CHAPTER-III

THE FINANCIAL INFORMATION SYSTEM
Management's ability to make sound financial decisions rests upon the accessibility of accurate, meaningful, and timely financial information. The firm's financial information comes from its accounting system. An accounting system is generally defined to be the composite of the activities, operations, and procedures, with the related records and devices, necessary to accomplish the accounting function. The accounting function as expressed by the American Institute of Certified Public Accountants is the provision for "quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions - in making reasoned choice among alternative courses of action". Thus the effective accounting system should furnish timely and useful information in the decision-making process.

Although "inexperience" and "incompetence" of small business managers have been cited as the cause of more than 90 per cent of the small company failures, these statistics fail to indicate the source of such "incompetence" and "mismanagement". However, experience would suggest that ineptness in the accounting system is a prime factor for failure among small enterprises, due to a failure to provide financial information necessary in the decision-making process.

There are certain fundamental differences between large and small businesses in terms of their needs for financial information. In large corporations, the owners are distant and distinct from the firm's management. For these large businesses, the accounting is designed to inform the owners about corporate operations as well as provide information for internal decision-making and governmental reports. For small business, where owners and managers are often the same, the primary emphasis of the accounting system is to provide information for internal decision-making.

As a business increases in assets and sales, decentralisation may become a necessity with the authority and responsibility for operational decisions no longer resting with the ownership of the firm. No doubt as this process matures, the complexity and the intricacies of the accounting system could also be expected to become more involved. However, the conclusion that small business executive, although intimately involved in all phases of the day-to-day operations, is less reliant upon sound financial information is...
not only incorrect but dangerously deceptive. For these reasons, the proprietors in the small-business entity should have an understanding of the accounting system within their firm. In this respect, the following section of this chapter provide basic principles related to systems design, followed by an overview of the design process. Subsequently, two elements of these principles are further described, within the small business context, those being cost accounting and internal control. These two items are frequently deficient within the small firm, either because of a lack of expertise or owing to the basic nature of a small firm.

**Principles of System Design**

In the system design process, adherence to certain underlying principles regarding the accounting design should be maintained. First, the accounting system should not be cumbersome to the firm. Specifically, the system should be structured to provide the needed information at a reasonable cost. Otherwise, the accounting system may be highly sophisticated and yield intricate detail, but the cost of the process may be prohibitive. In contrast, the design should be communci
cerate with the small company's ability to finance the development and operation of the accounting segment of the firm. Furthermore, procedures should be sufficiently adaptable to changing conditions, whether the nature of the change is indigenous or exogenous to the organisation. On the other hand, this flexibility should not be whimsical, resulting in inconsistencies and lack of uniformity.

A second feature of the accounting unit, effective reports and summarizations, should enhance the decision-making process within the firm. If several activities are performed within the company, the modus operandi of the accounting system should have the capability of identifying the strengths and weaknesses in the respective areas through the reporting system. The specific avenue through which these reports are normally constructed is the cost accounting process. Contrary to the frequently encountered opinion that cost accounting is of minimal benefits to the small organization, cost accounting procedures may be quite worthwhile to a firm of even moderate size. The advantages should accrue without having a build a system that overpowers the user. Also, it should be developed in compliance with the organizational structure of the company and should be evident in the final reporting format.
The last major element of a sound accounting system is often referred to as internal control. Basically, this factor relates to the requisite checks and balances within the process to ensure accuracy and reliability of the accounting output. Also, the safeguarding of assets and the discouragement of potential fraudulent actions on the part of employees are involved. These characteristics have been often neglected by the small-firm management, believing that the controls being prescribed are either unnecessary or infeasible within the small-business concern. With the foregoing generic description of the accounting base, attention is now turned to the actual design of a system.

The Accounting System

An adequate, reliable record-keeping system is not necessarily complex. The design of the system can be quite simple, as long as it provides the small business manager with the needed information. There is no need to spend scarce time and money compiling information that will never be used. Reliable business records are critical to managing a firm successfully, but the owner must not be so preoccupied with keeping records that he/she neglects the primary purpose of the business. The owner of one retail store spend so much time generating records and reports that he/she ignored the principal function of the business-selling. A good record-keeping system should be:

1. **Simple to use:** Unless a record keeping system is simple to use, it probably will be disregarded by the owner, who usually is pressed for time.
2. **Easy to understand:** To be useful, the system must be understandable to managers and their employees. The system must be so clear that everyone who uses it knows how it operates.
3. **Reliable:** The record-keeping system must perform the functions it is designed to perform. It must measure the aspects of the business it is intended to measure.
4. **Accurate:** Financial management can be only as accurate as the records and reports used. Faulty information leads to faulty managerial decisions.
5. **Consistent:** The system must parallel the operation of the business and should reflect the firm’s financial status consistently over time.
6. **Designed to provide information on a timely basis:** To make sound day to day managerial and financial decisions, the manager requires up-to-date information.
While the accounting system is of key importance to any firm, small or large, the structure of an effective system does not come easily. In fact, experienced accountants and financial advisors find system design to be a relatively difficult art to master. This knowledge and capacity to determine the effectiveness of the accounting base usually comes only after years of experience in working with a variety of systems. In this regard, if the ability to design effective accounting systems is difficult to develop, the question has to be raised as to how the small business person can begin to cope with the problem. Recognizing the potential danger is an important first step. Given the problem, the small entrepreneur needs assistance, which either requires attracting the required expertise into the company or acquiring external help.

Sources of Assistance

The owner who knows that he or she does not possess the expertise necessary for establishing a strong system has several sources of assistance available. First, if the sources of the business permit, a qualified external accountant should be employed. However, care should be taken in the selection process of locating and attracting an accountant. Not frequently an accountant may become “bound to tradition and inflexible and unyielding to the requirements” of the owners being served.\(^5\) To be useful and effective, the accountant must be adaptable to a few environment both in terms of the system and management. Also, the ability to adjust to needed changes is essential in a small growth firm. Depending on the size of the community, a second avenue of assistance to the small firm executive is a systems analyst within a data processing company. If resources are limited, this alternative may be the least costly. Since the systems analyst is a specialist in the design of information systems for businesses, he or she generally should be able to render worthwhile services. However, the analyst's services are usually available only to the enterprise considering the purchase of an accounting system from a data processing firm and typically are available only at a predetermined fee. Also, if the operations of the small business are relatively unique, a “packaged” system previously developed by the analyst for other businesses may not be appropriate.
The third source of assistance for not only developing but also maintaining the accounting system is the chartered accountant (CA). In addition to tax consultation and audit responsibilities for the small company having a need for certified financial statements, the CA may be called upon for a client write-up. This procedure constitutes the development of the basic system as well as the processing of the data through this framework in order to provide financial statements. As a result of exposure to a variety of businesses and typically a strong desire to work with the small business community, the qualified CA has proven to be of significant benefit to most small firms. In general, the professional accountant frequently represents the most actively involved external consultant to the small firm, with these activities being centered on the firm's accounting system but extending deeply into the various operations of the business.6

In summary, regardless of the eventual sources of collaboration in designing the accounting system, the manager of the small enterprise has to at least be able to communicate with the particular professional regarding the basic needs of the concern's decision makers in terms of accessibility to financial data within the firm. Without such an awareness, the system may represent only a general "package" and may not be responsive to the needs of the business. Hence, an awareness of the underlying procedures of systems design is essential for the owners of a small company.

The Accounting System Design Process

Four phases of design construction may be identified: a survey of company needs, the design of the accounting base in view of management's informational requirement, the installation of the system, and the follow-up.7 The survey represents the investigation into the decision-making process both in terms of the staff being responsible for these decisions and the specific flow of key data inputs. For the large firm, the survey comprises interviews with both top and middle managers in an effort to determine needs, charting the organizational aspects of the company, examining products and processes of production, and gathering data about the procedures already in use by the company. One of the primary goals of the system design for the large firm is to integrate the different levels of the organization and the different functions within the organization. Integration

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is vital within the large organization in order to foster adequate control at the respective levels of the operation.

In the small firm where management and ownership are generally in the hands of a few individuals, control over the organization and the supervision of employees are usually direct and personal. Normally, a complex system for these organizations is neither needed nor desirable. Thus, for the small business with a limited number of managers, the survey stage involves an inquiry into their specific informational needs. The key issue becomes the ascertainment of the information required by the manager in finalizing the necessary decisions. At first glance, the question may appear to be amenable to an easy answer; however, upon closer scrutiny the resolution of the problem may become immensely more difficult for a number of reasons: first, the owner of the small business entity may not have sufficient experience by which to identify the information that could be of assistance in making financial decisions. Second, a danger frequently occurring in the developmental process is the generation of an excessive number of reports. As a result, the owner becomes inundated with data, to the point of concealing the critical issues. In essence, the primary factor is not the amount of information but rather the efficacy of the communiqué in revealing the key issues. Finally, management should be careful not to fall into a trap of superficially copying the system of another company. In short, only through self-analysis may the executive have any assurance that the accounting data being provided satisfies the needs of the enterprise.

Based on a thorough examination of the firm's needs, the actual design of the accounting system may then be undertaken. This facet of the systems construction involves (1) the specification of the format and types of financial summaries, (2) the detailing of a chart of account, (3) the design of the ledgers, and (4) the formulation of the procedures circumscribing the processing of the foregoing documents. For the large operation, the numerous divisions, or even departments, involving a multiplicity of product lines or services may compel financial summaries for the respective operational segments of the firm. This requisite for frequent and probing analyses is obvious for the large business. In contrast, the consensus that the small business has no such need is misleading. Although the complexity of the reports may be less, the fewer complications within the small firm should not be thought to negate the importance of well-conceived
financial summaries. Therefore, regardless of size, a need exist to compare the results of
the operations against predetermined standards, with the deviations being analysed as a
basis for corrective action.

In developing financial reports, a supporting chart of accounts serves as the
framework through which the data must flow. The classifications, as well as the sub-
classifications, of the accounts should be logically arranged and linked to the summaries.
The criterion as to the adequacy of the chart of accounts is whether or not the codification
yields the desired and needed information in a manner highlighting the critical elements
for a successful operation. Any greater detail may could the important relationships by
the maze of superfluous accounts; Anything less conceals important data. As a practical
matter, a CA should be able to recommend a viable set of accounts, or, alternatively, trade
associations frequently publish charts of accounts, making them available to their
membership.

As a means for drawing the data together, ledger, both general and special in
nature, are employed in the accounting process. These ledgers represent the final step in
the classification process, with the transactions being summarized in a chronological
order by account and subsequently transferred to the general ledger in summary form.

When the systems design is completed, the installation is then initiated. Although
the installation may be substantially easier for the small firm, advance planning is still
essential. New equipment, supplies, and work space arrangements are necessary. Also,
for the already existing small business changing over to a new system, the new
procedures should be tested prior to companywide adoption. If possible, the old
technique should be continued in parallel until the effectiveness of the new process is
evaluated.

The remaining step in systems construction is the follow-up. The importance of
comparisons of planned benefits with actuals benefits cannot be overemphasized. Gradual return in an informal way to at least a portion of the old conventions may be expected. Thus, a follow-up is necessary as an assessment of the effectiveness of the system in contributing to the decision-making process.
THE COST ACCOUNTING PROCESS

An important segment of the accounting is the cost accounting procedures incorporated into the analysis. Cost accounting has been broadly defined as "a quantitative method that accumulates, classifies, summarizes, and interprets information for three major purposes: (1) operational planning and control, (2) special decisions, and (3) product (or service) costing"\(^8\). Cost accounting techniques have proven particularly beneficial in the management and administration of a business, affording essential information in ascertaining the cost of producing a certain product or in rendering a service. In the past, these cost accounting applications were primarily associated with manufacturing operations; however, any business activity involving monetary exchanges represents a potentially beneficial area of usage for cost accounting, whether the organization is a wholesale concern, a retail outlet, a non-profit or governmental unit, a financial institution, or a firm providing professional services. In addition, the size of the firm does not necessarily preclude cost accounting. Accordingly, a basic review of cost accounting will be provided in terms of the objectives as well as the types of systems. Finally, a justification of these applications for the small firm will be presented.

In a planning and control context cost accounting may be linked to the following aims.\(^9\)

1. Planning profit by means of budgets;
2. Controlling costs via responsibility accounting;
3. Measuring annual or periodic profit, including inventory costing.
4. Assisting in pricing goods and services.
5. Furnishing relevant cost data for analytical processes for decision-making.

Cost accounting functions are intended to provide a measurement of budgeted material cost, wages and salaries, and other expenses of producing and marketing the firm's goods or services. These contemplated costs are examined in an effort to establish the relationship between such costs and the levels of business activity, requiring an indication of the variable and fixed costs. With this information, a profit plan may be constructed that defines the cost-volume-profit relationships, which represent an essential ingredient in making major profit planning decisions.
If budgets are to be effective, planning must be followed by effective controls. The fundamentals of controlling costs involve (1) assigning responsibilities for the control of costs by establishing lines of authority, (2) restricting the individual’s control efforts in accordance with the controllable costs, and (3) reporting the person’s performance.

Measuring company profit involves separating the costs applicable to units sold (Cost of goods sold) from the cost applicable to the units remaining in inventories. This classification procedure is fundamental to the process of matching expired costs with revenues in order to determine profit.

To establish rational sale prices, managers must have a knowledge of both costs and their relationship to volume. The contemplated costs budgeted for normal capacity permit management to price goods and services for the recovery of costs and a normal profit.

**Types of Costing**

Costing has been defined as “the technique and process of ascertaining costs.”

The principles in every type of costing are the same but methods of analysing and presenting the costs differ with the nature of business. For this reason, cost accounting systems must be designed to meet the needs of the particular firm. Various methods of recording costs may be defined as follows:

**Job Costing:** Where production is not highly repetitive and, in addition consists of distinct jobs or lots so that material and labour costs can be identified by order number, the system of job costing is used. Job costing is defined as a “system of applying manufacturing costs to specific jobs or batches of specialized or unique production in proportion to the amounts of materials, attention, and effort used to produce each unit job or group of units.”

**Process Costing:** If a product passes through different stages, each distinct and well-defined, it is desired to know the cost of production at each stage. In order to ascertain the same, process costing is employed under which separate account is opened for each process. This system of costing is suitable for extractive industries e.g. chemical manufacturing, paints, foods, explosive, soap making etc.
**Operation Costing:** Operation costing is a further refinement of process costing. The system is employed in industries where mass or repetitive production is carried out or where articles or components have to be stocked in semi-finished stage, to facilitate the execution of special orders, or for convenience of issue for later operations. The procedure of costing is broadly the same as for process costing except that cost unit is an operation instead of process. For example, the manufacturing of handles for bicycles involves a number of operations such as those of cutting steel sheets into proper strips, moulding, machining and finally polishing. The cost of each of these operations may be found out separately.

**Operating Costing:** This system is employed where expenses are incurred for provision of services such as those rendered by bus companies, electricity companies, or railway companies. The total expenses regarding operation are divided by the units as may be appropriate (e.g., in case of bus company, total number of passenger-Kms.) and cost per unit of service is calculated.

**Multiple Costing (Composite Costing):** Under this system the costs of different sections of production are combined after finding out the cost of each and every part manufactured. The system of ascertaining cost in this way is applicable where a product comprises of many assembled parts e.g., motor cars, engines, machine tools, type writers, radio, cycles etc.

As various components differ from each other in a variety of ways such as to price, materials used and manufacturing processes, a separate method of costing is employed in respect of each component. It is multiple costing in the sense that more than one method of costing is employed.

It is to be noted that basically there are only two systems of costing viz. Job Costing and Process Costing. Job costing is employed in cases where the items of prime cost (i.e. direct material, direct labour and direct expenses) are traceable to specific jobs or orders for e.g. house building, ship building etc. But where it is impossible to trace the items of prime cost to a particular order because their identity is lost in manufacturing operations, process costing is used. For example, in a refinery where several tonnes of oil are being produced at the same time, the prime cost of specific order of 10 tonnes cannot
be traced. It may therefore, be concluded that the methods of operation and operating costing are only the variants of 'process costing'.

The logic of cost classification needed for the development of cost data for management can be illustrated by the chart given below:

**ANALYSIS OF TOTAL COST**

<table>
<thead>
<tr>
<th>Direct Materials +</th>
<th>Direct Labour +</th>
<th>Direct Expenses +</th>
<th>Prime Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect Materials +</td>
<td>Indirect labour +</td>
<td>Other Indirect Expenses +</td>
<td>Factory Overheads</td>
</tr>
</tbody>
</table>

Includes:
- Factory Supplies
- Lubricants
- Includes:
  - Supervision
  - Superintendence
  - Inspection
  - Salaries of Factory Clerks
  - Defective work
  - Experimental work

Includes:
- Rent
- Insurance –fire & Liability
- Taxes
- Depreciation
- Maintenance and repairs
- Power
- Light
- Heat
- Miscs. Factory overheads
- Small tools

**Marketing Expenses** + **Administrative expenses** = **Commercial Expenses**

Includes:
- Sales Salaries
- Commission to salesman
- Advertising
- Samples
- Entertainment
- Travel Expenses
- Rent
- Telephone & telegraph
- Stationary and printing
- Postage
- Freight and cartage-out
- Misc. Marketing expenses

Includes:
- Administrative and Office salaries
- Rent
- Auditing expenses
- Legal Expenses
- Doubtful accounts
- Telephone and Telegraph
- Stationary and printing
- Postage
- Misc. Administrative expenses

**Total Cost**

*Source: Adapted from Matz and Milton Usry, Cost Accounting, 8th ed., p.19*
Cost Accounting and the Small Enterprises

The benefits ensuing from the application of cost accounting are not limited to large corporations. Undoubtedly, the complexity of the large multidivisional firm with operations in different localities makes cost accounting an absolute necessity for functioning. Yet, cost procedures are significant importance to the small firms. Although the absence of cost accounting may not result in the small enterprises being dysfunctional, as might occur for the multifaceted major corporation, the analysis does permit the executives of the small entity to fine-tune the decision-making mechanism. In essence, from a positive side, the small-firm manager may expect a better understanding of the underlying relationships affecting profitability if appropriate cost accounting practices have been instigated. A large number of proprietors for small organizations make decisions with only limited information. For instance, pricing decisions are frequently determined largely upon competitors’ actions, with only a restricted understanding of the cost of producing a product or providing a service. Although this style of operation may not cause business failure, the small-firm management is functioning with inadequate information unnecessarily.

In response to the foregoing contention, the executive of the small enterprise may question the merit of a cost system, citing the ability to assess costs without a formal mechanism. For certain small companies, the owners may be quite adept in assessing costs; however, for many small entities of even moderate complexity, calculating costs of providing a unit of merchandise or service with a high degree of confidence does require more than “seat of the pants” estimate. In these instances, the small business owner has a distinct advantage if costs have been developed systematically and carefully.

In addition to use the cost accounting process, the leadership of the small organization should comply with the need to implement and maintain internal accounting controls. Only through these controls can management have any assurance regarding the accuracy of the accounting information being provided. Without such confidence, the entire financial decision-making process is jeopardized.

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INTERNAL CONTROL

As already noted, the accounting system represents the financial data bank on which the vast majority of business decisions have their basis. Without this basic information, sound financial decisions become a matter of chance rather than design. Likewise, serious misjudgments may occur when the “information” is available but contains bias and/or inaccuracies. For this reason, internal control, while being important in safeguarding the firm’s assets, also plays a key role in enhancing the quality of the financial output employed in the decision-making process. As set forth by the accounting profession, internal control is “the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies”. Within this general definition, two primary areas are included. The first two objectives of internal control, safeguarding assets and the accuracy and reliability of the data, pertain to accounting controls. In this context, accounting control is defined as ....... the plan of organisation and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and to provide reasonable assurance that:

a) Transactions are executed in accordance with management’s general or specific authorization.

b) Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statement’s and (2) to maintain accountability for assets.

c) Access to assets is permitted only in accordance with management’s authorization.

d) The recorded accountability for assets is compared with the existing asset at reasonable intervals and appropriate action is taken with respect to any differences.  

The second aspect of controls, incorporating operational efficiency and managerial policies, is associated with administrative or managerial controls. In this
regard, administrative controls involves the plan of organisation and the procedures and records that are concerned with the decision processes leading to management's authorization of transactions. Such authorization is a management function directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting controls of transactions.

**Importance of Internal Control in the Small Firm**

Internal control has long been recognized as important in the large corporation. As cited in major auditing text, "...internal control has developed into a technique of vital importance in enabling management of large complex enterprises to function efficiently."\(^1\)\(^2\) Despite such prominence as a technique for large firms, the management of the small company should be able to reap benefits from developing effective internal control. Without any question maintaining internal control within the small business is difficult. The absence of a diverse staff makes the division of responsibilities impractical at times. However, this hardship should not minimize the significance of internal control within the small company relative to the large corporation.

Several reasons suggest that the equity-holders of a small organization should be attuned to the internal control provisions within their firm. First, as already mentioned, the reliability and timeliness of accounting information in making financial decisions are indispensable. Although this applies to all businesses, whether large or small, an extra dimension exists for the small firm in which the owner has invested a large portion of his or her net worth. A faulty decision for this individual can materially impact an entire lifestyle for many years, if not for a lifetime. In other words, the decision maker who is also a major stockholder subjects himself to greater risk on a relative basis as important decisions are being made than may be the case for the corporate executive within the large business. Accordingly, having valid and timely inputs in the form of accounting information is essential, thereby minimizing the probability of poor judgements.

In addition to reducing the risk exposure of the firm through greater precision in the information base, internal control may have an indirect impact upon the availability of external financing. Frequently, the bank or other prospective lenders may include a provision in the loan agreement that certified financial statements are to be provided...
annually. Such a stipulation calls for audits by an independent chartered accountant. However, for an accountant to publish an unqualified opinion regarding financial statements, internal controls must exist. As a part of the audit process, the accountant relies upon the existence of internal controls in examining the financial record. Since the audit normally is based on a sampling of the financial transactions rather than testing every event, the confidence of auditor is in part a function of the level of internal controls prevailing during the time period under examination. If these procedures are nonexistent, the accountant may not be prepared to offer an opinion or at least may feel required to qualify the opinion. In turn, the confidence of the prospective supplier of capital has to be affected, possibly resulting in more restrictions in the contract accompanying the loan or even possibly the rejection of the loan itself.

A last benefit accruing to the firm through internal controls is the possible decrease in the expenses associated with the audit. If inadequate controls became apparent to the accountant, developing the basis for certified financial statements may require an extension of the examination. Simply stated, the more insufficient the controls, the more in-depth the auditing procedures become. As investigation is extended, the costs naturally have to increase. “The ability of management to adopt sound accounting policies, maintain an adequate and effective systems of accounts, safeguard assets, and devise a system of internal control that will help assure the production of proper financial statements is an important goal to containing audit costs.”13 Hence, the injection of sound internal controls into the system should result in lower expenses for the firm.

Elements of Internal Control

Certainly no single plan may be given for all firms in constructing an internal control program. The optimal plan would be a function of the nature of the operation, the size of the firm, the type of accounting system, and the philosophy and modus operandi of the management. However, some basic elements have come to be recognized as essential ingredients in most firms. These would include:

1. An organizational plan constituting clear lines of authority and responsibility, while segregating the operating, recording, and custodial functions.
2. An accounting structure that sets forth the flow of transactions and provides reasonable accounting control over assets, liabilities, revenues, and expenses.
3. Personnel having ability and experience compensurate with their responsibilities.
4. An internal auditing staff charged with the surveillance and improvement of internal controls.¹⁴

**Examining the Internal Control System**

Although the small business does not require the same degree of complexity in evaluating the internal control, a formal procedure should be undertaken if for no other reason than the establishment of a “good habit”. For some reason, even though the internal control for an extremely small business could currently be evaluated informally, the transaction to a formalized examination when needed often lags the growth of the company. Also the provision of a permanent record is of value.

Methods for perusing the internal control vary; however, a popular analysis is the questionnaire approach.

**The Role of Management in Internal Control**

Without regard to size of the organisation, the responsibility for a trenchant internal control system rests with management. As asserted in the Statement of Auditing Standards, “the establishment and maintenance of a system of internal control is an important responsibility of management… The system of internal control should be under continuing supervision by management to determine that it is functioning as prescribed and is modified as appropriate for changes in conditions.”¹⁵ In other words, the structuring of an internal control system is viewed as being an integral part of management’s total responsibility, with the accountant playing a supporting role in the design, installation, and modification of the system.

While the size and diversity of a large corporation may have advantages in the control process, the ownership of a small business has a distinct advantage usually not available to the executive of the large firm. Active participation in the control system by an alert and interested owner represents a dimensions normally not achievable in large business. Such involvement on the part of key personnel within the small company
assists greatly in overcoming the difficulty of maintaining separate functions within an operation.

In short, internal control can be effectively administered in the small enterprise, and the importance of doing so should not be minimized. The procedures may be somewhat different from those that would be observed in a large company with separate divisions, but this does not mean its effectiveness in the given circumstances is reduced.

PROPER ACCOUNTING SYSTEM IN SMALL-SCALE INDUSTRIES

In day to day life the management has to take several decision in any business concern. The soundness of financial decisions taken by management depends upon the accessibility of accurate, meaningful, and timely financial information. The financial information of any firm comes from its accounting system.

These days in small-scale industries the owners and/management have realized the importance of maintaining proper books of accounts. Proper accounting system does not necessarily mean complex one. It can be quite simple, as long as it provides the small business manager with the needed information. There is no need to spend scarce time and money compiling information that will never be used.

Table 3.1

MAINTENANCE OF PROPER ACCOUNTS BY A SEPARATE DEPTT. OR PERSON IN SMALL-SCALE INDUSTRIES IN HARYANA

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Department No.</th>
<th>%</th>
<th>Person No.</th>
<th>%</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Garments</td>
<td>5</td>
<td>6.9</td>
<td>67</td>
<td>93.1</td>
<td>72</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>3</td>
<td>7.9</td>
<td>36</td>
<td>92.3</td>
<td>39</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>4</td>
<td>7.1</td>
<td>52</td>
<td>92.8</td>
<td>56</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>2</td>
<td>3.0</td>
<td>65</td>
<td>97.0</td>
<td>67</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>3</td>
<td>5.7</td>
<td>50</td>
<td>94.3</td>
<td>53</td>
</tr>
<tr>
<td>6. Others</td>
<td>7</td>
<td>8.6</td>
<td>74</td>
<td>91.4</td>
<td>81</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24</strong></td>
<td><strong>6.5</strong></td>
<td><strong>344</strong></td>
<td><strong>93.5</strong></td>
<td><strong>368</strong></td>
</tr>
</tbody>
</table>
As per the information collected, and tabulated in Table 3.1 regarding maintenance of proper books of accounts in small-scale industries, in Haryana 92 per cent of the industries are preparing accounts books. Maintenance of proper accounts is correlated with the size of the units. As in Metal Products industry 14.1 per cent units are not maintaining proper books of accounts due to very small size and they do not realize the importance as well as can not afford to maintain accounts financially. For them it is useless. The same is the case in the Garments industry where 10 per cent are not maintaining accounts books. This category mainly consists of those units which are working on the basis of labour rate and turnover is very low. In Electronics 6.7 per cent, in Rubber and Plastics industry 5.4 per cent, and in Others industry just 5.8 per cent are not keeping proper accounts of their transactions. Due to the large size of units in Auto-parts industry, 97.5 per cent are maintaining proper accounts. So, as the size of unit is increased the importance of proper accounts is realized.

SEPARATE DEPARTMENT/PERSON FOR PREPARING ACCOUNTS IN SMALL-SCALE INDUSTRIES

The accounting system should not be cumbersome to the firm. Specifically, the system should be structured to provide the needed information at a reasonable cost. Otherwise, the accounting system may be highly sophisticated and yield intricate detail, but the cost of the process may be prohibitive. In contrast, the design should be communcerate with the small company’s ability to finance the development and operation of the accounting segment of the firm.

After deciding the design of accounting system, the owner will have to decide that whether a separate department of accounts should be in the organization or a separate person should be appointed to maintain accounts. This is the question, which depends on the number of transactions to be recorded as well as information to be provides to the owners/management for decision making.

Table 3.1 shows that in most of the industries a separate person is appointed either full time or part time to maintain accounts. Only in 6.5 per cent industries separate department is maintained for accounting work. Due to the financial constraints, only large industries in the small-scale sector, particularly working as private Ltd., or Public
Ltd. Companies, are having separate accounts department. Except in Metal Products industry the percentage of units in remaining industries having separate department for accounts is 5 to 8 per cent. In Metal Products industry due to small size of units 97 per cent of the total units which are maintaining accounts have appointed person either full time or part time, for preparing accounts. And remaining three percent have separate department. In remain industries 91 to 94 per cent are having separate person for accounts.

In the small firms where management and ownership are generally in the hands of a few individuals, control over the organisation and the supervision of employees are usually direct and personal. So, most of them just prepare accounts for the purpose of income tax or sale tax. And this requirement can be fulfilled just by appointing a person as an accountant to prepare accounts.

USE OF COST REDUCTION TECHNIQUES IN SMALL-SCALE INDUSTRIES

In today's world of competition it becomes necessary for every industry both in large scale and in small scale sector to control their costs of production. Particularly in post liberalisation period the survival of small-scale industries depend mainly on the cost reduction techniques to reduce costs of their product. The competition, in the present context, has transcended the regional and even national boundaries and has acquired an international proportion. In such a situation the industries have to compete at international level in case of some products. Day by day the Government is going to relax the list of items which were earlier exclusively reserved for small-scale sector. So, to survive in the long run, it becomes necessary to use new techniques of cost control. But again, in the small sector finance is the main constraint. Owing to the lack of education, the owners themselves, cannot use the techniques of cost control without the help of experts. This is the main reason that most of them are not using cost reduction techniques. They are even not aware of the techniques available.
Table 3.2

USE OF COST REDUCTION TECHNIQUES IN SMALL-SCALE INDUSTRIES IN HARYANA

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Yes No.</th>
<th>Yes %</th>
<th>No.</th>
<th>No. %</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Garments</td>
<td>04</td>
<td>5.0</td>
<td>76</td>
<td>95.0</td>
<td>80</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>10</td>
<td>25.0</td>
<td>30</td>
<td>75.0</td>
<td>40</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>05</td>
<td>8.3</td>
<td>55</td>
<td>91.7</td>
<td>60</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>03</td>
<td>3.8</td>
<td>75</td>
<td>96.2</td>
<td>78</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>04</td>
<td>7.1</td>
<td>52</td>
<td>92.9</td>
<td>56</td>
</tr>
<tr>
<td>6. Others</td>
<td>14</td>
<td>16.3</td>
<td>72</td>
<td>83.7</td>
<td>86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>10.0</strong></td>
<td><strong>360</strong></td>
<td><strong>90.0</strong></td>
<td><strong>400</strong></td>
</tr>
</tbody>
</table>

Table 3.2 depicts that only 10 per cent industries are using some techniques to reduce their costs of production. In this category the maximum percentage is 20 of Auto-parts industry which are using cost reduction techniques due to necessity of their industry. As explained earlier, for example, in Maruti Udyog Ltd., which is a major customer of Auto-parts in Haryana, rates for supply of parts are determined by the company and if the Auto-parts units have to get an order for supplying parts they will have to quote minimum rates. After obtaining the order, the Auto-parts units in order to earn some profit, would have to produce the demanded product still at a lower cost.

Due to this compulsion, 20 per cent Auto-parts industries are employing cost reduction techniques. The percentage of industries employing cost reduction techniques in the category of ‘Others industry’ is 16.3 followed by Electronics 8.3 per cent Rubber & Plastics 7.1 per cent, Garments 5.1 per cent and least in Metal Products industry 3.8 per cent are using cost reduction techniques. So, we can say the main point is competition followed by knowledge of the owner management which decide the use of cost reduction techniques.

On the basis of analysis of figures given in Table3.2 it can be concluded that in the age of intense competition in the industrial world 90 per cent small-scale industries in Haryana are not employing any cost reducing techniques to control the costs.
FUNDS FLOW AND CASH FLOW STATEMENTS IN SMALL-SCALE INDUSTRIES

Most end users of annual reports are interested in knowing whether the enterprise would be able to generate enough cash for purposes of meeting its financial commitments. This need arises because the income statement, as it is normally prepared, does not indicate the cash generated by a business unless several adjustments are made to transform the profit figures, prepared on an accrual basis to generate the figures relating to movement of funds.

The bankers and creditors of business enterprise are interested in its cash generation ability primarily because the enterprise has to meet commitments relating to repayments of principal amounts advanced as well as interest payment due as per agreed schedules. Managers of business enterprises are also interested in developing appropriate data relating to cash generation capabilities of the enterprise from financial statements so that they might plan the future operations of the enterprise.

The process by which insights are developed relating to cash generation capabilities has come to be known as "cash flow analysis" based on financial statements. Cash flow statement provides the details in respect of cash generated as well as used during the accounting period.

Although the balance sheet and income statement are essential to decision makers – within and outside the firm – together they do not provide complete information in respect of significant changes which may have occurred in all of the company's asset, liability and owner(s)' equity items during the accounting period such as purchase and sale of fixed assets, issue of share capital, raising and redemption of long term loans etc., affecting the liquid resources. Hence, for a better understanding of financing and investing transactions, that occur during the accounting period, more information is needed. In small-scale industries the owner might prepare his own rough estimate of these investments and financing activities by comparing balance sheet at two different dates – at the beginning and at the end of the accounting periods – and from the schedules annexed to these statements in order to find out significant changes, if any. However, the user might not succeed in his endeavour due to multiplicity of transactions. It was on
account of this difficulty and with a view to provide more information regarding changes that have occurred in asset’s, liabilities and capital balances between the beginning and end of the accounting period, many companies particularly large companies also prepare one more statement, called a statement of sources and application of funds or simply funds flow statement. Any transaction that increases the amount of working capital is a source of funds and any transaction that decreases the working capital is an application of funds.

Table 3.3

PREPARATION OF FUNDS FLOW & CASH FLOW STATEMENTS IN SMALL-SCALE INDUSTRIES IN HARYANA

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>1. Garments</td>
<td>27</td>
<td>33.7</td>
<td>53</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>28</td>
<td>70.0</td>
<td>12</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>11</td>
<td>18.3</td>
<td>49</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>12</td>
<td>15.4</td>
<td>66</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>10</td>
<td>17.8</td>
<td>46</td>
</tr>
<tr>
<td>6. Others</td>
<td>30</td>
<td>34.9</td>
<td>56</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>118</td>
<td>29.5</td>
<td>282</td>
</tr>
</tbody>
</table>

In small-scale industries these two statements are not very popular. It is clear from the Table3.3 that only 29.5 per cent industries are preparing cash flow and funds flow statements both or one of them. The basic reason of it is that the number of transactions in small-scale industries are less in comparison to large-scale industries and the owners themselves look after each and every transaction – change in assets, liabilities and capital balances. These statements are prepared in small-scale industries only by big units working as a company or partnership firms. In some cases these are prepared by industry on demand of bankers or creditors. These two statement are very popular these days in large scale industries owing to multiplicity of transactions. In small scale sector the maximum percentage (70%) is in Auto-parts industry followed by Others industry 34.9 per cent, Garments industry 33.7 per cent, Electronics 18.3 per cent, Rubber and Plastics 17.8 per cent and least in Metal Products industry 15.4 per cent. Only these
industries prepare cash flow and/or funds flow statements. Most of the owners in small scale sector even do not know the meaning or importance of these two statements.

**AMOUNT SPEND ON MAINTENANCE OF ACCOUNTS IN SMALL-SCALE INDUSTRIES**

Table 3.4

AMOUNT SPENT ON MAINTAINING ACCOUNTS P.A. BY SMALL-SCALE INDUSTRIES IN HARYANA

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>0% of sales</th>
<th>0.1 to 0.5% of sales</th>
<th>0.6 to 1% of sales</th>
<th>More than 1% of sales</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>1. Garments</td>
<td>08</td>
<td>10.0</td>
<td>16</td>
<td>20.0</td>
<td>47</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>01</td>
<td>2.5</td>
<td>6</td>
<td>15.0</td>
<td>28</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>04</td>
<td>6.7</td>
<td>7</td>
<td>11.7</td>
<td>41</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>11</td>
<td>14.1</td>
<td>24</td>
<td>30.8</td>
<td>38</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>03</td>
<td>5.4</td>
<td>17</td>
<td>30.3</td>
<td>32</td>
</tr>
<tr>
<td>6. Others</td>
<td>05</td>
<td>5.8</td>
<td>11</td>
<td>12.8</td>
<td>60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>32</td>
<td>8.0</td>
<td>81</td>
<td>20.2</td>
<td>246</td>
</tr>
</tbody>
</table>

These days each and every business men have realized the importance of maintenance of accounts. Except very small business in which the number of transacts are less and financial position does not allow, all other industries are maintaining proper accounts. But when we analyse the percentage of sale amount spend on maintenance of proper accounts, we would find as shown in Table 3.4 that majority of the units (61.5%) in small scale sector in Haryana are just spending 0.6 to 1 per cent of their sales value on accounting. In the age of intense competition the management and owners need various kinds of information to make plans, strategies and policies. These necessary information can be availed only by maintaining proper accounting system. So, this amount is not sufficient for maintaining accounts. There are 20.2 per cent industries spending just 0.5 per cent or less of sales amount on accounting. In today's world there are 8 per cent such industries which are not spending even a single rupee on accounting. In this category mainly very small industries are there. On the other hand, there are industries which are spending more than 1 per cent of their sales value on maintenance of accounts. These are: in Auto-parts industry 12.5 per cent, in Electronics industry 13.3 per cent, in Others
industry 11.6 per cent, in Garments industry 11.3 per cent, in Rubber and Plastics 7.2 per cent and in Metal Products industry 6.4 per cent.

In Metal Products industry due to small size of their operations there are maximum 14.1 per cent industries which are not spending any amount on accounts followed by Garments industry 10 per cent, particularly those units working on labour rate and their size is small. The minimum percentage is 2.5 in Auto parts industry in this category. In remaining industries the percentage is 5 to 6 per cent which are not spending any amount on accounts maintenance.

INCOME AND EXPENSES BUDGET IN SMALL-SCALE INDUSTRIES

A budget is a detailed plan of operations for some specific future period. It is an estimate prepared in advance of the period to which it applies. It acts as a business barometer as it is a complete programme of activities of the business for the period covered. The Chartered Institute of Management Accountants, London, defines a budget as “a financial and/or quantitative statement, prepared prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective”.

Different types of budgets are prepared by an industrial concern for different purposes. A Sale Budget is prepared for the purpose of forecasting sales for a future period. A Manufacturing Cost Budget is prepared for forecasting the manufacturing costs. The Master Budget embodies forecasts – for sales and other incomes, for manufacturing, marketing and other expenses, for cash and capital requirements besides forecasting the figure of profit or loss.

In the small-scale industries in Haryana as far as the budget system for watching the incomes and expenses is concerned, the response is very poor. Only 20 per cent are using budget system. Among these using the budget system 33 per cent units are from Auto-parts and Electronics industries followed by Others industry 26 per cent, Garments Industry 15 per cent, Rubbers & Plastics Industry 12.5 per cent and Metal Products industry 7.6 per cent. The use of budgetary control requires careful working out plans in advance for all divisions of the industrial plants, their implementation and investigating the causes of variance between anticipated and actual results. This requires services of
experts and small-scale units cannot afford it. Only large units in Small-scale industries can afford it and that is the main reason of low percentage.

INTERNAL CONTROL SYSTEM IN SMALL-SCALE INDUSTRIES

As already noted, the accounting system represents the financial data bank on which the vast majority of business decisions have their basis. Without this basic information, sound financial decisions become a matter of chance rather than design. Likewise, serious misjudgments may occur when the “information” is available but contains bias and/or inaccuracies. For this reason, internal control, while being important in safeguarding the firm’s assets, also plays a key role in enhancing the quality of the financial output employed in the decision-making process.

Internal control has long been recognised as important feature in the large companies. But, in small scale industries maintaining internal control is difficult. The absence of a diverse staff makes the division of responsibility impractical at times. However, this hardship should not minimize the significance of internal control within the small company relative to the large company.

In small-scale industries in Haryana only 7 per cent industries are employing a properly developed system of internal control. Because, a properly developed system of internal control may include accounts control, standard of cost control, budgetary control, periodic operating reports, statistical analysis, personnel training programme and an internal audit staff. It may also include other activities such as time and motion studies and quality controls through inspection. All these controls require a team of experts which is not feasible for small firms to appoint due to financial reasons. But sole traders and partnership firms do not feel the need of internal control. Being the transactions are looked after by the owner(s). So, in small-scale industries 93 per cent are not employing internal control system as such. In the category of 7 per cent, there are mainly those business concerns which are having partnership or company form of organisation and the size of the units is big. In the Auto-parts industry 10 per cent, in the Electronics 8 per cent, in the Garments industry 7.5 per cent, in the Others industry 7.4 per cent, in Rubber & Plastics 6 per cent and in the Metal Products industry 4 per cent are using internal control system.
COMPARATIVE STATEMENTS IN SMALL-SCALE INDUSTRIES

Financial statements of two or more firms may be compared for drawing inferences. This is known as an inter-firm comparison. Similarly, there may be inter-period comparison, i.e. comparison of the financial statements of the same firm over a period of years known as trend analysis. Inter-firm or inter-period comparisons are very much facilitated by the preparation of comparative statements.

These statements indicate trends in sales, cost of production, profits, etc., helping the analyst to evaluate the performance, efficiency and financial condition of the firm. Comparative statements can also be used to compare the position of the firm with the average performance of the industry or with other firms.

As far as small-scale industries are concerned only 30 per cent are preparing comparative statements. In the Auto-parts industry 45 per cent are preparing comparative statements where as in Metal-Products industry only 15 per cent are preparing it. Again the reason is same explained earlier, the size of the units. In the Electronics industry 33 per cent, in Garments industry 27 per cent, in Others category 26 per cent and in Rubber & Plastics industry just 24 per cent units are preparing comparative statements.

COST ACCOUNTS IN SMALL-SCALE INDUSTRIES

Cost accounting is a recent development born in response to the needs of managers for detailed information about the cost of a product or a unit of service.

Kohler defines cost accounting as “that branch of accounting dealing with the classification, recording, allocation, summarization, and reporting of current and prospective costs”.

In the initial stage of its evolution, cost accounting confined itself to accumulation of historical costs and presentation of the same for the sole purpose of cost finding or product costing. With the passage of time, however, its scope was broadened and provision of information for cost control and cost reduction became more important than product costing.
Cost accounting has become an absolute necessity for functioning in the large multidivisional firms operating in different localities. But, it does not mean that cost procedures are not important in small enterprises. Although the absence of cost accounting may not result in the small enterprises being dysfunctional, as might occur for the multifaceted major company, the analysis does permit the executives of the small firms to fine-tune the decision-making mechanism. A large number of proprietors for small organisations make decisions with only limited information. For instance, pricing decisions are frequently determined largely upon competitors’ actions, with only a restricted understanding of the cost of producing a product or providing a service. This is the main reason that only 4 per cent of small-scale industries in Haryana are maintaining cost accounts. Only 7.5 per cent in Auto-parts industry, 5 per cent in Electronics industry, 3.7 per cent in Garments industry, 3.6 per cent in Rubber & Plastics industry, 3.5 per cent in Others industry and 2.5 per cent in Metal Products industry are maintaining cost accounts. These cost accounts are maintained on historical cost basis. For the purpose of maintaining cost accounts, accountants are appointed by every industry.

PRICING POLICY IN SMALL-SCALE INDUSTRIES

A systematic approach to pricing the products of a firm requires that decision of individual pricing situations be generalised and codified into policies covering all the principal pricing policies. Pricing policies should be tailored to meet the various competitive situations. This implies that a firm can follow different pricing policies with regard to different markets or different customers. Various pricing policies can be classified into the following categories:

(i) Demand-oriented pricing.
(ii) Cost-oriented pricing.
(iii) Competition-oriented pricing.
(iv) Value-based pricing.
### Table 3.5
BASIS OF PRICE DETERMINATION USED BY SMALL-SCALE INDUSTRIES IN HARYANA

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Cost No.</th>
<th>Cost %</th>
<th>Competition No.</th>
<th>Competition %</th>
<th>Any Other No.</th>
<th>Any Other %</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Garments</td>
<td>7</td>
<td>8.8</td>
<td>65</td>
<td>81.2</td>
<td>8</td>
<td>10.0</td>
<td>80</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>8</td>
<td>20.0</td>
<td>28</td>
<td>70.0</td>
<td>4</td>
<td>10.0</td>
<td>40</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>14</td>
<td>23.3</td>
<td>38</td>
<td>63.3</td>
<td>8</td>
<td>13.4</td>
<td>60</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>16</td>
<td>20.5</td>
<td>48</td>
<td>61.5</td>
<td>14</td>
<td>18.0</td>
<td>78</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>19</td>
<td>34.0</td>
<td>34</td>
<td>60.7</td>
<td>3</td>
<td>5.3</td>
<td>56</td>
</tr>
<tr>
<td>6. Others</td>
<td>30</td>
<td>34.9</td>
<td>46</td>
<td>53.5</td>
<td>10</td>
<td>11.6</td>
<td>86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>94</strong></td>
<td><strong>23.5</strong></td>
<td><strong>259</strong></td>
<td><strong>64.8</strong></td>
<td><strong>47</strong></td>
<td><strong>11.7</strong></td>
<td><strong>400</strong></td>
</tr>
</tbody>
</table>

In small-scale industries in Haryana as revealed by Table 3.5, the main basis of price fixation is competition and 64.8 per cent of the industries are fixing the prices of their products by keeping in mind the price of the product in the market. This method of price fixation is used mainly in competitive market and where the product is not differentiated significantly from the competitive products. In Garments industry 81.2 per cent of units are using this method for price fixation. The main reason for this is that every consumer cannot make out the qualitative difference of the product. In such a situation if the price is fixed below prevailing price in the market, the consumer might perceive the product to be of inferior quality. In the Auto-parts industry 70 per cent are using competition as a base for price fixation followed by 63.3 per cent in Electronics Industry, 61.5 per cent in Metal Products industry, 60.7 per cent in Rubber and Plastics, and 53.5 per cent in Others industry due to highly competitive market. On the other hand just 23.5 per cent are fixing their prices on the basis of cost. In the cost-oriented pricing method, the cost estimate of the product is made and a margin for profit is added to it to determine the price. This method helps in achieving reasonable return on the amount of capital invested. This method is adopted by those manufacturers who want to play safe. In the Small-scale industries 34.9 per cent in Others category of industry are using this method followed by 34.0 per cent in Rubber & Plastics industry, 23.3 per cent in Electronics industry, 20.5 per cent in Metal Products industry, 20 per cent in Auto-parts industry and least 8.8 per cent in Garments industry. Remaining 11.7 per cent Small-
scale industries in Haryana are using other methods of price fixation. In this category the maximum percentage is of Metal Products industry 18. These 18 per cent industries in the field of Metal Products charge their prices according to the design, quality and time period for executing the order. In the Garments and Electronics industry 10 per cent and 13.4 per cent respectively are determining the prices of their products under value based pricing method. Like this 10 per cent of Auto-parts industry, 11.6 per cent of Others industry, and 5.3 per cent of Rubber & Plastics industry are using other methods of price fixation.

**Summing Up**

In small-scale industries, for the purpose of maintenance of accounts, most of the industries appoint one or two persons either on full time or part-time basis. Only big units, working as a company, have separate department for accounts. Cost reduction techniques have also been used by these big units. To analyse the main sources and applications of funds and cash generated as well as used during the accounting year, the preparation of the two important statements i.e. Funds Flow and Cash flow statements is not very popular in small industries. On maintenance of accounts most of small firms are spending less than 1 per cent of sales. One-fifth of small-scale industries are preparing income and expenditure budget. Internal control system is not maintained by small firms except a few large units in the sector. One-third of small industries prepare comparative statements for the purpose of inter-period comparison. In small sector, even today cost accounting is considered useless. Only large units are using it and their number is very few. In small sector prices of their products are fixed mainly on the basis of competition and cost of the products.
REFERENCES


