Appendix - I

Code No. : __________

QUESTIONNAIRE

1. Shri Ashim Kumar Das, a Research Scholar in the Department of Commerce of Assam University, Silchar (Assam) request you to kindly spare a few minutes of your valuable time in filling up the Questionnaire, here under in connection with my research project entitled "Financial Management Practices in Small Business : A study on North-East India with special reference to Assam".

I assure you that the information will be treated as strictly confidential and shall be used only for academic purposes. Answers in the questionnaire require just a tick (✓) marks or Yes / No. Your kind co-operation will be highly appreciated.

Thanking you in anticipation.

(ASHIM KUMAR DAS)

SCHEDULE FOR INTERVIEW

1. Name of Organisation / Unit

2. Name of the Owner / Manager / Managing Partner / Managing Director

3. Age of the Owner / Management at Present Years.

4. Sex: M [ ] F [ ]

5. Location: Rural [ ] Urban [ ]

6. Size of the Business Unit: No Employee [ ] Atleast one employee [ ] More than one employee [ ]

7. Age of Business (years)

8. Registered: Yes/No, If Yes: Name of the Authority

9. Educational Qualification of the Owner/Manager: Graduate and above [ ] Inter/H.S. [ ] HS/CLC [ ] Professional [ ] Other [ ]

10. Family background: Agriculture [ ] Trading [ ] Others [ ]

11. Experience in Business of years.

12. Type of ownership: One-Man Business [ ] Partnership firm [ ] Private Ltd. Company [ ] Co-operative form of Business [ ]

13. Business Sector: Manufacturing [ ] Service [ ] Trading [ ]

14. Principal Market for your product/services: Local Market [ ] Regional Market [ ] Through out the country [ ] International Market [ ]
15. How your Business is doing at present: Very well □ Doing moderately well □ Doing well □ Not so well □ Not well □

16. State of your (average) monthly sales/receipts: Upto Rs. 10,000 □ Rs. 10,000 to Rs. 20,000 □ Rs. 20,000 to Rs. 50,000 □ Rs. 50,000 to Rs. 1 lakh □ Rs. 1 lakh to Rs. 2 lakhs □ Rs. 2 lakhs to Rs. 3 lakhs □ Rs. 3 lakhs to Rs. 5 lakhs □ Rs. 5 lakhs and above □

17. Do you maintain Accounting Records: Yes □ No □

18. What factor compel you to maintain Accounts: To know the Business Profit/Loss □ To know the Business Financial position □ To determine Tax burden/comply tax dept. □ To satisfy the Bankers □ To take future Business decision □

19. Is a Computer used to keep business records? Yes □ No □

20. How do you measure your financial performance (show your preference): Sales □ Expenses □ ROI □ Profit □ Profit and Sales □


22. Who writes up your Accounting records: Yourself □ Manager □ Accountant □ Part-time Accountant □

23. At present (at the time of interview) which of the following information of your own business is known to you: Bank Balance □ Cash in Hand □ Total Creditor □ Total Debtors □ Average period your debtors takes to pay □

24. How do you assess the value of your business Assets and Liabilities? From the books of Accounts □ By observations □ From Balance Sheet □ Any other ....................

25. Which Financial Statement/Accounting Record for you use regularly to monitor financial position and performance of your business unit: Cash/Bank Balance □ Debit/Credit Balance □ Profit and Loss Accounts □ Balance Sheet □ Fund flow statement □ Cash flow statement □ Comparative financial statement analysis □ None of these □

26. How do you measure financial performance of your business: Sales □ Expenses □ ROI □ Profit □ Profit and Sales □ Budget vs. Actual profit □ None of these □

27. No. of Employees .....................: Skilled _______ Unskilled _______ part timer _______

28. Which aspect of the financial area of your business you find difficult: (1 = least difficult, 5 = most difficult) Personal Management □ Material Management □ Marketing Management □ Pricing □ Financial Management □ Production Management □ Inventory Management □ Maintaining Accounting records □
Record Keeping:
29. How you determine your business performance? By closing all Accounts [ ] By calculating business Profit and Loss Account and Balance Sheet [ ] By observation [ ]

30. Can you get all the information you want quickly and correctly to management your business: Yes [ ] No [ ]

31. Do you have a set of books that gives you information about:
   (i) How much your customer owe you? Yes [ ] No [ ]
   (ii) How much you owe your supplier? Yes [ ] No [ ]
   (iii) Present value of your machines and other assets? Yes [ ] No [ ]

32. Do you calculate Depreciation of your Fixed Assets? Yes [ ] No [ ]

33. Do you prepare Budget or set targets for your business for the future? Yes [ ] No [ ]

34. Do you prepare Balance Sheet for your business once a year: Yes [ ] No [ ]

35. Do you prepare: Sales Book [ ] Purchases Book [ ] Cash Book [ ] Creditors Book [ ] Ledger [ ] Profit and Loss Account [ ]

36. How the financial information is recorded: Single entry system [ ] Indigenous / Mahajhani System [ ] Double entry system [ ] Keep in one Book/Note Book [ ] In memory [ ]

Working Capital Management:
37. Do you make any difference between your private assets / expenses and your business Assets/Expenses: Yes [ ] No [ ]

38. Have you prepare cash-flow statement for your business unit: Yes [ ] No [ ]
   If No: How do you calculate the business cash flow position...........................................

Credit Management:
39. Methods of Sales your organisation adopt: Cash sales only [ ] Credit Sales only [ ] Cash/ Credit Sales [ ]

40. Reasons for credit sales: Market Tradition [ ] Sales Promotion [ ] Accommodating special customers [ ]

41. Form of Credit Sales: Bills Receivales [ ] Open account [ ]

42. Do you follow any credit policy? Yes [ ] No [ ]

43. Do you evaluate the credit worthiness of your customer before allowing credit:
   Yes [ ] No [ ]
   If Yes, How? Bank Reference [ ] Sales Representatives [ ] Past experience [ ] Friends and Relatives [ ] Business Experience [ ] Other __________________________
44. Do you make any provision for Bad and Doubtful Debts?  
   Yes [ ] No [ ]

45. Do you maintain any form of Reserve Fund from your yearly profit?  
   Yes [ ] No [ ]

46. Do you use financial ratio when reading your financial statement?  
   Yes [ ] No [ ]
   If Yes: What are the ratios get used to ____________________________

47. What techniques of financial statement analysis do you maintainly adopt to monitor your business performance?  
   Comparative financial statement analysis [ ] Trend analysis [ ] Fund flow analysis [ ] None of these [ ]

48. Are you satisfied with the present practices of Financial Management in your business unit?  
   Yes [ ] No [ ]
   If No, then why ____________________________

Costing Records:

49. Do you make any difference between direct and indirect costs?  
   Yes [ ] No [ ]

50. Can you split your production costs into fixed and variable costs?  
   Yes [ ] No [ ]

51. How are the products priced at your organisation?  
   Full cost + P.C. of profit [ ] Hourly Rate [ ] Purchase price + P.C. (%) of profit [ ] Market Price [ ] Any other method  
   (Please specify) ____________________________

52. Do you keep written records separately, showing the costs of materials labour, rent etc.  
   Yes [ ] No [ ]

53. If a competitor begins to sell goods at lower price than yours, do you know exactly how much you can afford to lower your price to compete with him?  
   Yes [ ] No [ ]

Inventory Management:

54. Do you maintain any separate Inventory/Stock Records through Ledger?  
   Yes [ ] No [ ]

55. Do you take any help of the techniques of Inventory management that are in use?  
   Yes [ ] No [ ]
   If Yes: ___________________________________________________________________

Auditing:

56. Do you get your Business Accounts Audited yearly?  
   Yes [ ] No [ ]
   If Yes: Who audits your business Accounts: C.A. [ ] Other professional auditor [ ] Internal auditor [ ] No Audit [ ]

Tax matters:

57. Do you have fair knowledge on Tax law / Rules?  
   Yes [ ] No [ ]
58. Who looks after your tax related matters: Self/Owner Manager [ ] Employee [ ] Part-time Accountant [ ] Tax consultant [ ]

Capital Expenditure:

59. If you or your business unit wish to acquire/purchase new equipment/machines or any other Assets - how you would decide whether it is worthwhile or not: Necessity [ ] Efficiency [ ]
Bank Balance [ ] Bank finance available [ ] Easy instalment offer [ ] Lease than buy [ ]
Enough Reserve fund [ ] After expiry of the machine/Asset due to depreciation [ ]

60. What method of analysis you generally follow in making capital investment decisions: By observation [ ] By pay back method [ ] By NPV analysis [ ] No method used [ ] By any other method ……………………………

61. What source of finance, apart from personal finance, did you use in your business:

Uses in the business

- Hire purchase [ ]
- Leasing [ ]
- Venture Capital Fund [ ]
- Equity Capital [ ]
- Bank Loan [ ]
- Other source if any [ ]

Drawings Decision:

62. How do you decide, how much amount to take out of the business for your own use out of business? Salary [ ] Wages + Bonus [ ] Household need [ ] What business can afford [ ]
Only profit of the business [ ] Plough all profit back [ ] Any other method ……………………………

63. Did you find difficulty to obtain financial support from outside sources? Yes [ ] No [ ]

If Yes: What are those obstacles: Lack of personal financial strength [ ] Establishing the idea that a market existed for my business/product [ ] Lack of experience in previous business venture [ ] Difficulty in producing satisfactory accounting statement of proposed Business [ ] Others factors if any ……………………………

Place: __________________
Date: _______________ (Signature of the Respondents)
Awareness level of owner-manager of Small Business of North-Eastern region of India.

Are you aware of the following financial management tools and techniques?

<table>
<thead>
<tr>
<th>Financial management tools and techniques</th>
<th>Aware (Yes / No)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Ledger</td>
<td></td>
</tr>
<tr>
<td>Sales Ledger</td>
<td></td>
</tr>
<tr>
<td>Cash Book</td>
<td></td>
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<tr>
<td>Debtors Book</td>
<td></td>
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<tr>
<td>Creditors Book</td>
<td></td>
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<tr>
<td>Depreciation</td>
<td></td>
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<tr>
<td>Trial Balance</td>
<td></td>
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<tr>
<td>Bank Reconciliation Statement</td>
<td></td>
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<tr>
<td>Profit and Loss Statement</td>
<td></td>
</tr>
<tr>
<td>Balance sheet</td>
<td></td>
</tr>
<tr>
<td>Sales / Purchase Budget</td>
<td></td>
</tr>
<tr>
<td>Capital Budgeting</td>
<td></td>
</tr>
<tr>
<td>Cost-volume-profit (CVP) Analysis</td>
<td></td>
</tr>
<tr>
<td>Job Costing System</td>
<td></td>
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<tr>
<td>Process Costing system</td>
<td></td>
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<tr>
<td>Inventory Control Method (EOQ, ABC analysis, FIFO, LIFO etc.)</td>
<td></td>
</tr>
<tr>
<td>Stores Ledger</td>
<td></td>
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<tr>
<td>Liquidity measures through Ratio analysis (Financial Ratios), Liquidity Ratios, Quick Ratio, Capital gearing ratio, debt-equity-ratio etc.</td>
<td></td>
</tr>
<tr>
<td>Fund flow analysis</td>
<td></td>
</tr>
<tr>
<td>Comparative financial statement analysis</td>
<td></td>
</tr>
<tr>
<td>Working capital management</td>
<td></td>
</tr>
<tr>
<td>Calculation of cost of capital</td>
<td></td>
</tr>
<tr>
<td>Pay back method of analysis (NPV) and Internal rate of return (IRR)</td>
<td></td>
</tr>
<tr>
<td>Auditing</td>
<td></td>
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<tr>
<td>Tax matters</td>
<td></td>
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<tr>
<td>Investment management</td>
<td></td>
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</tbody>
</table>
Appendix - II

RESEARCH PUBLICATIONS
CONCEPTUALISATION OF SMALL BUSINESS IN INDIA: AN ANALYTICAL STUDY

Ashim Kumar Das
Nikhil Bhusan Dey

Introduction

Small business development as an issue has become increasingly important in recent years in both developed and developing countries (Roy and Hutchinson 1983). Although, it will be impossible to give a one to one clear answer to the question “what makes small business so important”, it is quite well known that the term small business is almost equated with poverty alleviation and new job creation through enterprises and entrepreneurship. According to the survey of the World Bank in March 1988 giving encouragement to the growth of small enterprises was the best way to benefit the masses of non-agricultural job seekers in the developing countries.

In spite of long drawn planning effort the strategy for industrialisation adopted in India's economic policy, such as providing gainful employment to surplus labour, alleviation of poverty, egalitarian distribution of income and wealth, the objectives could not be achieved successfully. The growing disenchantment with the supposed virtues of large scale economic units has helped all to re-focus attention on “small business”.

If we look into the history of small business, the first known piece of work on the subject describing how bankers loaned money at interest, appeared more than 4000 years ago. Since then, it has spent countless hours creating products and services to benefit the consumers. They flourished in almost all ancient cultures. It is largely through small business the civilisation was spread to all four corners of the then known world (Barrow 1997). Significant innovations
by small business in the twentieth century are wide ranging – FM radio, overnight delivery, personal computers, xerography are just a few examples. The beneficial impact on society of such innovations by small business includes not only lower price and better product quality and services for consumers but also a better quality of life.

The economic importance of small business in a developing country like India is much greater than that of innovation and invention. Those businesses have been a vital source of absorbing unaccountable number of persons at places in semi-rural, semi-urban, urban and metropolitan areas, where most of the productive and viable economic activities are done by them in keeping with local demands of goods and items of mass consumption (Maurya 2001). This is because small business required low capital and low level of barriers to entry. In fact, it is often easier for a person to go into small business for themselves than to find an employer. Today, they are so vital that few, if any, part of the global economy could go on without its products and services. It thrives everywhere.

Small businesses have acted as a reservoir of traditional manual skill (Odaka and Sawai 1990), which has often resulted in economic dualism in our country where existence of relatively big organisations having imported technology, with small indigenous concerns typically operated by means of labour intensive traditional methods of production. Mahatma Gandhi was keen on the protection and expansion of traditional, mainly rural, household enterprises which, according to him, act as a source of employment for millions of rural unskilled labour.

In India, besides unemployment, we are facing many chronic problems like poverty, lack of proper education, health, non-existence of efficient banking system, and capital market. Besides these, the supply of physical resources in terms of transportation, suitable premises, availability of adequate power, etc., are the vital problems. To overcome these unsolved problems the country may encourage small business, which shall bring in a balanced regional growth and the problems could be solved.

The development of the small business may also produce far-reaching social changes in the country. The sociologists estimate that 53 percent of the Indian population would be under 38 years of age, i.e., the younger segment of population would become a major constituent of our total population. Hence,
Conceptualisation of small scale.../47

there is greater need for canalising the resurgence and potentialities of the youth of our country in a constructive direction (Barpujari 2002).

Establishment of small business units would provide the Indian youth their fruitful opportunities for self-expression and for increasing their material well-being (Barpujari 2002). The country’s younger generation feel frustrated because they do not have the assurance that their education and scientific talents would be fully utilised. So their active participation in the small business units would ensure job satisfaction for them. Expanding the small and medium sectors of our economy would strengthen the backbone of the society and also curb social unrest in the country (Barpujari 2002).

Sometimes small business is criticised for its economic vices, like rat race competition, the exploitation of employees through low wages, child labour, poor working conditions, lack of quality control and so on. But the other side of the coin supports the development of small business. As it can act as a shock absorber for a depressed economy like India, it has a flexible element in the economic growth (Odaka and Sawai 1990). They are characterised by the relatively labour intensive choice of production methods which contribute to the society by enhancing the employment possibilities for skilled and unskilled, educated and uneducated labour forces which may otherwise remain unutilised. The opportunity to enter into business through small venture, by the new generation, will cultivate the entrepreneurial spirit in the economy. While giving tribute to these new entrepreneurs the U.S. Congressman John Lafalee said “Entrepreneurs are economic visionaries whose efforts have consistently helped fuel our nation’s economic growth. They are the Pied Pipers of tomorrows corporations, the leaders who will pioneer new products and jobs and create new exports”.

Existing conceptual framework of small business

After looking into the socio-economic importance of small business in a developing economy like India, here at this stage the question may arise as to what constitutes a small business. This is an important problem which arises in many discussions on small business development and growth.

Small scale industry (SSI) and Small Industries Policy are a widely known phenomenon in India. The multi-dimensional merits of small business for this country were identified by the policy makers right from the day of the
country's independence. From the first Industrial Policy Resolution of 1948, later on the Industrial Policy Statements, 1977 and 1980, reiterated that the main thrust should be on the effective promotion and development of the SSI. In the New Policy Measures for Small, Tiny and Village Enterprises (1991) the Government of India opted for promoting and strengthening small, tiny and village enterprises with the primary objective of imparting vitality and growth impetus to the SSI sector in terms of output, employment and export.

The policy framer also recognised that despite all the promotional measures through policies the small scale units must be appropriately defined with a view to determining the types of industrial units which needed special support. It was considered necessary to develop an appropriate classificatory definition for SSI units for the first time under the Industrial (Development and Regulation) Act, 1951. Since then, the definition underwent many revisions during the last 50 years, during which the cut-off point has shifted from a work-force to an investment criterion (SIDBI 1999). In Table-1, the periodic revisions in the official definition of SSI sector in India are summarised.

<table>
<thead>
<tr>
<th>Change over time: year</th>
<th>Investment criterion</th>
<th>Employment criterion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 1958</td>
<td>Fixed capital investment upto Rs.0.5 million</td>
<td>Same</td>
</tr>
<tr>
<td>1959</td>
<td>Value of machinery taken as original price paid irrespective of new or old machinery</td>
<td>Ditto</td>
</tr>
<tr>
<td>1960</td>
<td>Gross value of fixed assets upto Rs.0.5 million</td>
<td>Gross value of fixed assets upto Rs.1.0 million</td>
</tr>
</tbody>
</table>

**Investment limit applicable only to plant and machinery, Rs. million**

<table>
<thead>
<tr>
<th>Normal</th>
<th>Ancillary</th>
<th>Export oriented small units</th>
<th>Tiny units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>0.5</td>
<td>1.0</td>
<td>-</td>
</tr>
<tr>
<td>1975</td>
<td>1.0</td>
<td>1.5</td>
<td>-</td>
</tr>
</tbody>
</table>

TABLE – 1

**Evaluation of official definition of SSI in India**
Conceptualisation of small scale...

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.0</td>
<td>2.0</td>
<td>3.5</td>
<td>6.0</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>1.5</td>
<td>2.5</td>
<td>4.5</td>
<td>7.5</td>
<td>30</td>
<td>10</td>
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<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>0.1</td>
<td>0.2</td>
<td>-</td>
<td>0.5</td>
<td>2.5</td>
<td>-</td>
</tr>
</tbody>
</table>

- Ancillary units are required to supply at least 50 percent of their products/services to other undertakings.
- Export-oriented units are under obligation to export at least 30 percent of the annual production by the end of the third year from the year of commencement of production.
- SSI units cannot be controlled or owned by or be a subsidiary of any other industrial undertaking.


The given definitions of the small scale industry over the last 50 years cover mainly the manufacturing or industry related services only (Biswal, Baidya, Kumar and Suryanarayana 1997). The present definition has left untouched a major segment of small business in the field of trade and commerce, which are the main constituents of the manufacturing sector. These small independent businesses are the traditional source of local and national economic growth (Baumback 1988). This unorganised sector of business activities contribute nearly Rs.44,220 crore worth of value addition annually to the country's economy, employing 222 lakh workers in nearly 145 lakh small trading enterprises, which include trade, commerce, industry and services (NSS Report 1997).

So, small traders and other commercial enterprises, which have been left out in the present definition, are major creator of new independent jobs and sell most of the products made by the big manufacturers to the ultimate consumers. Due to heavy pressure of population in developing economies, where the number of job seekers has increased manifold the opportunity to get employed has become very difficult. In such circumstances, it is the genius of small business to offer the greatest hope for the greatest number of people. Therefore, it is the need of the present socio-economic environment of the country to support these independent business units to survive and grow. In this context, framing a comprehensive definition may be taken as a supportive measure for their development in India.

June 2003
Again it was observed that in the present SSI definition the terminology for small business is equally haphazard. "Small" is also often to micro, and medium size units. By the same token, "business" is frequently substituted by "company", "concern", "enterprise", "firm" or even "industry" depending upon the preference of the author. The term small scale industry evokes different meanings for different agencies also (SIDBI 1999). The Planning Commission, Government of India views the entire Village and Small Industries (VSI) Sector as part of the SSI sector. The National Sample Survey Organisation under the Central Statistical Organisation, Government of India, defines the entire industry sector in terms of organised and unorganised segments as well as in terms of industrial enterprises run by households and non-households. The Central Excise Department, on the other hand, distinguishes SSI on the basis of the annual turnover of the units. The Reserve Bank of India adopts an extended definition of SSIs which includes traditional industries as well. The industrial policy makers in the small scale industries board define the SSIs on the basis of their investment in plant and machinery and covers residual units which do not fall under the assistance programmes of any of the statutory boards.

Developing a conceptual framework of small business

Given the inherent characteristic of high degree of heterogeneity, diversity and complexity, small business can be best understood when it is viewed against the general macro-economic condition. Recognising the limitations in the present "Small Business" definition in India, we must come out with a broad based concept and frame a definition so as to include all economic constituents of small business, i.e., trade, industry and commerce, and remove the definitional ambiguity about the terminology of small, medium and micro business units.

When we look into the definition of small business in India there exits no definitions for medium enterprise. What prevails here is only the concept of small scale, ancillary and tiny industries which are related to the historical value of the investment in plant and machinery (SIDBI 1999). But if we look into other developed/developing countries, small and medium enterprises (SMEs) are defined on the basis of both quantitative and qualitative elements. When it defines qualitatively, labour/employment is an omnipresent criterion for determining the size of the unit in these countries (SIDBI 1999). In the age of liberalised market economy, the survival of the fittest is the main mantra. In
this environment, quality control and automation are the need of the hour, which again require bulk investment in plant and machinery and other intangible assets. So, imposing restriction through definition of small business in India on investment limit shall ultimately hamper the growth and development of this sector. Therefore, investment should not be taken as a yardstick to identify a small/medium enterprise; on the other hand, worker/employment criterion may be considered. In a labour surplus economy like India, employment as a criterion to identify a small business shall be most relevant development. The definition propounded in different developed and developing countries has given importance to labour or employment for determining the size of the unit. The prevailing definitions in some countries are listed in Table-2.

While defining a small business qualitatively the different renowned authorities in various countries like the Committee on Economic Development (USA), Small Business Administration (USA), Bolton Committee Report on Small Business, U.K. (1971), U.K. Companies Act 1989, the Wiltshire Committee, Australia (1971), etc., have identified the following parameters or organisational characteristics to define small business:

(a) They are independently managed and controlled by the owner/manager. In some cases salaried persons are also appointed as managers.
(b) The area of operations of such firm is usually local.
(c) They are not dominant in the field of operation, hence the firm cannot normally influence the market price.
(d) Capital is usually supplied by the owner/manager; however, borrowed capital is also used to finance such business.

<table>
<thead>
<tr>
<th>Country name</th>
<th>Category of industry/business</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>SME</td>
<td>Depends on product group, investment ceiling 30 million Yuan (US $ 8 million)</td>
</tr>
<tr>
<td>Germany</td>
<td>SME</td>
<td>No size definition. Craft firms are members of Craft Chambers and are defined by types of business and the qualifications of master craftsman. About 95 percent of small firms have an employment of less than 20 workers.</td>
</tr>
</tbody>
</table>

(Contd.)
<table>
<thead>
<tr>
<th>Country</th>
<th>Sector</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Manufacturing</td>
<td>Less than 300 employees and capitalisation less than 100 million yen.</td>
<td>Less than 100 employees and capitalisation less than 100 million yen.</td>
<td>Less than 50 employees and capitalisation less than 10 million yen.</td>
</tr>
<tr>
<td></td>
<td>Wholesale trade</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Retail trade and Service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>Micro</td>
<td>Less than 15 employees and gross income sales less than US $ 1,75,000.</td>
<td>15-99 employees and gross income sales less than $1,75,000.</td>
<td>100-249 employees and gross income sales less than $1,75,000.</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>SMIs</td>
<td>Employment less than 75 full time workers or with a shareholder fund of less than RM 2.5 million (US $ 1.0 million)</td>
<td>Manufacturing establishments employing between 5 and 50 employees or with a shareholders fund upto RM 500,000.</td>
<td>Manufacturing establishments employing between 50 and 75 full time employees or with shareholders fund between RM 500,000 to RM 2.5 million</td>
</tr>
<tr>
<td></td>
<td>SIs</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>MIs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taiwan</td>
<td>SMEs</td>
<td>In manufacturing, paid up capital less than NT $ 60 million or number of regular employees not exceed 200.</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>SSEes</td>
<td>In manufacturing, regular employees not to increase 20.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td>Small</td>
<td>Less than 20 employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>20-300 employees. In some categories up to 70-0 employees with assets of upto US $ 7.00,000 (SO bn won)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>Small</td>
<td>Ownership of the firm must be private, the owner should assume a direct financial, technical and managerial involvement in the firm. The number of employees must be under 500.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Contd.)
Conceptualisation of small scale .../ 53

<table>
<thead>
<tr>
<th>Country</th>
<th>Small</th>
<th>Employees fewer than 500 persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>Small</td>
<td>The limit commonly set at either 50 or 200 employees. However, other quantitative and qualitative criteria are sometime used.</td>
</tr>
<tr>
<td>USA</td>
<td>Small</td>
<td>Employees fewer than 500 persons</td>
</tr>
</tbody>
</table>


Conclusion

As Paul Samuelson and W.D. Northaus have rightly commented, “economics is an evolving science, it must evolve emerging puzzles and grapple with current dilemmas of public policies”. So government policies have to shift their direction to adjust to the socio-economic changes in the country. The present small business definition in India was framed to withstand the then competition from the large scale organizations within the country, in a protective environment of 1960s and 1970s. But at present the Indian economy underwent a U-turn from protection to open, market-oriented economy, where limitation on investment is an unacceptable scale of measurement.

So, to include all the constituents of the small business (trade, industry, commerce) economy, Government of India through its changed guidelines and to meet present challenges, should come out with a new approach for determining the size of the small business unit in the country. In the definition, a shift from an investment criterion towards employment/work-force may be introduced. A separate ministry, on the lines of U.K., U.S.A. and many other developed/developing countries, should be created as “ministry of small business administration”, by including SSI and ARI ministries and taking a part of the commerce ministry at national level to take up the issue of promotion and development of small business sector in the country on an urgent basis. This change in the policy shall act as a facilitator of economic activities as small business may be promoted in the light of employment generation and to cultivate the spirit of entrepreneurship or self-employment in the country’s economy. Thereby, to achieve the long term objective of having small business in the country, which are economically sound and efficient and are able to survive with minimum of public support.

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REFERENCES


SEDME 30.2
EFFECTIVE MANAGEMENT OF RECEIVABLES IN SMALL BUSINESS

Ashim Kumar Das
Nikhil Bhusan Dey*

Introduction

Small business plays a dominant role in the Indian industrialisation process in terms of its size, composition and coverage. There has been a tremendous growth of this sector in the country during the last three decades. It is expected to play a vital role in future as well and remain a permanent component of the industrial structure of India (Prabhath 1998). Although, it will be impossible to give a clear one-to-one answer to the question “what makes small business so important?” it is quite well known that the term ‘small business’ is almost equated with poverty alleviation and new job creation through enterprises and entrepreneurship (Das and Dey 2003). However, the performance of small business in the country during the last 50 years shows clearly that huge subsidies and widespread sickness have been the order of the day, that sickness was rampant in this sector: 99.1 per cent of all the sick units listed out by RBI belong to small business and in most of the cases the sickness is due to inadequacy of financial resources. It may be observed here that sickness in the small business sector is not only due to inadequacy of finance but also due to inefficient management of financial resources.

In their push to increase sales, small businesses grant credit too liberally and fail to be diligent in collecting receivables. Such practices can ultimately result in unnecessary financial instability in the form of increased cost of capital and shortage of ready cash, which can be the difference between survival and failure. This paper prescribes some practical methods for improving receivables management in small business.

Research Sample

Small business owners/managers rarely have ready access to all the information and skills one might regard as ideal for conducting every aspect of their business (Nolmen and Nicholls 1998). Very few studies have addressed the relevances of accounting information for economic decision making by small business, with particular reference to receivables.

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management. The quantitative information summarised and analysed in this paper was obtained from a survey conducted on small business in and around Silchar town of Cachar District of Assam in the year 2002-2003. A total of 28 completed questionnaires were collected from small business.

Importance of credit sales for small business

Credit sale, or we may call it account receivable, is a powerful sales facilitating tool. “If you sell on credit you will increase sales”. This alluring proposition has great appeal to small business. By allowing credit the small businesses extend purchasing power to their consumers. The use of credit in small business firms has often been described as representing “man’s faith in man”. Credit frees buying restrictions. One owner/manager of a small business firm says that cash customers watch pennies and are on the lookout for bargains. By contrast, customers with account receivable have a different buying pattern. As they create less financial pressure so they are less concerned with price and usually buy more at one time. People are creatures of habit; when a merchant extends credit and the customers are satisfied with the merchandise, they tend to become regular customers. Another most compelling factor for small businesses allowing credit liberally is that their competitors in the market extend credit and if they are not pursuing the same credit policy, it may have a dampening effect on their marketing or sales. The business world could not operate without credit. Certainly, if in these times all business or domestic transactions were handled on a strictly cash basis, the wheels of commercial world will be slowed down appreciably. So, the importance of credit standing for business world and of individuals is obvious.

Summary result of the study

Provision for the postponement of payment by buyer to seller known as credit sales / account receivable has characterised business transactions between responsible parties. With increase in business, unless receivables are converted into cash within a minimum period of time, the business firm will lose its liquidity, exhaust its credit and find its growth potential limited. In order to assess the trend of account receivable (credit sales), the study revealed that 78 per cent (22 units) of the small business units of Silchar town allowed credit to their customers.

From the study it was found that receivables constituted a substantial portion of current assets of several firms granting credit and creating debtors results in the blocking of the firms’ funds. The interval between the date of sale and the date of
The survey also revealed that it was very common to allow credit by the small business without having any structured Credit Policy. The business units allowed credit by adopting a liberal credit policy, which was generally based on “good faith” without any written document. No credit standards were followed by the small businesses of Silchar town so as to decide the types of customers to whom goods could be sold on credit. No credit terms were given specifying the duration of credit and terms of payment by the customers. The entrepreneurs argued in favour of liberal credit policy because credit sales was one of the many factors that influenced the demand for the firm’s products.

To run a business successfully, whether it is small or large, it is necessary to keep accurate, correct and systematic accounting records in time. Basically, the business unit that sells on credit must keep up-to-date record for every account receivable and a follow-up system to keep track of the accounts that failed to pay in time. In reality, in case of small business firms in Silchar town, although most of them (80%) allowed liberal credit, record-keeping (accounting in nature) was almost a neglected area of business management. Whatever records were kept were generally based on

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**Effective Management of.../19**

**TABLE-1**

Receivables position in small business (sample) units, Silchar Town

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Nature of the units</th>
<th>No. of units</th>
<th>Average capital investment Rs.</th>
<th>Average working capital Rs.</th>
<th>Average amount of receivable Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Servicing units</td>
<td>5</td>
<td>95,000</td>
<td>62,000</td>
<td>42,750</td>
</tr>
<tr>
<td>2</td>
<td>Engineering units</td>
<td>7</td>
<td>69,485</td>
<td>48,000</td>
<td>21,714</td>
</tr>
<tr>
<td>3</td>
<td>Forests based units</td>
<td>3</td>
<td>1,93,000</td>
<td>80,500</td>
<td>36,600</td>
</tr>
<tr>
<td>4</td>
<td>Chemical based units</td>
<td>2</td>
<td>2,05,000</td>
<td>1,20,000</td>
<td>49,200</td>
</tr>
<tr>
<td>5</td>
<td>Animal husbandry units</td>
<td>2</td>
<td>1,47,500</td>
<td>78,500</td>
<td>56,050</td>
</tr>
<tr>
<td>6</td>
<td>Miscellaneous units</td>
<td>3</td>
<td>2,86,600</td>
<td>1,55,000</td>
<td>78,300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>22</strong></td>
<td><strong>1,66,098</strong></td>
<td><strong>90,667</strong></td>
<td><strong>47,436</strong></td>
</tr>
</tbody>
</table>

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the traditional “Mahajani system” which was incomplete in form. It was also observed in
the survey that petty expenses and small credit related informations, were not taken into
record, but they were kept in memory. As was observed these unrecorded informations
(which were not in black and white) were very short-lived.

Rough work as “kacha bill” and ‘tokas’ (slips), taken as accounting records, were
generally hand written and all the historical records/evidence were recorded into one
general Register (khata), incorporating all kinds of information whether it be cash,
credit or otherwise.

The main objective of financial accounting is to provide financial information to
the owner/manager to make wise and informed decision. Nearly 90 per cent of the
respondents were not aware of financial management tools and their usefulness in
small business management, more particularly in receivables management (Table-2).
The study findings revealed that the awareness level of small business owners/managers
on financial management was very poor (Table-3).

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Nature of record</th>
<th>Maintained by the units (in p.c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sales book</td>
<td>37</td>
</tr>
<tr>
<td>2</td>
<td>Cash book</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>Debtors book</td>
<td>37</td>
</tr>
<tr>
<td>4</td>
<td>Creditors book</td>
<td>50</td>
</tr>
<tr>
<td>5</td>
<td>Journal</td>
<td>10</td>
</tr>
</tbody>
</table>

So the data recording system, which is the key functional area, was almost absent
in small businesses of Silchar town. This shortfall of accounting information has pushed
them into other allied problems of finance, which was chronic in nature to small
business units.

Summary and conclusions

The result of the study supports the conclusion that receivables management in
small business requires an urgent attention. Following a liberal credit policy will tend
to an increase in sales and also lead to an increase in accounts receivable. It results in
slow collection; consequently, small firms shall require more financial resources to
continue the existing level of business activities.
It is said that no sale, however large, is worth making if you cannot collect the receivable in time. So, management must adopt judicious decision and cautious approach to granting credit.

Thus, small business firms should adopt a reasonable and tough credit policy. A sound credit policy is one in which:

a. Limits are placed on the amount of credit to be extended.
b. Terms of credit sales are clearly specified.
c. Receivables are systematically monitored and controlled.
d. Follow-up actions on the delinquent accounts receivable are taken promptly.
e. Aggressive collection procedures are initiated.
f. Delivery of goods or services on credit is not made until the previous balance of receivables if any has actually been cleared.

Every credit sale/account receivable assumes additional costs. Small firms fail to recognise some of these costs. They include:

1. Book-keeping costs to record credit sales
2. Interest on working capital blocked on account receivable
3. Cost of collection from delinquent customers
4. The inevitable bad-debts which are never collected
5. High risk factor, which costs much to the business.

While some argue for extending liberal credit terms to maximise market penetration, this argument is fundamentally weak. For one thing, high costs associated with carrying receivables require the firm either to raise prices or to lose profits. Another suggestion is that one should not be influenced by friendship when their judgment tells that a firm/person is in financial trouble.

The wide gap between the theory and practice of book-keeping and financial management is probably more pronounced in case of small business. The survey result also revealed this fact. Awareness level of the owner/manager and the use of financial management tools and techniques of record keeping were very poor (Table-3). As William McBride said "operating without a detailed accounting record and financial analysis would be like trying to play poker blind folded". So good financial records must be constantly maintained in a business if it is to have efficient financial control (Pickle and Abrahamson 1990). Robert Waterman in her book *In Search of Excellence*, writing on the neglect of accounting information by small business owners/managers said, "as a result, the simplest items, like keeping track of cash and receivable or tracking exactly how the business is doing, get lost". She recommended that small business owners/managers should "look at this kind of information as proactive

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management tool, not merely as historical information”. A study by A.T. Potts on financial accounting and control techniques in small business concludes that the clearest and most startling distinctions between successful and discontinued small businesses lie in their approaches to the uses which can be made of accounting information.

So to increase the awareness level of small business owners/managers about accounting, record keeping and financial control, a concerted effort must be made by the small business development authorities like DIC, SISI, SIDBI and the commercial banks through EDPs.

The seriousness of the receivable problem is emphasised by the aggregate losses on bad debit (lost sales) incurred; most conservative estimates run into lakhs of rupees every year. Although, in the survey actual amount of bad debts did not come out, but it revealed that nearly 10 to 20 per cent of the accounts receivable turn into bad. The longer a credit sale is carried on the books, the greater is the likelihood of its not being collected in full. The losses on bad debts show the necessity of close follow-up on accounts which become part due.

Therefore, accounts receivable collection effort will be better if accurate and timely accounting information is available. The most useful summary display of this information is the Accounting Receivable Aging Statement (Table-4). This format seems quite straightforward. “Current” denotes the month just ended, “30 days” denotes the previous month and so on. It allows the owners/managers to get at least a half-month start in running down overdues. They can start their follow-up procedure instead of waiting.

The best way to keep a receivable out of the 90-day column is to keep it out of the 60-day column and the best way to prevent that is to keep it out of the 30-day column. Aging statement along with aggressive collection efforts during these extra two or three weeks can help the business to achieve that objective. This format also allows the small business to calculate more accurately the average age of receivables, which aids in comparing business accounts receivable status from one month to the next.

When formulating the firm’s collection policies and procedures, it is to be noted that firmness and consistency are far more important than fairness (Steren D. Popell 1997). Collection procedures must be started early with dogged determination. As receivables get older, owners/managers must get progressively tougher. The matrix in Table-5 suggests a series of progressive measures which can be employed. Once a receivable is part due according to terms and conditions, then the businesses have more right to the money than a customer does. So, the firm must be aggressive in collection effort.

In some businesses, cash discounts are so very a common practice that all firms must use them. While allowing discount availability of cash must be considered. If the

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business is frequently in cash crunch, then cash discounts could improve cash flow. Next consideration is the cost involved in allowing discount. The most common discount interest calculation shows, for example, that a cash discount of 2 per cent to pay 30 days sooner (say 10 days rather than 40 days) reflects an annual interest rate of 24 per cent (12 months time at 2%). It is a very high rate to get the slow payer speed up. Thus, before starting something which may be difficult to stop, careful analysis of the business mix of receivables should be done to determine whether cash discounts will solve problems rather than create more.

The limited financial resources of the small business units, cannot bear the huge burden of receivables, which ultimately affects their productive capacity and growth potential. This article has tried to point out the critical importance of early collection of accounts receivable and prescribed some practical techniques for improving the availability of receivables information, so that small businesses may earn adequate profit and survive in the long run by maintaining their production level.

References


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TABLE -3
Owner/manager awareness and use of selected financial management and accounting control techniques at Silchar town

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Name of accounting tools and techniques</th>
<th>Aware (N=28)</th>
<th>Not aware/used (N=28)</th>
<th>Aware &amp; used (n=28)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No. of units</td>
<td>No. of units</td>
<td>No. of units</td>
</tr>
<tr>
<td>1</td>
<td>Double entry system of book keeping</td>
<td>8</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Sales ledger/ book</td>
<td>1</td>
<td>27</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>Account receivable ledger</td>
<td>20</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>Fund flow analysis</td>
<td>-</td>
<td>28</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Sales budget</td>
<td>-</td>
<td>28</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Working capital management</td>
<td>2</td>
<td>26</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>Discount on credit sales</td>
<td>-</td>
<td>28</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>Written credit policy</td>
<td>-</td>
<td>28</td>
<td>-</td>
</tr>
<tr>
<td>9</td>
<td>Bills receivable/payable</td>
<td>1</td>
<td>27</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>Discounting the bills</td>
<td>-</td>
<td>28</td>
<td>-</td>
</tr>
<tr>
<td>11</td>
<td>Endrosment of bill</td>
<td>-</td>
<td>28</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>Cheques for credit sales</td>
<td>1</td>
<td>27</td>
<td>1</td>
</tr>
<tr>
<td>13</td>
<td>Credit card</td>
<td>1</td>
<td>27</td>
<td>-</td>
</tr>
<tr>
<td>14</td>
<td>Time value of money</td>
<td>-</td>
<td>28</td>
<td>-</td>
</tr>
</tbody>
</table>

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### TABLE-4
Proforma of aging of accounts receivable on a particular date

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Customer name &amp; address</th>
<th>Current balance</th>
<th>Number of days on books</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>0-30</td>
</tr>
<tr>
<td>1</td>
<td>M.Das</td>
<td>3750</td>
<td>750</td>
</tr>
<tr>
<td>2</td>
<td>T.Majumder</td>
<td>1600</td>
<td>600</td>
</tr>
<tr>
<td>3</td>
<td>S.Nath</td>
<td>500</td>
<td>400</td>
</tr>
<tr>
<td>4</td>
<td>P.Chanda</td>
<td>5000</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>T.Sudhir</td>
<td>750</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>R.Deb</td>
<td>800</td>
<td>400</td>
</tr>
<tr>
<td>7</td>
<td>A.K.Dutta</td>
<td>1250</td>
<td>1000</td>
</tr>
<tr>
<td>8</td>
<td>M.Shanker</td>
<td>650</td>
<td>50</td>
</tr>
<tr>
<td>9</td>
<td>J.Omar</td>
<td>4500</td>
<td>1000</td>
</tr>
<tr>
<td>10</td>
<td>K.Chorkorportty</td>
<td>6700</td>
<td>3000</td>
</tr>
<tr>
<td>11</td>
<td>C.Bhattacharjee</td>
<td>2000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>28100</strong></td>
<td><strong>7200</strong></td>
</tr>
</tbody>
</table>

### TABLE-5
Suggested action according to the age of account receivable

<table>
<thead>
<tr>
<th>Communication</th>
<th>30 days old</th>
<th>45 days old</th>
<th>60 days old</th>
<th>75 days old</th>
<th>90 days old</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone contact</td>
<td>Telephone call &amp; communicate over dues amount &amp; time</td>
<td>Telephone call &amp; inform due amount and time</td>
<td>Telephone call, letter for final request to pay overdue; if possible visit personally</td>
<td>Legal notice</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Message</th>
<th>30 days old</th>
<th>45 days old</th>
<th>60 days old</th>
<th>75 days old</th>
<th>90 days old</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requested to pay over dues</td>
<td>Issue strong letter to pay due amount within 15 days &amp; inform that further credit will stop</td>
<td>Stop further credit &amp; warning to pay the due amount immediately</td>
<td>Make personal visit, request to pay dues immediately or legal action shall be taken</td>
<td>Pay the money due within two days or court will do justice</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Action</th>
<th>30 days old</th>
<th>45 days old</th>
<th>60 days old</th>
<th>75 days old</th>
<th>90 days old</th>
</tr>
</thead>
<tbody>
<tr>
<td>No action</td>
<td>Warning call to stop further credit</td>
<td>Actually stop further credit</td>
<td>Final request to pay dues immediately, with strong warning</td>
<td>Legal notice for further action - to be taken by court</td>
<td></td>
</tr>
</tbody>
</table>

SEDME 31.1