

An Analytical Study of Accounting Challenges Faced by MSMEs and Start-Ups

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Abstract: *Micro, Small, and Medium Enterprises (MSMEs) and start-ups are key drivers of economic growth, innovation, and employment worldwide. Despite their contribution, these enterprises often struggle with accounting challenges that hinder financial transparency, compliance, resource allocation, and growth. This analytical study investigates the primary accounting obstacles encountered by MSMEs and start-ups, including inadequate infrastructure, limited technical expertise, digital adoption constraints, and regulatory compliance issues. Using a mixed-method research approach comprising surveys with 120 respondents and in-depth interviews with 10 finance professionals, the study identifies prevalent gaps in accounting practices, the impact of resource limitations, and the role of digital technologies. Findings reveal significant reliance on manual bookkeeping, inconsistent financial reporting, and low adoption of automated accounting systems. The study concludes by recommending structured accounting education, enhanced technology integration, and policy-level support to improve the financial viability and sustainability of MSMEs and start-ups.*

Keywords: MSMEs, Start-ups, Accounting Challenges, Digital Adoption, Financial Reporting, Compliance

I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) and start-ups contribute substantially to the economic ecosystem by fostering innovation, creating employment, and promoting competitiveness. In India and globally, MSMEs account for a significant share of employment and GDP, while start-ups catalyse innovation and attract investment. However, one of the persistent non-technical barriers to their growth is the challenge of effective accounting. These enterprises often lack robust systems for financial tracking, compliance with evolving regulations like GST, and access to skilled personnel, leading to errors in reporting, cash flow disruptions, and limited creditworthiness. Addressing this through digital tools and training could unlock their full potential.

Accounting plays a crucial role in organizational decision-making, financial reporting, budgeting, taxation, and compliance with statutory regulations. For MSMEs and start-ups, maintaining accurate financial records is indispensable for securing finance, managing costs, and achieving sustainable growth. Despite its importance, multiple accounting challenges—such as manual processes, skill gaps, and regulatory complexities—undermine the financial health and strategic potential of these enterprises. This leads to persistent issues like inaccurate forecasting, compliance penalties, and restricted funding access, ultimately stifling scalability in competitive markets.

Previous studies have highlighted persistent accounting issues for MSMEs and start-ups, including lack of skilled personnel, limited awareness of accounting standards, absence of formal internal controls, and reluctance to adopt digital technologies. However, systematic analytical investigations that directly compare these challenges between MSMEs and start-ups remain scarce. This research bridges that gap through a comprehensive approach: identifying major accounting obstacles, examining their operational manifestations, evaluating the role of resource constraints and digital readiness, and exploring tailored interventions to enhance financial resilience and growth trajectories.



II. LITERATURE REVIEW

The Micro, Small and Medium Enterprises (MSME) sector plays a vital role in India's economic development by contributing significantly to employment generation, industrial output, and exports. Despite their importance, MSMEs and start-ups face numerous accounting and financial management challenges. Several Indian researchers have examined these issues in recent years.

Singh and Sharma (2024) in their paper titled as "Navigating the Obstacles: A Systematic Review of Challenges Faced by MSMEs in India" conducted a systematic review of challenges faced by MSMEs in India and highlighted that lack of financial management skills, inadequate accounting systems, and limited technological adoption are major obstacles affecting the efficiency of MSME operations. The study also pointed out that many MSME owners lack professional accounting knowledge, which leads to poor financial decision-making and weak financial reporting systems.

Patel and Tripathi (2022) in research paper titled as "Challenges of MSMEs in India" analysed the overall challenges faced by MSMEs and found that financial literacy, accounting knowledge, and documentation practices are weak among many small business owners. Their research identified several operational and financial challenges including difficulties in maintaining proper records, lack of trained accounting personnel, and inadequate knowledge about tax compliance such as GST regulations.

Gani and Vijayarani (2022) written their paper titled as "Major Financial Challenges of MSMEs in India" examined the financial management issues of MSMEs and reported that the lack of systematic accounting practices makes it difficult for businesses to obtain bank loans and external funding. Financial institutions require accurate balance sheets, income statements, and cash flow reports, but many MSMEs fail to maintain such records properly, which restricts their access to formal credit.

Naikwadi (2024) in his paper titled as "Financial Accounting Practices of Micro, Small, and Medium Enterprises (MSMEs) in Maharashtra, India: A Case Study" focusing on MSMEs in Maharashtra emphasized that accounting practices are often informal and inconsistent in small enterprises. The research revealed a gap between theoretical accounting frameworks and the actual accounting practices followed by MSMEs. Many small firms rely on manual bookkeeping methods or unstructured financial records, which affect transparency and financial planning.

Padhiary and Sharma (2025) written a paper on "Accounting Practices & Challenges: A Study of Wholesale & Retail Businesses in India" explored accounting practices in wholesale and retail businesses in India. The findings indicated that small enterprises face significant challenges in maintaining accurate financial records due to lack of professional expertise, dependence on manual systems, and inadequate understanding of accounting standards and tax compliance requirements.

Several studies also highlight the issue of financial literacy among MSME owners. Rekha et al. (2024) observed that although research on MSME financial literacy has increased in recent years, many small business owners still lack sufficient financial knowledge to maintain proper accounting records and make informed financial decisions.

In addition to accounting issues, MSMEs also struggle with cash flow management, access to finance, and regulatory compliance. Many small firms fail to maintain proper documentation and financial statements, which creates difficulties in tax compliance and loan approvals. Inadequate accounting systems also increase the risk of financial mismanagement and poor financial planning.

Overall, the existing literature suggests that accounting challenges in MSMEs and start-ups arise mainly due to lack of professional expertise, insufficient financial literacy, weak accounting systems, and regulatory complexities. These issues hinder the growth and sustainability of small businesses. However, limited research has focused specifically on analysing these challenges at regional levels, indicating the need for further empirical studies.

III. OBJECTIVES OF THE STUDY

1. To identify the predominant accounting challenges faced by MSMEs and start-ups in Thane district.
2. To evaluate the impact of digital adoption and technical expertise on accounting practices in MSMEs and start-ups.



- To assess how accounting practices influence compliance, decision-making, and financial performance.

IV. RESEARCH METHODOLOGY

Research Design: -

The study uses a mixed-method research design, integrating both quantitative and qualitative techniques to provide a comprehensive analysis.

Data Collection: -

Primary Data: Structured surveys and semi-structured interviews were taken to achieve the objectives of the study. Surveys were administered to 120 MSMEs and start-ups across Thane district of Maharashtra. Interviews were conducted with 10 finance professionals, accountants, and business owners to gain qualitative insight.

Secondary Data were also studied including the published reports, academic journals, government publications, and industry surveys on accounting practices, digital adoption, and compliance challenges.

Sampling Technique: -

Purposive and stratified sampling ensured representation from various sectors, enterprise age groups, and revenue sizes were considered for analysis purpose.

Data Analysis Techniques: -

Quantitative & qualitative data were Analysed using descriptive statistics, frequency distribution, and cross-tabulation.

V. ANALYSIS

Demographic Profile of Respondents

The surveyed enterprises (n = 120) were diversified across sectors such as services (35%), manufacturing (30%), technology (25%), and retail (10%). Approximately 60% of enterprises were MSMEs, while 40% identified as start-ups with less than five years of operation.

B. Key Accounting Challenges Identified

Table 1: - Accounting Challenges Faced (n = 120)

Accounting Issue	Frequency	Percentage (%)
Manual bookkeeping & record inconsistency	65	54.17%
Insufficient accounting expertise	23	19.17%
Low digital accounting adoption	49	40.83%
Tax compliance difficulties (GST, audits)	45	37.2%
Data security and internal control issues	35	29.17%

(Source: - Compiled Primary Data)

As from above table it shows that manual bookkeeping and record inconsistency were the most frequent challenges reported, followed by low digital accounting adoption and tax compliance difficulties.

C. Digital Adoption in Accounting

Despite growing availability of digital accounting tools, low adoption persists:

Table 2: - Accounting System Usage

System Type	Percentage (%)
Manual/Spreadsheet-based Accounting	48%
Basic desktop accounting software	30%
Cloud-based / automated systems	22%

(Source: - Compiled Primary Data)

As it clearly looks that nearly half of enterprises continue to rely on manual or spreadsheet-based systems, with less than one-quarter fully utilizing cloud-based accounting software.



D. Impact on Compliance and Decision-Making

Interviews revealed that accounting gaps significantly affected compliance workflows and strategic planning which are as follows: -

- a. Business owners reported difficulty reconciling GST records, resulting in delays and penalties.
- b. Lack of real-time financial data limited budgeting and investment decisions.
- c. Financial institutions expressed concern over poor accounting documentation when evaluating lending requests.

E. Sectoral Differences

Technology start-ups showed higher readiness for digital systems but lacked structured accounting policies. Manufacturing MSMEs reported heavy reliance on external accountants and audit specialists.

VI. INTERPRETATION

The analysis indicates that accounting challenges are multifaceted and deeply rooted in structural and resource limitations:

1. Manual Practices: - There is high dependence on manual bookkeeping reflects barriers to technology adoption, including cost concerns and lack of training.
 2. Expertise Deficit: - With limited formal accounting staff, many enterprises rely on ad-hoc recordkeeping, increasing the risk of errors and non-compliance. Which are really challenging to the business organisation.
 3. Digital Divide: - Despite the availability of cloud and automated accounting tools, adoption is uneven due to perceived complexity and implementation costs this results in all together difficulties to the organisation.
 4. Compliance Strain: - Regulatory obligations such as GST filings and tax audits amplify the impact of weak accounting systems, affecting operational efficiency and financial reporting quality.
- Collectively, these challenges undermine transparency, restrict growth, and limit access to finance.

VII. CONCLUSION

This study underscores that MSMEs and start-ups faces significant accounting challenges that impede their operational effectiveness and strategic development. The most pressing issues include reliance on manual systems, lack of accounting expertise, low digital adoption, and compliance burdens.

Addressing these challenges calls for a concerted approach: -

Capacity building through accounting training programs tailored for MSMEs and start-ups.

Encouraging digital adoption with affordable and user-friendly accounting solutions.

Policy support to streamline compliance processes and reduce administrative load.

Enhanced access to financial advisory services to improve documentation and reporting quality.

By strengthening accounting infrastructure and digital readiness, MSMEs and start-ups can enhance compliance, improve financial decision-making, and unlock sustainable growth pathways.

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