retailers who adopt such a policy. This may be noted here that these retailers do not have proper accounting knowledge.
16. Application of Principle of Materiality and Principle of Full Disclosure:

It is found that most of the material events are recorded either through accounting process or in the form of statement. This concept is basically followed in three occasions – (i) to avail bank loan, (ii) to comply with the requirement of tax calculations and (iii) while reporting to the tax authorities. While seeking bank loans, the respondents have to submit financial statements duly certified by the practising chartered accountants. In these financial statements the applicant has to disclose all material facts concerning their assets and liabilities. Such material facts to be disclosed include - any hypothecation of any assets to any financial institutions, loan taken for the business, private loans, quality and title deeds of assets etc. Though the financial statements, viz., Profit and loss Account and the Balance Sheet are certified by the practising chartered accountants as true and fair, the bank officials generally conduct physical verification of all material disclosures. Hence the respondents have to mandatorily disclose all the material facts.
17. **Application of Principle of Conservatism (Prudence):** It is found that sample enterprises are very conservative in so far as anticipated expenses and incomes are concerned. All anticipated expenses are accounted and no such income is recognised. When enquired it is revealed that this done in order to show profit at a low level as far as possible to avoid tax. But so far as debtors are concerned it is found that they do not provide any provision for doubtful debt. If any trade debt is not recovered within a reasonable period of time then only it is recorded as not recoverable and is treated as loss. Inventory and investment are valued mostly at cost, which is generally lower than the market price.

18. **Filling of Tax Returns:** Almost all the partnership business entities engage professionals for filling of tax returns. Again majority of the business entities engage professionals for filling of tax returns.

19. **Software applied:** The majority of partnership and business entities prefer Tally software for maintaining their accounts because of it is popular among the business entities. At the same time it is also found that many of them take help of professional for computer related accounting work.
6. B Recommendations:

1. Accounting Entity and Legal Entity:

   A sole proprietorship is not a separate legal entity. A partnership is also not a separate legal entity except for tax purposes. Any legal issue that may affect the business will also affect the owner of the business. But all business entities have their own accounting entity separate from owners’ individual entity. For this separate accounting entity concept, the books of accounts of all business firms are kept separately which enables the firm to evaluate its operating and financial results separately. So it is suggested to the owners of business enterprises not to mix accounts related with their private life with the accounts of business. Hence all withdrawals shall be deducted from their capitals. This will enable them to assess the profit of the firm.

2. Accounting Period:

   For all practical purpose it is suggested to follow 1st April to 31st March as the official accounting year. This is because it is mandatory to file returns as per the rules under various tax authorities. Again computer software is prepared considering the financial year from 1st April to 31st March. At the same time it is also suggested to continue the age old tradition of observing ‘Halkhata’ as an auspicious day.
3. Understanding of Accounting Intricacies:

One important problem faced by the sample enterprises is that some of them do not know the accounting language and intricacies related to the maintenance of accurate financial information. Most of them do not have a clear concept on double entry book keeping, debit, credit, revenue and capital items etc. They also lack a clear concept of cash basis and accrual basis of accounting. In order to solve this problem the researcher suggests to organise training programmes and workshop on accounts keeping. In this context they may form groups of firms doing business in similar line of trade and may request the experts in accounts to help them to impart training.

4. Knowledge of computerised accounting:

It is found that all the respondents are educated and there shall be no problem to handle a computer. It is also reported that due to time constraints and lethargy to handle computer, the work is left either to the employees or they take hired services for the purpose of accounting. It is suggested that they shall take one week or fifteen days part time training in computer accounting. Knowledge in computer accounting and application of this knowledge in handling business accounts will save money and time.
5. Valuation of stock:

All business enterprises shall have up to date record of stock position. Such stock position shall show physical quantity and money value. For this the business enterprises shall maintain record of stock movement. This will help them to know the current value of stock. This will also help them to lodge complain with the insurance companies in case of insured loss.

6. Provisions for Doubtful Debts and Depreciation:

All business enterprises shall provide provision for doubtful debts for the related accounting year against any doubtful debt. It will not be impossible to calculate the value trade debtor lying unpaid for last six month or so. Profit without providing for doubtful debt cannot be treated as true and fair profit as per normal accounting practice. It is also suggested that business entities shall make the provision for depreciation on fixed asset and shall maintain depreciation fund. This will help them to procure new fixed assets on the expiry of the useful life of the existing assets.

7. Filing of tax returns:

Majority of the sample business enterprises under study employ professionals for filing up of tax returns as required by various authorities. This practice of taking assistance of professionals is not bad. But it has one demerit in the sense that the owners of business enterprises become
dependent on others for a simple job and thus they cannot improve their knowledge on taxation matters in filing of tax returns. Therefore, workshop or training programme may be organised by these small enterprises to acquire knowledge on taxation matters.