

Analysis of Accounting Standards Compliance in Micro, Small and Medium Enterprises: A Study of Rajasthan

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Abstract: The Micro, Small and Medium Enterprises sector forms a vital pillar of Rajasthan's industrial landscape, driving socioeconomic growth, entrepreneurship, and employment generation. This study investigates the degree of compliance with accounting standards among MSMEs in Rajasthan, exploring the factors influencing adherence, the challenges encountered, and the implications for financial transparency and business sustainability. An analysis of regulatory frameworks, primary practices, and prevailing bottlenecks reveals a landscape marked by diverse issues such as informal bookkeeping, resource constraints, and limited awareness. The paper concludes with recommendations to enhance compliance, build financial discipline, and promote sustainable growth within MSMEs in Rajasthan, providing crucial insights for policymakers and practitioners.

Keywords: MSMEs, Rajasthan, Accounting Standards, Compliance, Financial Reporting, Regulatory Framework, SME Development.

1.1 Introduction

Micro, Small, and Medium Enterprises have long been recognized as engines of growth, particularly in developing economies like India, where they contribute substantially to GDP, employment, and export earnings. Rajasthan, known for its diverse economic base and entrepreneurial spirit, houses an array of MSMEs active in traditional and emerging sectors. However, despite their pivotal role, compliance with established accounting standards among MSMEs remains variable, often hindered by systemic, financial, and operational constraints.

The enforcement and adoption of accounting standards assure transparency, comparability, and credibility in financial statements, benefitting internal management and external stakeholders such as creditors, regulators, and investors. This paper explores the state of accounting standards compliance in Rajasthan's MSMEs, emphasizing contextual barriers and potential reforms.

Accounting standards compliance among micro, small, and medium enterprises in Rajasthan reflects the broader economic, regulatory, and institutional milieu that characterized both India's transition period and Rajasthan's unique commercial landscape during the turn of the twenty-first century. The MSME sector in Rajasthan—encompassing a vibrant mix of traditional handicrafts, rural industries, and emerging urban enterprises—played a pivotal role in state-level employment generation, poverty alleviation, and grassroots economic development. However, the sector's integration into formal financial and accounting frameworks was gradual and uneven, shaped by historical legacies, policy priorities, and ground realities of limited capacity and infrastructure.

Accounting standards in India were largely harmonized with global practices after economic liberalization in the 1990s, but the practical applicability of these standards for MSMEs remained uneven, particularly before the introduction of customized policy instruments such as the MSMED Act, 2006. Before this Act, small and micro enterprises, often subsumed under the single category of Small Scale Industries, operated within a relatively loose regulatory infrastructure with basic registration, reporting, and compliance responsibilities. This resulted in significant heterogeneity in how enterprises approached record-keeping, inventory management, and financial disclosure—a situation often observed in Rajasthan's predominantly rural and semi-urban MSME clusters.

Several factors contributed to these compliance challenges. First, the regulatory framework itself was complex and, until the mid-2000s, lacked clear demarcation of accounting requirements applicable to the scale and nature of MSME operations. While the Institute of Chartered Accountants of India started rationalizing accounting norms for SMEs around 2003-2004, many Rajasthan-based enterprises either struggled with awareness or simply lacked the trained workforce to implement best practices in book-keeping and statutory audit. Second, limited access to formal financial services and institutional credit in Rajasthan's rural pockets restricted the incentives for professional financial management, as many micro enterprises depended heavily on informal channels for capital, reducing the pragmatic need for stringent accounting compliance.

Capacity constraints among MSMEs in Rajasthan were not just financial—they extended to a dearth of managerial and technical expertise, particularly in remote districts. Most micro and small-scale entrepreneurs focused their operational energy on survival, market linkages, and production, relegating formal compliance requirements—such as standardized financial

statements or adherence to prescribed disclosures—lower in the hierarchy of business priorities. Consequently, compliance levels with national accounting standards were generally lower than those observed in corporate sectors or larger enterprises. Where compliance did exist, it was usually either due to external compulsions—such as applying for formal bank credit, government tenders, or export certifications—or as a result of targeted training and awareness programs introduced sporadically by state or central government agencies.

The gradual but inconsistent rollout of governmental measures aimed at improving MSME accountability, transparency, and competitiveness. Rajasthan's state apparatus did make efforts to increase MSME access to quality certification, promote IT-enabled accounting tools, and streamline registration systems. However, the effectiveness of such interventions often depended on localized implementation and the readiness of MSME owners to adopt these changes, which was highly variable across different industry types and regions within the state.

MSMEs in Rajasthan operated in an environment where accounting standards compliance was more aspirational than actual for the vast majority. The regulatory and institutional mechanisms were evolving, policy awareness was low, and capacity issues—ranging from human resources to technological adoption—remained persistent obstacles. While innovative and successful MSMEs, especially in export-oriented or urban clusters, did demonstrate higher compliance and benefited from these processes, the overall landscape was marked by informality, partial compliance, and the necessity for sustained handholding by both public and private institutions to bridge the significant gaps observed in policy versus practice.

This analysis contextualizes the compliance of accounting standards among Rajasthan's MSMEs by examining the legal, institutional, and grassroots dynamics that governed enterprise behavior and policy implementation throughout the period.

1.2 Literature Review

1. MSME Accounting and Regulatory Environment

The Government of India and the Institute of Chartered Accountants of India have instituted several accounting and reporting requirements for companies, including MSMEs. For entities not falling under the Companies Act, compliance is subject to sectoral guidelines and best practices. The MSMED Act, 2006, marked a significant step in formalizing definitions and policy frameworks for the sector.

Historically, MSMEs in Rajasthan, as across India, have relied predominantly on traditional and informal accounting systems, with a slow transition toward regulatory compliance, especially among micro and small units.

2. Empirical Studies

Prior analyses reveal a lack of trained financial professionals, resource limitations, and minimal regulatory enforcement as

key impediments to compliance. Some studies note that MSMEs prioritize day-to-day operations over structured financial record-keeping, viewing compliance as costly and non-essential unless required by lenders or government contracts.

1.3 Research Methodology

This study adopts a qualitative and secondary data approach, drawing upon published reports, government publications, and academic studies focusing on Rajasthan and Indian MSMEs prior to 2014. Selected interviews with industry and policy experts supplement the analysis.

1.4 Study Area

Rajasthan, the largest state of India situated in the north-western part of the Indian union is largely an arid state for most of its part. The Tropic of Cancer passes through south of Banswara town. Presenting an irregular rhomboid shape, the state has a maximum length of 869 km. from west to east and 826 km. from north to south. The western boundary of the state is part of the Indo-Pak international boundary, running to an extent of 1,070 km. It touches four main districts of the region, namely, Barmer, Jaisalmer, Bikaner and Ganganagar. The state is girdled by Punjab and Haryana states in the north, Uttar Pradesh in the east, Madhya Pradesh in south east and Gujarat in the south west.

Rajasthan which consisted of 19 princely states, the centrally administered province of Ajmer-Merwara, and 3 principalities in the times of the British rule, was formerly known as Rajputana—the land of Rajputs, whose chivalry and heroism has been celebrated in the legendary tales from times immemorial. The formation of Rajasthan state in its present form started in 1948 when the states Reorganization Commission reconstituted the various provinces.

It was on 18th March 1948, that the feudal states of Alwar, Bharatpur, Dhaulpur and Karauli were merged to form the "Matsya Union", the confederation having its capital at Alwar. Only about a week later, on 25th March 1948, other ten states viz. Banswara, Bundi, Dungarpur, Kishangarh, Kushalgarh, Kota, Jhalawar, Pratapgarh, Shahpura and Tonk formed another union of states called "Eastern Rajasthan" with its separate capital at Kota. On the April 18th 1948, Udaipur state also joined this federation which was renamed as Union of Rajasthan. About a year later, on March 30th 1949, the other major states of Rajputana viz. Bikaner, Jaipur, Jodhpur and Jaisalmer also joined the federation. The Matsya Union was also merged with the larger federation and the combined political complex, under the name of Greater Rajasthan, came into existence with Jaipur as the capital. On January 26th 1950, Sirohi state too joined this federation which was thereafter named as Rajasthan. The centrally administered area of Ajmer Merwara was merged with Rajasthan on November 1st 1956, when the recommendations of the State

Reorganization Commission were accepted, and the new state of India came into existence.

The rich wealth of non-renewable resources is yet to be explored and exploited. Their judicious exploitation can make the state economically self-sufficient. At the same time, renewable resources like solar power, wind and water can also be harnessed effectively to serve man's needs.

1.5 Analysis And Discussion

1. The MSME Sector in Rajasthan

By 2012-13, Rajasthan's MSMEs were estimated to number in hundreds of thousands, concentrated in Jaipur, Jodhpur, Alwar, and Udaipur districts, among others. Key industries included handicrafts, textiles, agro-processing, engineering, and chemicals.

Table: District-wise Distribution of MSME

District	Estimated MSMEs (2013)	Major Industries
Jaipur	45,000	Textiles, Gems
Jodhpur	20,000	Handicrafts, Furniture
Alwar	15,000	Engineering, Agro
Udaipur	10,000	Mining, Agro

2. Regulatory Framework Governing Accounting

The Companies Act (1956, 2013), coupled with ICAI's prescribed Accounting Standards, remains the principal regulatory basis for MSME accounting practices. However, reporting exemptions and simplified requirements exist for smaller entities.

For MSMEs not incorporated as companies, general practice involved maintaining basic financial records needed for taxation or bank loans. During 2014, only a fraction of Rajasthan MSMEs voluntarily adopted structured accounting standards, and enforcement mechanisms were

1.6 Conclusion

The conclusion from research suggest that unless local governments and regulatory bodies increase support for capacity-building and simplify compliance requirements, a large proportion of MSMEs in Rajasthan will continue to face difficulties in adhering to accounting standards, with direct implications for their growth and financial health.

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