

# ACCOUNTING INFORMATION SYSTEM (AIS) PRACTICES AND ITS EFFECTS ON SMES: THE BANGLADESH HANDLOOM INDUSTRY EXPERIENCE

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## ABSTRACT

The study is aimed to identify the scenario of practicing the Accounting Information System (AIS) by Benarashi, Jamdani, Reshmi, Shari, Lungi and Gamcha producing Handloom industry of Bangladesh. A qualitative research design was employed and a non-probability sampling design in the form of a convenience sampling method was employed to gather the data. Data were drawn from both primary and secondary sources. Primary data was drawn from 30 small-scale Shari-Lungi producers, 5 each from Pabna, Sirajgonj, Tangail, Dhaka, Narayangonj, and Narshingdi of Bangladesh by administering semi-structured questionnaires through personal interviews. There are many perceived factors affecting their adoption of accounting information system practices and their effects on their business operations in the area. Among such factors include; lack of adequate knowledge and training, willful misconduct, and negligence from owners as well as controlling authority part. It is also revealed that, all levels of employees are ignorant about the use of Accounting Software; rather they try little to keep accounting records manually. It was also found that accounting illiteracy is the root cause of that. It was concluded that the lack of accounting knowledge and skills may in future threaten the financial steadiness of the Handloom Sector. In sustaining the sector, the findings recommends operators to undergo basic accounting training as well as Accounting Software training to acquire relevant knowledge and skills, employ qualified accounting information systems personnel and providing them with good motivational packages to ensure that their efficiency and morale is enhanced and, maintain strong internal control to check the practice of misappropriating funds in the business.

**Key words:** Accounting Information System (AIS), Small & Medium Enterprise (SME), Handloom Industries

## 1.0 INTRODUCTION

The Small and Medium Enterprises (SMEs) contribute a lot in overall economic development of a country, particularly for developing countries like Bangladesh. Since this sector is labor intensive with short gestation period, it is capable of increasing national income as well as rapid employment generation; achieving Millennium Development Goals (MDGs) especially eradication of extreme poverty and hunger, gender equality and women empowerment. In Bangladesh, there are about 69,902 SME enterprises employing approximately

1,937,809 workforces (SME Credit Policies & Programmes: Bangladesh Bank). Their annual turnover is about BDT 573,510 million per year. A major portion of government revenue in different forms like Income tax, VAT, Customs duty etc. comes from these sectors. Major products producing in the SME clusters of Bangladesh are of 12 in number, Handloom, power loom and pit loom industries' products are important one of them (Abedin M.J. The independent 29 October 2018). Handloom industry is the biggest handicraft industry of Bangladesh. It is the second largest source of rural employment after agriculture. This sector meets the 40% of

total demand of clothes, internally, in the country. A manpower of about 1.5 million weavers, dyers, hand spinners, embroiderers and allied artisans have been using their creative skills into more than 0.3185 million active looms which produce more than 687 million meters fabrics every year. Besides, it provides employment opportunities to a million rural people, 50% of which are female. Another half a million people are indirectly engaged in the industry. It contributes more than 12.27 billion taka annually to the national exchequer as value addition (BHB Annual Report 2017-18). Since the long past, the traditional handloom industry has been the largest industry in the rural area of Bangladesh, and the handloom products, such as moslin were well-known in Asia and Europe. Until the seventeenth century moslin, the finest quality of handloom cloth made of silk, was used as cloth for the emperors' family and nobles of the court, and it was a major export items in the early British period (1757-1947) (Bhattacharjee, D. and Khaled, M. 1969). But now, handloom industry faces many challenges. Against the backdrop, maintenance of proper records is a pre-requisite for the success of every business or enterprise with loom industries are not an exception. According to Jones (2012), accounting is important in that, it allow businesses or organizations to understand their financial perspective. In order to develop the loom enterprises properly, there is the need for them to adopt proper accounting practices. According to Goltz (2011), poor accounting is one of the top ten reasons why small-scale businesses fail. So, the aim of the study is to try to identify what is the real scenario of accounting information system practice and the effect of that on performance of Handloom industry of Bangladesh and provide some recommendations for practicing the Accounting Information System.

## 2.0 CONCEPTUAL FRAMEWORK

### 2.1 Concept of SME (Small & Medium Enterprise)

Small and medium-sized enterprises (SMEs) or small and medium-sized businesses (SMBs) are businesses whose personnel numbers fall below certain limits. The abbreviation "SME" is used by international organizations such as the World Bank, the European Union, the United Nations and the World Trade Organization (WTO). (Wikipedia 2005). The Organization for Economic Co-

operation and Development (OECD) states "Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ less than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees. Small firms are generally those with fewer than 50 employees, while micro-enterprises have at most 10, or in some cases 5, workers. Financial assets are also used to define SMEs. In the European Union, a new definition came into force on 1 January 2005 applying to all Community acts and funding programmes as well as in the field of State aid where SMEs can be granted higher intensity of national and regional aid than large companies. The new definition provides for an increase in the financial ceilings: the turnover of medium-sized enterprises (50-249 employees) should not exceed EUR 50 million; that of small enterprises (10-49 employees) should not exceed EUR 10 million while that of micro firms (less than 10 employees) should not exceed EUR 2 million. Alternatively, balance sheets for medium, small and micro enterprises should not exceed EUR 43 million, EUR 10 million and EUR 2 million, respectively". Ministry of Industry of Bangladesh and Bangladesh Bank define SME industry containing asset amounted from Tk. 50,000 to Tk 1,50,00,000 besides having employees 50 to 150. Bangladesh Bank identifies 132 sectors of SMEs in Bangladesh. Handloom industries sector is positioned at 5th in list and tribal pit loom is positioned in number 78. (<https://bb.org.bd/openpdf.php>). Handloom industry produce different kind of products like "Jamdani", "Benarasi", "Katan", "Tangail Sharee", "Handloom Cotton sharees", "Lungi", "Silk sharee" "Gamcha", Mosquito Nets", "Bed Sheet & Bed Coverm Sofa Cover", etc, Though the employment opportunity in this sector has been squeezed in the last 15 years, this sector is still offering employment to nearly 10 million weavers in rural area (Zohir, I. S. 1996). So, a lot of researchers work for developing handloom industry. Lack of Accounting Information System practicing is important reason for not developing this industry. Findings reveal that most of the Handloom industry don't follow any system of Accounting Information System either of manually or of computerized.

## 2.2. Concept of Accounting & Information System

Accounting is a systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial information. It reveals profit or loss for a given period, and the value and nature of a firm's assets, liabilities and owners' equity. (Business dictionary), The American Institute of Certified Public Accountants (AICPA-1949) defines accounting as the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions, and events which are, in part at least, of financial character, and interpreting the results thereof". Thus Accounting is referred to as a process of recording the financial transactions by maintain the first book named "Journal", posting the transactions to the final book "Ledger", summering the accounts balances in Trial Balance and finally communicating the accounting financial information to stakeholders in form of financial statements. According to IFRS-1 financial statements are of 5 in number named Comprehensive Income Statement, Statement of Financial Position, Cash Flow Statement, Owners Equity statement and Notes to the Financial statement (IASB). For these performances, voucher, files and other related supporting data are kept strictly. The whole process of accounting can be done manually or in computerized way maintaining some accounting software like Tally, Troyee and Acc. Pack. Findings showed that very few loom industries adopted accounting practices manually not completely, just keeping cash book and short form of balance sheet, not one single firm maintains automated accounting software.

## 2.3 Common Accounting Practices by Small & Medium Enterprise

The SMEs maintained by the following books of Accounts like as

**2.3.1. Journal:** According to Larson Wild Chiappetta the process of journalizing transactions, require an understanding of a journal. While a company can use various journals, every company use general journal, which shows the debit and credit of each transactions. It can record any transaction. A general journal entry including the following i. Date of action ii. Title of effects iii. Reference iv. Taka amount of each debit and credit iv. Explanation of the transaction can be seen below.

### 2.3.2. Ledger

The next step of processing transaction is to post journal entries to ledger accounts. To ensure that the ledger accounts are up to date entries are posted as soon as possible. This might be daily, weekly, monthly or when time permits. All entries must be posted to the ledger by the end of the reporting period. This is necessary so accounts balances are current when financial statements are prepared. When entries are posted to the ledger, the debit in journal entries occupy into the ledger accounts as debit, and credit are occupy into the ledger accounts as credits can be seen in the above. The following shows 4 steps to post a journal entry

- Identify debit accounting ledger, enter date, journal page amount and balance
- Enter the debit accounts number from the in the Page Reference(PR) column of the journal
  - Identify credit accounts in ledger, enter date, journal page amount and balance .
  - Enter the credit accounts number from the ledger PR column of the journal. The posting process creates a link between the ledger and the journal entry. This link is a useful cross reference for tracing an amount from one record to another.

### 2.3.3. The Trial Balance

The preparation of trial balance involve three steps:

- list each account title and its amount (from ledger) in the trial balance
- compute the total of debit balance and the total of credit balance
- Verify (prove) the total debit balance equal total credit balances. The total of debit balance equals the total credit balance for the trial balance as in above. If these totals were not equal, then one or more errors exist. However, the equality of these two totals does not guarantee that no errors were occurred. These errors post many difficulties on the small scale businesses in which we refer to in our studies as challenges. These errors can be put into two; those that affect the agreement of the trial balance totals and those that do not affect the agreement of the trial balance totals.

The SMEs have also prepared the following financial Statements:

### 2.3.4. Income Statement

According to Gupta (2012), it is the summary of such accounts, which affect the profit, or loss of the concern. These are prepared by transferring from

the trial balance all nominal accounts and accounts relating to goods by means of journal entries called 'closing entries'. All remaining accounts i.e. real and personal, relating to properties, assets, debtors, and creditors are shown in the balance sheet. In order to know the overall picture of the effect of these accounts they are grouped at one place. Items increasing profit (revenue) are put on one side (credit) and those decreasing profits (losses and expenses) are on the other side (debit). The balance is either net profit or net loss.

### Preparation of Income Statement

Income Statement is prepared mainly to know the profitability of the goods bought (or manufactured) sold by the businessman. The difference between selling price and cost of goods sold is the Gross Profit of the businessman. As per IFRS-1 total sales can be ascertained from the sales ledger. The cost of goods sold is, however, calculated in order to calculate the cost of sales. The 'cost of goods' includes the purchase price of the goods plus direct expenses relating to purchase of goods and bringing the goods to the place of business. In order to calculate the cost of goods " we should deduct from the total cost of goods purchased the cost of goods in hand. We can study this phenomenon with the help of following formula:

$$\text{Opening stock} + \text{cost of purchases} - \text{closing stock} = \text{cost of sales.}$$

For earning net profit, a businessman has to incur many more expenses in addition to the direct expenses. Those expenses are deducted from profit (or added to gross loss); the resultant figure will be net profit or net loss. The expenses, which are recorded in Profit and loss account, are called indirect expenses.

### 2.3.5. Balance Sheet

The purpose of balance sheet is to show the financial position of a given business entity at a specific date. Every business prepares a balance sheet at the end of the months and most companies prepare one at the end of each month. A balance sheet consists of listing of assets, liabilities and owners' equity of a business. The balance sheet date is important as the financial position of a business may change quickly. A balance sheet is the most useful if it is relatively recent. A Balance Sheet is a statement of the financial position of a business which states the assets, liabilities, and owners' equity at a particular

point in time. In other words, the Balance Sheet illustrates your business's net worth. (Ward, 2012) Assets are economic resources that are owned by a business and are expected to benefit future operations. Assets may have definite physical form such as building, machinery or an inventory of merchandise. On the other hand, some asset exists not in physical or tangibly forms but in the form of valuable legal claims or rights; examples are amount due from customers, investment in government bonds and patent rights. Liabilities; the person or organizations to which the debt is owed is called creditor. All businesses have liabilities; even the largest companies often purchase merchandise, supplies and service on accounts. The liabilities arising from such purchases are called accounts payables. Owners' Equity; the owners' equity in a corporation is called stockholders equity. In this discussion, we will use the broader term "owner's equity" because the concepts being presented are equally applicable to the ownership equity in corporations, partnerships, and sole proprietorships. Owners' equity represents the owners' claims to the assets of the business. Because creditors' claims have legal priority over those of the owners, owner's equity is a residual amount. Owners are entitled to what is left after the claims of creditors have been satisfied in full. Therefore owners' equity is always equal to total assets minus total liabilities

## 3.0 RATIONALE OF THE STUDY

In order to survive, SME owners and managers need updated, accurate, and timely accounting information (Lohman, 2000; Amidu and Abor, 2005). The primary purpose of an accounting information system (AIS) is the collection and recording of data and information regarding events that have an economic impact upon organizations and the maintenance, processing and communication of such information to internal and external stakeholders (Stefanou, 2006). In Bangladesh, Handloom industry as SMEs do not maintain accounting system properly and it is one of the reasons for diminishing the loom industry. So it is rationale to identify the real scenario of practicing the Accounting Information System adopted by Loom industry and reasons of that situation. This study will also investigate to know the relationship between AIS and profitability of the Handloom industry of Bangladesh.

#### 4.0 RESEARCH QUESTIONS

Manual accounting system practicing or accounting software adoption or non-adoption is an important challenge of the loom industries in the modern technological business world. It can also be said to be the violation of the accounting conventions and rules in recording and posting of accounting transaction. This can affect or not affect the agreements of the trial balance; hence, it may affect or not affect the preparation of the final accounts. Therefore, some research questions arise in the brain of the researcher, which are as follows:

1. What is the extent to which accounting information systems have been implemented and applied in the Handloom industry of Bangladesh?
2. What is the relationship between accounting information & profitability of Handloom industry of Bangladesh?
3. What is the impact of accounting information system on Handloom industry's overall financial performance?

#### 5.0 OBJECTIVES OF THE STUDY

The main objective is to assess the adoption of accounting information system practices and its effect on Handloom industries of Bangladesh. The specific objectives of the study are:

- i. To determine the extent of implementation of Accounting Information System in the Handloom industry of Bangladesh;
- ii. To Analyze the relationship between Accounting Information & profitability of Handloom industry of Bangladesh;
- iii. To identify the impact of Accounting Information System on Handloom industry's overall financial performances.

#### 6.0 REVIEW OF RELATED LITERATURE

Since SME has its importance in economy there are plenty of studies on this business and on AIS which is the oldest and most important sub-system of MIS. Dağar,(2014) search to what extent AIS is used in production companies and they carry out a questionnaire in production companies which are in West Mediterranean Region. In this study, it has been seen that in production companies every data needed is recorded; the information technology was used

effectively in these companies; stock companies use AIS more efficiently than other companies. Akgün and Kılıç (2013) discuss AIS and MIS in conceptual basis in their study. They carry out a questionnaire to determine the efficiency of AIS in Tuz Lake (Salt Lake) businesses. According to the result of this questionnaire they pointed out AIS provides information for internal and external users. It is also seen that AIS has a positive effect on the efficiency of the business management. Yazıcı (2010) makes a study about the effects of AIS on managerial decision in SMEs in the Erzurum Organized Industry Zone. According to his research results when businesses get larger, the number of personnel and the level of technology use increase, AIS is used more efficiently in managerial decisions. Gökdeniz (2005) states that AIS is the most important sub-system of MIS and the input of AIS is recorded more easily by computerized system and the output is reliable and certain. Also AIS education provides many advantages to the businesses. Mizrahi (2011) focuses on the effective use of AIS in SMEs. According to her study the SMEs in İzmir only use 35% of their AIS knowledge in their managerial studies. In their study Allah, et al., (2013) aim to show to what extent small businesses use AIS and states that small businesses are unwilling to use new technology in their businesses.

#### 7.0 RESEARCH GAP

There are plenty of research on SMEs performance as well as impact of AIS on SMEs performance. Md. Faykuzzaman Mia (2017) writes an article and tries to see the positive relationship of accounting information with small scale of business profit. Abdullah, S. S, Azim Md. Sh. and Ramanchandram, R. (Malaysia 2017) state in their research that information system (IS) has positive impact on firms performance, specially SMEs. Liton M. R, Liton I, , Islam T and Saha S (2016) found some reasons for shutting down of looms in Bangladesh: lack of capital, lack of raw materials, inadequate technology, poor marketing system, inadequate government support etc. But it is a question whether Loom industry are suffering from malpractice of accounting information system or not. No research is found here related to impact of AIS on Handloom industries of Bangladesh, although this historical industries weavers are migrating to other services day to day (Banarjee S. Moniruzzaman Muzib M.

M & Sharmin Sh.2014). This study will fill up the gap and will identify the extent of practicing of AIS by Loom Industries and to analyze the relationship between AIS and firms financial performance.

## 8.0 METHODOLOGY OF THE STUDY

### 8.1 Research Design

A qualitative research design will be employed. For the purpose of the study a non-probability sampling design in the form of a convenience sampling method will be adopted and considered to be appropriate to gather primary data.

### 8.2 Type and Data Source

Both primary and secondary data sources will be used in the entire study. Secondary data are information that has already been collected by other researchers including both published and unpublished relevant literature such as textbooks, journals, newspapers, internet documentaries among others and other institutions like Bangladesh Handloom Board (BHB), Bangladesh Small Industries and Commerce (BSIC), and Bangladesh Bank (BB). For the primary data, semi-structured questionnaire survey will be employed.

### 8.3 Data Collection Procedure

Since most of the respondents do not have finance background, the researchers will explain most of the technical terms to help in obtaining the appropriate responses. During the visits to the respondent business offices, opportunity will be taken to observe how things were done in the various Loom industries.

### 8.4 Type of Data and Data Collection Tools

Qualitative data was mainly collected. Descriptive information such as information on challenges of accounting information system practice and its effects are few of the qualitative data has been collected. Descriptive summary and statistical tools has been used to describe the demographic profiles of the study population. The instruments used to gather the data was the administration of semi-structured questionnaires.

### 8.5 Target Population

The target population for this study was Handloom, Power loom and Pit loom industry owners, and officials situated in six districts of Bangladesh.

The districts are Sirajgonj, Pabna, Tangail, Dhaka, Narayanganj, and Narshingdi.

### 8.6 Sampling Procedure

Fellows and Liu (1997) assert that population parameters and sampling procedures are vital in the success of a study. So, these techniques were applied.

### 8.7 Sampling Type

Chilipunde (2010) added that, Naoum (2007), and Fellows and Liu (2007) define Random sampling – as a sampling procedure where the sample is derived by randomization process from a homogeneous or homogeneous conglomerate texture population. So, random sampling procedure was used for this study.

### 8.8 Sampling Size

A sample size of 30 Handloom, Power loom and Pit Loom industry owners of six districts of Bangladesh, were examined.

### 8.9 Data Presentation and Analysis

Data processing tools like the Statistical Package for Social Scientists (SPSS) 16.0 and Microsoft Excel were used to analyze data and findings have been presented using frequency tables, percentages and charts.

## 9.0 ANALYSIS AND INTERPRETATION OF DATA

### 9.1 Demographic characteristics

Out of 30 sample size, 83.3% were male and 16.7% were female. Also, 19 (63.3%) fell between the ages of 18 to 35 years followed by those who fall between 36 to 45 years 6 (20%) and then 46 to 59 years 4 (13.4%). The findings revealed that 16 (53.3%) have basic (primary) and secondary educational background with 12 (40.0%) in tertiary level and other 2 are illiterate.

### 9.2 Accounting Record

Keeping Out of the 30 respondents interviewed 20 (66.7%) keep accounting records while the remaining 10 (33.3%) do not keep any records.

### 9.3 Types of Records Kept By Respondents

The table below shows the various types records kept by the 20 respondents who keep accounting records.

**Table 1.** Types of records kept by respondents

Types of records	Frequency	Percentages
Cash book	18	90.0%
Journals	-	-
Ledgers	-	-
Balance sheet	-	-
Income Statement	2	10%
Others	-	-
Total	20	100%

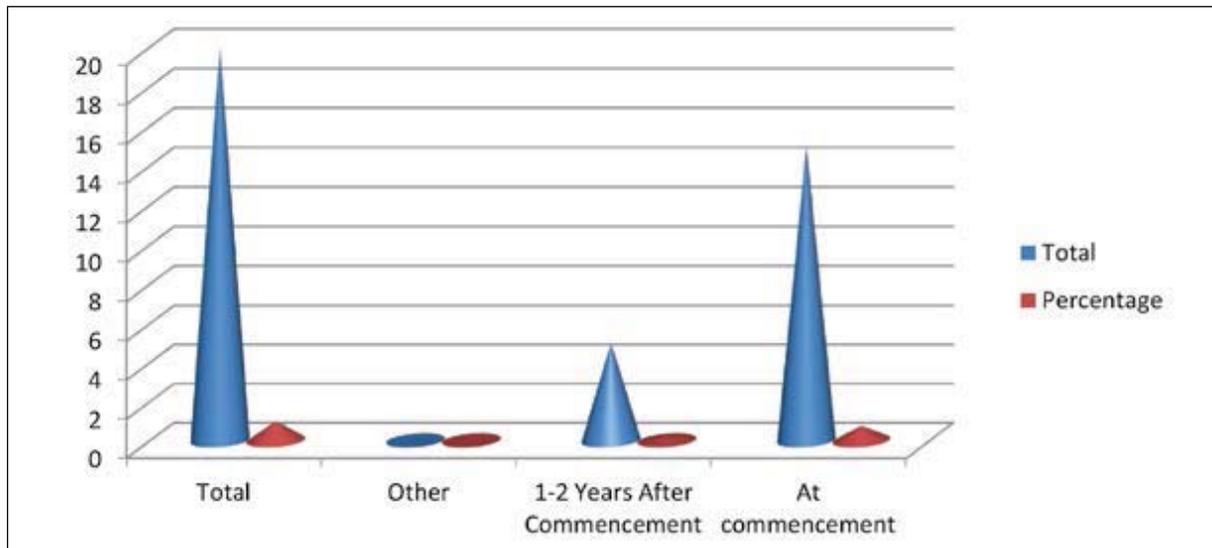
**Source:** Field survey, October 2018

Of the thirty (30) respondents, 20 keep records representing 66.7% out of which 18 (90%) keep cashbook, and 2 (10.0%) maintain Income Statement. None of the respondents keep journal, ledgers, and balance sheet. From the statistics above, a small percentage, prepare Income Statement while a higher percentage kept cashbook and this is prone to errors as knowledge of accounting is absent. We found out that of the 10 respondents who do not keep records, majority 8(80%) rely on their memory without documentation and the remaining 2 respondents could not pin to no specific order of keeping record for their operations. A cross tabulation revealed that, out of those who kept records, majority (70%) have obtained basic education with the rest (30%) being those in tertiary education. Despite their size for this research, females seem to have taken record keeping serious in their venture as three out of the five selected were among those who kept records.

#### **9.4. Times of Keeping Accounting Records**

Out of the 20 respondents who keep records, 15 (75%) adopts accounting practices at the commencement of their business while 5 (25%)

adopt accounting practices between 1 to 2 years after commencements. The chart below depict when Handloom Industries owners who keep accounting records adopt it.



**Fig 16.** Periods of accounting practices were adopted by 20 respondents

**Table 2.** Challenges encountered by respondents

Challenges	Frequency	Percentages%
Unable to separate business from private issues	4	26.7
Unable to identify all expenses incurred by the business	1	6.7
Unable to state actual revenue	8	53.3
Unable to complete accounting records	2	13.3
Others	0	0
Total	15	100

**Source:** Field survey, October 2018

out of 15 respondents who encounter challenges in accounting practices during the operation of their business, 4 (26.7%) are unable to separate their business from private issues, 1 (6.7%) is unable to identify all expenses incurred by the business, while 8(53.3%) cannot state the actual revenue accrue by the business and 2(13.3%) are unable to complete their accounting records. The five respondents who asserted they do not encounter challenges in accounting practices gave factors such as quality personnel, adequate training, effective internal control and good conducts. On the causes of challenges in accounting practices among the 15 respondents, 11 (73.0%) gave lack of training as the causes of challenges in accounting of their business, negligence (13.3%), willful misconduct (6.9%) and others like time constraints (6.9%) as the reason for challenges in accounting practices. In finding out whether these challenges in accounting practices affects their businesses, out of 15 respondents, 90% indicated it affects their business while the remaining 10% claim the challenges have no effects on their operations.

The table below indicates the effects of challenges in accounting practices on Handloom Industry.

**Table 3.** Effects of challenges on Business

Effects of challenges on business	Number	Percentage %
Financial loss	10	71.4
Poor record management	1	7.1
Less credit worthiness	3	21.4
Others	0	0
Others	14	100

**Source:** Field survey, October 2018

Out of 14 respondents who agree that the challenges in practicing accounting, negatively affect their business, majority (71.4%) mentioned that it leads to financial loss followed by less credit worthiness (21.4%) and poor record management (7.1%). On the field, we asked producers whether there has been a change in the challenges they face after they

adopt accounting practices. It was revealed that, of the 5 respondents who adopt accounting practices 1-2 years after commencement, 4 (80%) agree that they had been a positive difference between the time they were not keeping account records and the time they adopted accounting practices, while only one producer admitted that there is no difference.

### 9.6. Positive ways to solve these challenges

On efforts, put in place to address challenges in accounting practices, faced by Handloom Industries owners, out of the 14 producers who asserted that challenges in accounting have negatively affected them, half (50.0%) and 5 (35.7%) said effort of management and employees and, continual workshop can remedy the challenges. However, the remaining 2 (14.3%) producers have not been able to unravel these challenges. In finding reasons why despite efforts put in place the mentioned challenges still exist, it was revealed that of the 14 producers, 10 (71.4%) said professional bodies in the sector have not attach seriousness to accounting in the business and 2 (14.3%) attributed it to lack of interest by managers and employees. The remaining 2 (14.3%) producers have stated that no serious punishment have been executed out on those who have violate the accounting standards due to negligence or willful misconduct. Largely, we sought the opinion of the 15 who encounter challenges in accounting practices on ways to solve these challenges. The table below depicts the result:

**Table 6.** Ways to solve challenges in accounting practices

Responses	Frequency	Percentage (%)
Adequate professional training	3	20.0
Organizations goal should precede individual goal	2	13.3
Effective internal control	8	53.4
Motivation of employees	2	13.3
Others	0	0
Total	15	100

**Source:** Field survey, October 2018

From the table above, plurality of producers have the views that effective internal control (53.4%) followed by adequate professional training on

accounting in the small-scale business (20.0%) can promote accounting practices. The remaining 26.6% think organizations goal should precede individual goal and motivation of employees will work out the challenges of accounting practices in the sachet water enterprise.

## 10.0 FINDINGS OF THE STUDY

### 10.1 Demographic characteristics

Males were found to dominate the Handloom Industry than their female counterparts. More females can therefore take advantage of this production sector especially those acquiring accounting skills and knowledge can become part-time or full-time staff in this sector. It was also observed that majority of Handloom Industries owners are within the active group and have attained the level of basic and secondary education showing that almost all are inadequately qualified in the accounting field leading to inefficiency in accounting practices. They can therefore utilize opportunities to acquire accounting profession.

### 10.2 Accounting Record Keeping

It is observed that majority (66.7%) keep accounting. This also implies that efforts are being made by this small-scale enterprise to gather some accounting information despite their low level of education. On the other hand, while the 33.3% who do not keep any records points that they face negative effects of accounting practices and therefore calls for urgent attention in providing them with basic accounting training as they were found to have attained primary education.

### 10.3 Types of Records Kept By Respondents

For those who keep accounting records, a small percentage, prepare trading profit and loss accounts while a higher percentage kept cashbook and this is prone to errors as knowledge of accounting is absent. Other forms of records kept by respondents who do not keep accounting records were that majority get their business transaction from their memory while others have no specific order of keeping records. This is a serious challenge that affects the success of most Handloom Industry.

### 10.4 Accounting Record Keeping Time

In ascertaining when Handloom Industry owners who keep accounting records adopt the accounting

practices, majority adopts accounting practices at the commencement of their business while minority adopt accounting practices between 1 to 2 years after commencements. With this information, one can conclude here that despite their background they ensure that accounting is being practiced and therefore hope that one could trace their financial status.

### **10.5 Challenges in Accounting Practices**

This higher percentage (75%) out of the 20 who keep accounting records who testified that they encounter challenges in accounting practices indicates that great number of Handloom Industry owners have no knowledge in accounting practices. Majority (53.3%) testified that they cannot state the actual revenue accrued by the business followed by their inability to separate their business from private issues. Other challenges identified were inability to identify all expenses incurred by the business and their inability to complete their accounting records. This reveals that mismanagement, loss of business assets and, uncertainties in business operations, were challenges encountered by Handloom Industry owners in the area of their business when they were not keeping accounting records. Those who asserted they do not encounter challenges in accounting practices gave factors such as quality personnel (mainly those who had basic accounting in secondary and training colleges), adequate training, effective internal control and good conducts.

### **10.6 Causes of Challenges in Accounting Practices**

In causes of challenges in accounting practices, the main finding of this study was that most Handloom Industry admitted that lack of adequate training is the major cause of challenges in accounting practices. This is, as a result of the fact that Handloom Industry within this part of the country is less creative and hence, employing well qualified personnel will mean paying more for such employees who in actual fact may not generate enough revenue to meet their pay. On the other hand, such qualified personnel have set their eyes on well-paying jobs and consider work with Handloom Industry as not deserving their level of qualification. The study also brought to light the fact that, willful misconduct is another major cause of the challenges in accounting practices. This is manifested in the fact that accounting officials in their bid to satisfy their selfish interest misrepresent facts in accounting records leading to undesirable

consequences of challenges. Another predominant cause of challenges in accounting practices which generated as a result of the study had to do with negligence. This is so because some accounting staffs do not attach seriousness to their work hence they neglect their duty of ensuring good and sound accounting practices. The study has proved beyond all reasonable doubt that challenges in accounting practices have affected negatively on the life and growth of Handloom Industry in the districts of Sirajgonj, Pabna, Tangail, Dhaka Benarashi polli, Narayangonj Rupgnj and Narshingdi of Bangladesh.. Among these challenges have resulted in poor record management and have extensively cause financial loss to Handloom Industry, as they are not able to separate business from private issues, under casting or over casting of revenue etc.

### **10.7 Effects of Challenges in Accounting Practices**

The findings revealed that out of 15 respondents who testified to encounter challenges, 14 of them indicated that these challenges affect them. It was brought to light the fact that majority of the Handloom Industry whose accounting records are beset with challenges face financial loss, lack the credit worthiness of accessing loan and funding for further investment hence their ability to grow. We also found out that persistent challenges in accounting practices within a firm will cause it to lose its goodwill, the level at which the public would wish to do business with the enterprise will dwindle as a result of the challenges in accounting practices of that enterprise.

### **10.8. Possible Solutions to the Challenges in Accounting Practice**

In their attempts to address the challenges in accounting practices, the respondents claimed that one way to find solution to these challenges is to encourage both management and employees to put much effort in ensuring effective accounting practices. They also mention job training through continual workshop can upgrade their skills and afford them the opportunity to learn new principles introduced in the accounting profession. This they believe when properly handled will benefit many people including those who did not previously have knowledge in accounting as they learn the basics of book keeping techniques for the small-scale businesses. Additionally, the respondents were of the view that accounting bodies and Bangladesh Handloom Board that set standards for the profession should consider it a duty to make

available text and guidelines on sound accounting practices from time to time. This will go a long way to give assistance to those who have the self-esteem ego of not consulting others for guidance where they fall short to teach themselves to understand and put into practices good accounting techniques to avoid challenges in accounting practices. In pursuing this research, it became known that one way of addressing the challenges lies in the fact that people who want to pursue accounting as a profession should in fact go in for the necessary professional training to equip themselves with all the skills needed to function effectively as accountants or account officers. The study also identified the fact that when staff learn to prioritize, thus to let organizational goal precede individual goal, it will in a way reduce drastically the issues of accounting challenges. Majority suggested effective internal control as one of the major ways of finding solution to the issue of challenges in accounting practices.

## 11.0 CONCLUSIONS AND RECOMMENDATIONS

The main objective of the study was to assess the adoption of accounting practices and its effects on Handloom Industry of Bangladesh. It is evident from these findings that majority of the Handloom Industry adopt accounting practices. However, challenges in accounting practice have been a common feature associated with most Handloom Industry. Among the factors that were identified include lack of training, willful misconduct, negligence etc. It was also revealed that there low level of education and ignorance affects producer's adoption of accounting practice, hence a great number of Handloom Industry owners in the area operate without accounting knowledge despite their successes. These challenges affect negatively on the growth of these enterprises as they cause cash drainage, financial lost and low profitability. Financial loss, limited access to credit and dented image are other effects of these challenges. Serious measures therefore need to be adopted to minimize if not eliminate these challenges in accounting practices among the Handloom Industry firms. Knowing the fact that lack of professional training regarding AIS adoption is the major cause of the challenges in accounting practices, account officers in the Handloom Industry sector should be encouraged to go in training to acquired knowledge and skills needed to perform accurate accounting

procedures. Since our focus is on Handloom, Power loom and Pit loom Industries, it will be a step in the right direction, if government, non-government organizations take it upon themselves to provide accounting in-service or on-the-job training for financial managers or owner-managers in this sector to improve their knowledge. Most of the challenges that are recorded are because of lack of knowledge in accounting by financial managers who are the key financial planners and managers of the enterprise. Their inefficiency will affect the whole accounting system in the enterprise. Handloom Industry should learn how to maintain strong internal control system to check the practice of misappropriation of funds in the enterprise. Internal control system is a very important tool in accounting system in which every transaction is needed to pass through in an accounting cycle. This is to check the accuracy and reliability of every transaction in the business. With this, if businesses maintain a strong internal control system those challenges will not be recorded in the whole Handloom sector of Bangladesh. Qualified personnel should always be employed and placed appropriately to enhance efficiency in accounting practice. If these personnel are not employed rather than unqualified accounting practitioners, this will result in challenges in accounting practices and waste of funds of the enterprise involve. Good motivational packages should be given to the employees to ensure their accuracy and reliability in their recording of financial transactions of the business. When employees are given adequate motivational packages it will discourage them from using non-approved methods in recording the business financial transactions. Motivational packages also enhance employee's efficiency and morale, as they are aware of packages to be received.

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