

## **Accounting practices of (SMEs) Small and Medium Enterprises in Quetta, Pakistan**

**Abdul Wasay<sup>1</sup>, Nadir khan<sup>2</sup>  
Saira Baloch<sup>3</sup>**

### **Abstract**

*Small and medium enterprises play a major role in providing sustainable economic growth throughout the world. In Pakistan the SME sector contributes around 40% of the GDP which makes them follow proper accounting practices and maintain timely businesses records in order to minimize the risk of default. This study is based on exploring the accounting practices of (SMEs) adopted in Quetta Pakistan where data was collected from 200 (SMEs) belonging to 8 different sectors. Findings indicate that only 8.6% of the (SMEs) follow standardized accounting practices, emphasizing the need for creating awareness among them in order to boost up their business.*

**Key Words:** SMEs (Small and medium enterprises), Accounting Practices, SMEDA (Small and medium enterprises development authority)

### **1. Introduction**

SMEs are the small and medium sized enterprises which play very crucial role in the economic growth and development of any country. According to (SEDCO)small and medium sized enterprises (SMEs) have no more than US \$830,000 sale per year and not more than 100 employees (Manyani, 2011) while the European Commission defines SMEs as those enterprises having annual sales of below 50 million EUR and less than 250 employees (Amoako, Marfo, Gyabaah, & Gyamfi, 2014).

SMEs comprise most of the business in many countries of the world (Ahmed, 2012). According to the report of tribune express in Pakistan there are approximately 3.2 million (SMEs) which contribute 40% in the (GDP) gross domestic product of the country while the share of (SMEs) sector in Balochistan is the lowest with 2.3% among the other provinces of Pakistan (Thaver, 2014). (SMEs) require low start-up costs and involve low risk of

---

<sup>1</sup> Research Scholar, MBA, University of Balochistan Quetta

<sup>2</sup> Lecturer Institute of Management Sciences University of Balochistan Quetta

<sup>3</sup> Lecturer Institute of Management Sciences University of Balochistan Quetta

default therefore these are a source of eradicating unemployment from the society. This study is focused on the different types of accounting practices and maintenance of accounting records by different business entities to capture the performances of (SMEs). (IASCF)(2007) The International Accounting Standards Committee Foundation defines (SMEs) as entities that publish financial statements for external users and do not have any public responsibility (Maseko, Manyani, & Onias, 2011) . In Pakistan most of the (SMEs) are not registered but the process of registration for them is much easier than all other form of businesses. (SMEDA) the small and medium enterprises development authority founded in October 1998 has the aim to provide fresh impetus for the economy of Pakistan through the development of small and medium enterprises (SMEDA, 2016). (SMEDA) has the mission of employment generation and value addition to the national income by increasing the numbers of (SMEs) and competitiveness among the country.

Different studies argue that it is very hard for the (SMEs) to obtain loans from different financial institutions because they lack the proper financial records required for the purpose of loans. In Pakistan almost all of the (SMEs) are run and managed by their owners therefore they don't use the proper accounting records and information system of their businesses which is a reason of their failure (Ahmed, 2012). Most of the (SMEs) cannot keep the proper and complete record of their businesses because of not having the proper knowledge and expertise. According to some studies factors for the failure of (SMEs) include paucity of capital, improper market selection and the most significant one is the lack of proper accounting practices. Other than this the cost incurred in keeping proper accounting records by hiring an accountant is also a hurdle for the owners of (SMEs). Most of the small and medium businesses collapse because they do not develop an initial plan of their business and do not evaluate them on continual basis; other than this lack of attention towards the plan and implementation of accounting practices in most of the (SMEs) is also a reason for their failure. Proper accounting records are kept for tax purposes, for keeping the up-to-date inventory record and for the proper and timely information about account receivables and payables (Shahabi, Hosseinpour, & Soheila, 2014). Those who follow the accounting practices contribute to national income by paying taxes while others do not.

The objectives of the study are to identify the role of Accounting practices of SMEs in Quetta Region and to investigate the extent and implementation of accounting practices employed by the (SMEs) of Quetta. The research evaluates that whether the (SMEs) belonging to Quetta region adopt standardize, semi standardized or non-standardize accounting practices.

## **2. Literature review**

### **2.1 Small and Medium Enterprises (SMEs)**

SMEs cannot be defined within a few words as they differ in terms of size of the entities such as financial position, number of employees, annual sales, start-up cost and annual profit of the organization which differentiates them from large organizations (Maseko, Manyani, & Onias, 2011). According to (Hallberg, 1999) the definitions of the (SMEs) differ from country to country because each country defines SMEs in its own context by counting the number of assets, employees and size of the organization. Hallberg also set different limits of employees for SMEs like any small organization having 5 to 10 employees is counted in lower limit while any small organization having 50 to 100 workers is counted as upper limit. Similarly an upper limit is also set for medium sized enterprises which start from 100 employees to 250 workers (Yahya, Osemene, & Salman, 2011)

In Pakistan several institutions define SMEs in different ways such as according to Sindh industries department SMEs is an entity engaged in manufacturing of producer goods or consumer goods should have fixed capital investment up to Rs. 10 million including land and building. As per SME bank the entities with total assets of Rs. 20 million to Rs. 100 million are known as SMEs. The definition of SMEs given by (SMEDA) is more relevant to our study according to them SMEs are the firms with less than Rs 80,000,000 annual sales and less than 100 employees. SMEs in manufacturing sector are those with 51-250 employees and Rs 30-100 million productive assets while in service sector are 51-250 workers with Rs 20-50 million productive assets (Jamal, 2005). Similarly the report of Bolton Committee gives a definition of (SMEs) as firms with small market share and under the management of their owners and partners (Ahmed, 2012).

### **2.2 Accounting practices in Small and Medium Enterprises (SMEs)**

Accounting system can be defined as an organized set of manual and computerized procedures which analyze record, summarize, interpret and classify financial data when needed by the management for decision making. Accounting plays a prominent role in businesses as it helps generate information about the sale of goods and services, profit and loss of business and more importantly notifies about current position of the business. Proper record keeping is also important for both internal and external decision makers. It enables the owners to take quick actions regarding the purchase and sale of goods and also helps banks, auditors and other loan providers in accessing the organization (Eniola, 2014). A system of accounting practices is ideal for the

organizations with large number of daily business transactions to facilitate the preparation of reliable and consistent financial statements. Auditors also rely on the consistent accounting practices used by the company during the year.

### **2.3 Accounting Practices of SMEs in Pakistan**

In the early years of independence Pakistan continued with the same accounting practices adopted by the British people. In 1951 Pakistan institute of industrial accountants was demonstrated under the companies 'act, 1913 to foster industrialization in the country. Similarly the institute of chartered accountant (ICAP) was established in 1961 to accelerate the significance of cost accounting in Pakistan. Furthermore after establishing the (ICAP) this becomes necessary to establish another institute for the management purpose therefore the institute of cost and management accountants Pakistan (ICMAP) was introduced in 1966 (Saeed, 1999).

In Pakistan mostly the International Financial Reporting Standards (IFRS) are applied by those firms which are registered and listed on 100 indexes (SMEDA, 2016). It is approved by security and exchange commission of Pakistan (SECP) for SMEs to adopt the international financial reporting standards after 1<sup>st</sup> January 2015. Furthermore all the (SMEs), public limited companies which are non-listed should prepare their financial and annual statements according to the rules and regulations of (IFRS). (Kwabena & Amoako, 2013) States that the accounting practices in SMEs are increasing day by day. It is due to their importance in decision making and facilitating the procedures of organizing and gathering information about all the business transactions (Shahabi, Hosseinpour, & Soheila, 2014). On the other hand lack of proper books of accounts and record keeping is one of the reasons for the failure of SMEs (Shahabi, Hosseinpour, & Soheila, 2014).

SMEs in most of the countries are required by law to maintain proper accounting records and financial statements for the purpose of audit of the company (Maseko, Manyani, & Onias, 2011). In Pakistan all the companies are required to keep proper books of accounts in compliance with the company's ordinance (1984) for the purpose of submitting tax returns (Pakistan, 2009). A study reveals that rules and regulations set by law are the main reason why most of the SMEs prepare their financial statements (Maseko, Manyani, & Onias, 2011). Review of literature argues that sound and proper development of accounting information system is dependent on the level of understanding of the owner of an organization (Maseko, Manyani, & Onias, 2011).

Researchers have proved that the quality of the accounting information used by the SMEs has a positive relationship with organizational performance (Kwabena & Amoako, 2013). (Vera-Munoz, kinney, & Bonner, 2001)

postulated that the accounting information is the most significant type of information required in decision making both inside and outside the organization. Some of those organizations who record their business transactions without any sequence and procedure face difficulty in keeping the records of cash inflows and outflow of the enterprise. (Kwabena & Amoako, 2013). This is also observed that in small and medium enterprises (SMEs) the decision making process is very difficult because of the less and ineffective accounting information (Shahabi, Hosseinpour, & Soheila, 2014). (IFA) International Federation of Accountants declared that it is essential for SMEs to have knowledge of accounting information system but there is no hard and fast rule in most of the developing countries including Pakistan to use standard accounting system on daily basis (Shahabi, Hosseinpour, & Soheila, 2014). For the same reason the management of (SMEs) is facing a great challenge regarding account keeping because it is crucial for any business entity to have proper knowledge about accounting practices and their implementation.

## **2.5 Hypothesis of the study**

**H1:** There are significant differences in the accounting practices adopted by the owners/ managers of (SMEs) of Quetta region based on location.

**H2:** There are significant differences in the accounting practices adopted by the owners/ managers of (SMEs) of Quetta region based on standardized accounting practices.

**H3:** The owners/ managers of (SMEs) of urban areas have much understanding of accounting practices about accounting practices than those of rural areas.

**H4:** The owners / managers of (SMEs) of urban areas implement the accounting practices much more than those of rural area.

## **3. Methodology**

The nature of the study is to explore the understanding and implementation of accounting practices used by SMEs of Quetta region therefore a complete list of the SMEs working in the region was required for the study. The list of (SMEs) was provided by small and medium enterprises development authority (SMEDA) which consisted the 2960 (SMEs) of Quetta region and others from other districts of Balochistan. As the study is exploratory therefore the descriptive survey design was used for data collection and the descriptive statistical tools were used for data analysis. The study contains the predictors or independent variable of Understanding the accounting practices and one response or dependent variable of Implementation of accounting practices by SMEs. The total population contained dissimilar units therefore stratified random sampling was used for data collection. Data was collected from 200 (SMEs) of Quetta region from 8 different sectors in a way that 3 (SMEs) were selected from Construction sector, 3 from the sector of Gems and jewellery, 4

from Import/ export sector, 8 from Industries sector, 6 from the sector of Mines and Minerals, 56 from Miscellaneous sector, 43 from the Service sector and 77 (SMEs) were selected from the Trade sector for the purpose of our research.

By counting all the samples a total of 200 questionnaires were to be collected from the (SMEs) of Quetta region and by the use of the software data was taken in decreasing order from top to bottom from the list of sectors. Among the 200 questionnaires distributed to the owners and managers of (SMEs) 163 questionnaires were collected back showing the response rate of almost 82 percent. The Reliability test of the questionnaire was done to gauge the internal consistency of the results and these results were .606, showing 60.6% reliability.

#### **4. Results and finding**

Results show that as per Table 1 three types of accounting practices were adopted in the (SMEs). 82.8% owners/managers of (SMEs) adopt the semi-standardized accounting practices and rest of these adopt none-standardized and standardized accounting practises with an equal percentage of 8.6% in their (SMEs).

Table 2 indicates that the mean of understanding of accounting practices of total collected questionnaire of 163 samples is 2.0225, showing that on average some owners/ managers understand the accounting practices while some owners/ managers do not understand the accounting practices. The standard deviation of understanding of accounting practices is .55448 indicating that 55.44% of the data is dispersed and deviated from the mean.

Table 3 shows that on average some owners/ managers implement accounting practices in their (SMEs) and some of them do not. The standard deviation of implementation of accounting practices of (SMEs) shows that 38.48% data is deviated from centre.

Table 4 above shows that the calculated t value of urban area 2.198 is greater than the critical t value .029 and the calculated t value of rural area 3.558 is greater than the critical t value .061 showing that the null hypothesis (1 and 3) are rejected and there were found no significant differences about the understanding of accounting practices based on location while the calculate t value of rural area 3.558 is greater than the calculated t value 2.198 of urban area showing that the owners/ managers of (SMEs) of rural area are much aware about accounting practices.

Table 5 shows that the calculated t value of urban area 2.155 is greater than critical t value .033 and the calculated t value of rural area 4.873 is greater than the critical t value .028 means that the null hypothesis (1 and 4) are rejected indicating that no significant differences were found in the implementation of accounting practices based on location and the owners/ managers of (SMEs)

of rural areas are much involved in the implementation of accounting practices than those of urban areas.

Table 6 shows that the calculated F value 3.876 is greater than critical F value .023 so the null hypothesis was rejected and significant differences were found in the adoption of accounting practices based on standardized accounting practices by the owners/ managers of (SMEs) of Quetta.

## **5. Conclusion and Recommendations**

The study examines the accounting practices and record keeping of (SMEs) of Quetta region which is important and valuable because (SMEs) contribute much in terms of (GDP) and economic growth in Pakistan. It is also an important factor to boost and promote the knowledge about understanding of accounting practices and implementation of accounting practices in the (SMEs) of Quetta because it is advantageous for the success of any entity. Findings from the study clearly indicate that the majority of (SMEs) in Quetta do not follow standardized accounting practices as they do not employ the service of professional accountants. A large number of (SMEs) are established before 10 years and most of these are located in urban area. Findings also reveal that majority of the owners/ managers of (SMEs) were not willing to show their investment and capital because of the reason of taxation and want to keep it confidential. It is also found that the level of understanding of accounting practices and implementation of accounting practices in (SMEs) is low because of most of the owners/managers do not give much importance to the use of standardize accounting practices and also are unaware of the knowledge and skills of standardized accounting practices and its advantages in their (SMEs). The study focuses on ensuring the business growth through the maintenance of accounting records and record keeping of (SMEs).

It is suggested that the owners/ managers of (SMEs) should adopt standardized accounting practices and record keeping in their (SMEs) because it is essential for the success of any business entity. The record keeping in (SMEs) make the owners/managers aware about daily transactions, inventory records and the sales and purchases done on routine basis. Different programs and campaigns should be conducted about the usage and importance of accounting practices and record keeping and should include the teaching and knowledge about the use of double entry system, use of audits and all other procedures which are need of standardized accounting standards. This study also gives suggestions to aggrandize both understanding of accounting practices and implementation because it has more importance for the success of (SMEs). The future researchers can also use the qualitative sampling techniques such as interview method for data collection. The future researchers can also focus only on the manufacturing sector for their research.

Due to the time and budget constraints the data is not collected from whole of the Balochistan province and a small sample size of 200 is used which is not enough as most of the (SMEs) exist in the urban areas of the province. It is recommended that further research in same field is needed to capture the whole province of Balochistan in aspect of data collection. Further research can also be conducted in the area of management of accounting practices and record keeping of (SMEs) and to capture the developing countries for their research (Ahmed, 2012).

## 6. References

- Ahmed, k. (2012). The use of management accounting practices in Malaysian (SMEs). 365.
- Amoako, K. O., Marfo, E. O., Gyabaah, E. N., & Gyamfi, O. (2014). Accounting records keeping practices of SMEs in Ghana. *british journal of economics* , 120-132.
- Eniola, A. A. (2014). The role of SME firm performance in Nigeria. *Journal of Business and Management Review* , 3 (12).
- Hallberg, K. (1999). Small and Medium Scale Enterprises: A framework for intervention.
- Jamal, N. (2005, september 05). *Dawn News*. Retrieved from [www.dawn.com/news](http://www.dawn.com/news)
- Kwabena, G., & Amoako. (2013). Accounting Practices of SMEs: A Case Study of Kumasi Metropolis in Ghana. *International Journal of Business and Management* , 73-83.
- Manyani, N. M. (2011). *Accounting practices of SMEs in Zimbabwe*.
- Maseko, N., Manyani, & Onias. (2011). *Accounting practices of SMEs in Zimbabwe*.
- Mohd Azian Husin<sup>a</sup>, M. D. (2014). The Role of Accounting Services and Impact on Small Medium Enterprises (SMEs) Performance in Manufacturing Sector from East Coast Region of Malaysia. *Procedia - Social and Behavioral Sciences* 115 ( 2014 ) 54 – 67 , 14.
- Pakistan, S. a. (2009, February). Companies Ordinance, 1984. *Companies Ordinance, 1984* .
- Saeed, k. A. (1999). Accounting profession and its development in Pakistan. *Finance and markets* .
- Shahabi, A., Hosseinpour, S., & Soheila, Z. (2014). An investigation into Accounting Practices of Small and Medium Enterprises of Tehran Province in Iran. *Reef Resources Assessment and Management Technical Paper* , 285-295.
- SMEDA. (2016). Retrieved from SMEDA: <http://www.smeda.org>
- Thaver. (2014, august 20). *SMEs vital to long term sustainable growth*.



- Vera-Munoz, S. C., kinney, W. R., & Bonner, S. E. (2001). The effects of domain experience and task presentation format on accountant's information relevance assurance. *The Accounting Review* , 76 (3), 405-429.
- Yahya, K. A., Osemene, O. F., & Salman, R. T. (2011). Improving the accounting practices adopted by owners of smal and medium-scale enterprises in kwara state, Nigeria. *British Journal of Economics, Finance and Management Sciences* , 2 (1), 71-81.

## Appendix 1: Tables

**Table 1: Adoption of Accounting Practices in (SMEs)**

Accounting practices	Frequency	Percent
None-standardized	14	8.6
Semi-standardized	135	82.8
Standardized	14	8.6
<b>Total</b>	163	100

**Table 2: Mean, Standard Deviation and Standard error of mean of understanding of Accounting Practices of (SMEs) as a whole**

N	Mean	Std. Deviation
163	2.0225	.55448

**Table 3: Mean, Standard Deviation and Standard error of mean of Implementation of Accounting Practices of (SMEs) as a whole**

N	Mean	Std. Deviation
163	1.7073	.38484

**Table 4: T test of Understanding of Accounting Practices of (SMEs) Based on location**

	Variables	N	DF	Cal t value	Critical t value	95% confidence interval	
						Lower	Upper
<b>Equal variances assumed</b>	Urban	160	161	2.198	.029	.07141	1.33276

<b>Equal variances not assumed</b>	Rural	3	2.209	3.558	.061	.07420	1.47836
------------------------------------	-------	---	-------	-------	------	--------	---------

**Table 5: T test of Implementation of Accounting Practices of (SMEs) based on Location**

	Variables	N	DF	Calculated t value	Critical t value	95% confidence interval	
						Lower	Upper
Equal variances assumed	Urban	160	161	2.155	.033	.04001	.91594
Equal variances not assumed	Rural	3	2.423	4.873	.028	.11256	.84339

**Table 6: ANOVA Comparison of Accounting Practices of (SMEs) based on Standardized Accounting Practices**

	Sum of square	DF	Mean square	Calculated F	Critical F
<b>Between groups</b>	1.109	2	.554	3.876	.023
<b>Within groups</b>	22.883	160	.143		
<b>Total</b>	23.992	162			

## Appendix 2: Questionnaire of the study

Questionnaire on Accounting Practices Adopted By Owners of Small and Medium-Scale Enterprises (Smes)

### **Section A: Demographic Data**

- Name of SME-----
- Location of SME-----
- Year of Establishment-----
- Investment capital (a) 100,000-500,000 (b) 500,001-1,000,000 (c) Above 1million-2million

### **Section B What type of accounting practices do you adopt in your organization?**

- None-standardized
- Semi-standardized
- Standardized

### Section C

S/N	My Organization	Very true	True	Not true	Not very true
1	employs the services of professional accountants				
2	audits its financial statement yearly				
3	prepares its daily records of accounting activities				
4	follows double entry principles in its record keeping activities				
5	Keeps necessary subsidiary books such as cash book, daily sales register, income and expenditure statement etc.				
6	employs semi-skilled workers in place of skilled workers				
7	employs families and friends in its operations				
8	takes into consideration all expenses including overheads before determining the net profit				
9	reconciles its cash at hand with bank balances either on weekly basis or monthly basis				
10	remit income to banks on daily basis				

Source (Yahya, Osemene, & Salman, 2011)

### Appendix 3: Reliability test of questionnaire

#### Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.606	.615	11