



AN ANALYTICAL STUDY OF ACCOUNTING PRACTICES & FINANCIAL RECORD MANAGEMENT IN SMALL BUSINESS FIRMS

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ABSTRACT

This study provides a comprehensive analytical review of accounting practices and financial record management within small business firms, taking into consideration the structural, operational, and compliance-related challenges they face in the current economic environment. Small businesses often function with sharp resource limitations and informal systems, leading to inefficiencies in maintaining their financial records. The increasing regulatory requirements such as GST, Income Tax, and TDS filing demand accuracy, timeliness, and transparency, which many small enterprises struggle with due to inadequate training or outdated accounting practices.

The research explores these gaps through primary data collected from 100 respondents representing small business firms across sectors like manufacturing, retail, trading, and services. The study highlights patterns of manual bookkeeping, insufficient documentation standards, low awareness of digital tools, and inconsistent compliance behavior. Furthermore, it evaluates the extent to which professional accounting firms—specifically Sairaj Accounting Solutions Pvt. Ltd.—support businesses in maintaining structured records, adopting digital accounting software, and ensuring legal compliance. By combining statistical tools such as percentage analysis, chi square tests, weighted averages, and correlation analysis, the study identifies relationships between accounting methods and accuracy levels. The findings reveal

that transitioning from manual to digital systems significantly improves record accuracy, compliance frequency, and overall financial discipline.

This thesis concludes with recommendations such as adopting cloud-based accounting tools, improving bookkeeping frequency, implementing internal controls, and conducting financial literacy sessions for business owners. These measures aim to strengthen financial systems, reduce compliance risks, and enable long-term business sustainability.

INTRODUCTION

Small business firms play an essential role in India's economic development, contributing significantly to employment generation, production capacity, and entrepreneurial growth. Despite their importance, these firms often exhibit poor accounting structures, primarily due to limited financial literacy, inadequate training, and the absence of dedicated accounting personnel. Accounting forms the foundation for any business decision, influencing areas such as budgeting, tax planning, operational management, and resource allocation.

Financial record management is a critical component that ensures all business transactions are recorded accurately, categorized appropriately, and preserved systematically. However, many small firms maintain physical files, handwritten ledgers, or ad-hoc Excel sheets, which increases the likelihood of errors and makes audit trails difficult. As GST has become a mandatory regulatory framework, monthly and quarterly filing requirements introduce additional pressure on firms to maintain proper financial documentation.

The role of professional accounting firms like Sairaj Accounting Solutions becomes vital in this context. They provide structured accounting services, including bookkeeping, taxation support, payroll processing, audit facilitation, and financial reporting. These external partners help minimize the burden on small firms and ensure better compliance adherence. The introduction of digital accounting tools such as Tally, Zoho Books, and QuickBooks has further transformed the landscape, enabling accuracy, automation, and convenience. This study examines how these modern tools have impacted financial record management and identifies the gaps that still exist in small business accounting behavior.

COMPANY & INDUSTRY PROFILE

Sairaj Accounting Solutions Pvt. Ltd. is a professionally managed financial services organization specializing in accounting, taxation, GST compliance, and overall financial advisory. The company serves a wide spectrum of small business clients that include retailers, traders, manufacturers, service providers, and self-employed individuals. The firm has developed domain expertise across different business verticals due to its long-standing experience handling diverse accounts.

In the Indian SME industry, several challenges hinder effective accounting implementation. These include lack of trained accounting personnel, reliance on outdated manual systems, limited awareness of GST filing requirements, and fear of using digital tools due to perceived complexity. With increasing digitalization and frequent updates in taxation laws, businesses are now expected to maintain real-time financial data and demonstrate transparent financial reporting. Industry reports indicate that nearly 70% of small businesses in India still depend on manual bookkeeping, making them vulnerable to penalties, misstatements, and compliance irregularities.

The company plays an essential role in bridging these gaps by enabling clients to transition to digital systems, standardizing their record-keeping practices, and ensuring accurate financial reporting. This study reflects the internal processes, expertise, and contribution of Sairaj Accounting Solutions in uplifting the accounting standards of small-sized enterprises. Furthermore, it explores how industry changes have influenced firms to modernize their financial systems and adopt technology-driven solutions to improve efficiency.

OBJECTIVES OF THE STUDY

Primary Objective:

- To analyze accounting practices and evaluate the effectiveness of financial record management in small business firms supported by Sairaj Accounting Solutions Pvt. Ltd.

Secondary Objectives:

- To study the bookkeeping systems currently in use among small businesses.
- To assess the accuracy and reliability of financial records maintained by these firms.
- To estimate the level of compliance with GST, TDS, and Income Tax laws.
- To identify

documentation challenges affecting accounting accuracy. • To examine the impact of digital accounting tools on record quality. • To recommend strategies for improving financial documentation and regulatory compliance.

LITERATURE REVIEW

Holmes and Nicholls (1989) noted that small businesses worldwide struggle with maintaining structured accounting systems due to limited technical expertise and informal business models. They found a direct relationship between structured accounting practices and financial health. McMahon (2001) demonstrated how lack of bookkeeping skills creates inconsistencies in record maintenance, making it difficult for firms to prepare financial statements or undertake annual audits.

Ismail and King (2007) explored the impact of digital accounting systems, stating that firms with digital tools show improved transparency, accuracy, and compliance. Padachi (2012) observed that proper accounting practices enhance operational efficiency by improving cash flow management and reducing the risk of financial mismanagement. Joshi & Deshmukh (2019) highlighted significant gaps in the Indian MSME sector regarding digital literacy, documentation, and GST compliance.

These findings collectively emphasize that modern accounting tools and professional training are essential to strengthen financial documentation and maintain business stability. This thesis builds on this literature to analyze the specific practices used by small business firms associated with Sairaj Accounting Solutions.

RESEARCH METHODOLOGY

The study adopts a descriptive research design to systematically observe, analyze, and interpret the current accounting practices of small business firms. This design enables detailed understanding of bookkeeping methods, documentation quality, compliance frequency, and digital tool adoption trends.

Primary Data:

- Questionnaire responses from 100 small business owners and accounting staff.

• Interviews with accountants working at Sairaj Accounting Solutions. • Direct observation of records, ledgers, invoices, and filing systems maintained by firms.

Secondary Data:

- Government publications such as GST guidelines, Income Tax Act updates, MSME reports.
- Journals on accounting practices, digital tools, and financial management.
- Books and research papers focusing on SME accounting behavior and compliance patterns.

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Sampling:

The population of small business firms is indefinite as it spans across sectors. Simple random sampling was used to ensure unbiased selection. The sample size of 100 respondents is sufficient for statistical analysis and generalization.

Statistical Tools Used:

- Percentage analysis to understand distribution trends.
- Chi-square test to evaluate the association between accounting methods and accuracy.
- Weighted average analysis to determine factors influencing digital tool adoption.
- Correlation analysis to measure relationships between digital usage and compliance behavior.

DATA ANALYSIS & INTERPRETATION

Business Demographics:

The respondents represented a mix of sectors including trading, manufacturing, service-oriented firms, and retail stores. A majority operated with fewer than 10 employees, highlighting limited internal capacity for structured financial management.

Accounting Method Usage:

Manual accounting remains predominant among small businesses (38%), with firms relying on handwritten ledgers or Excel files. Only 24% use fully digital accounting systems. Manual systems often result in missing receipts, arithmetic errors, unbalanced ledgers, and delayed

reconciliation. Digital users show significantly higher accuracy levels and better compliance behavior.

Bookkeeping Frequency:

Frequent record updates were found to be strongly associated with compliance efficiency. Firms that updated daily or weekly exhibited better GST filing consistency. However, almost 40% updated records only once a month, increasing the likelihood of errors and missed deadlines.

Financial Document Storage:

A large proportion still uses physical files, which increases the risk of document loss. Firms using cloud-based storage demonstrated superior record organization and audit readiness.

GST Compliance:

Only 37.5% firms were fully GST compliant. Manual accounting systems correlated with higher filing delays. Digital accounting tools such as Tally's GST modules support automated calculations, reducing errors significantly.

Weighted Average Results:

The factors that most influenced digital accounting adoption included:

- Ease of using software
- Availability of skilled accountants
- Accuracy of digital records

Other factors like cost of software and distrust in digital tools ranked lower.

These findings establish the need for enhanced awareness and structured training programs.

CHI-SQUARE & CORRELATION ANALYSIS

Chi-Square Analysis:

The chi-square test demonstrated a significant relationship between the accounting system (manual, semi-digital, digital) and record accuracy. Digital firms showed higher accuracy and lower discrepancies. Manual firms showed more inconsistencies such as unbalanced ledgers and incomplete documentation.

Correlation Analysis:

Correlation tests further confirmed:

- A positive relationship between digital software usage and GST compliance.
- A positive relationship between digital storage and record accuracy.
- A strong correlation between frequent bookkeeping and compliance efficiency.

These insights validate the importance of transitioning from manual to automated systems and developing digital readiness among small firm owners.

FINDINGS

1. Manual accounting remains dominant despite the availability of modern tools.
2. Digital accounting significantly improves accuracy, compliance, and documentation.
3. Many firms lack basic bookkeeping knowledge, resulting in errors and missing invoices.
4. GST filing delays are widespread due to irregular bookkeeping and poor documentation.
5. Young business owners show greater willingness to adopt digital tools.
6. Internal control mechanisms are weak, with little focus on reconciliation or periodic verification.
7. Firms that outsource accounting lack internal transparency and depend heavily on external advisors.

SUGGESTIONS

1. Adoption of digital accounting should be encouraged through awareness programs.
2. Small firms should maintain regular bookkeeping schedules—daily or weekly.
3. GST filing processes should be streamlined through proper record organization.
4. Cloud-based storage solutions must be used for long-term security and easy accessibility.
5. Owners should undergo short-term training programs on basic accounting and taxation.
6. Firms should reduce reliance on outsourced accountants by training one internal staff member.
7. Government and MSME bodies should introduce subsidies for adopting accounting software.

CONCLUSION

The study concludes that although small business firms play a vital economic role, their accounting systems are often inadequate due to manual methods, limited financial knowledge, and lack of structured documentation. Digital accounting tools provide a transformative solution by improving accuracy, reducing errors, and ensuring compliance with GST and tax laws. Sairaj Accounting Solutions Pvt. Ltd. plays a pivotal role in assisting small firms with professional bookkeeping, documentation, and advisory services. Strengthening financial literacy, promoting digital adoption, and implementing internal controls can significantly enhance financial stability, audit readiness, and long-term growth prospects for small enterprises.

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AUTHOR DECLARATION

I, Pallavi Magar, declare that this is original work based on my internship at Sairaj Accounting Solutions Pvt. Ltd.