

Crisis Issues in Finance

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Abstract—Finance word is being used for borrowing money and lending money in present scenario. In every field people need money. For instance- Making house, Getting higher education, Purchasing motor car, Running business etc.

As blood is necessary for the human body as the finance is necessary for the progress and success of any business. In other words, Finance for any size of business is what Oxygen is for any size of a living absolutely essential. The modern economy is the money oriented economy and finance is the foundation of all kinds of economic activities. It is said that business needs money to make more money.

The finance department in any business plays two roles. One is the classic stewardship role. This role includes Accounting, Payables, Receivables, Audit, Tax etc. These are very critical for safekeeping of the firm. Beyond this stewardship role, finance is also expected to play Strategic role, that of a true business partner. In this role, finance helps the business make the right choice and therefore creates value for the firm. Finance is expected to do a very objective analysis that brings out the risks and potential returns from all investments.

This paper is based on the financial problems of small scale businesses which are suffering with the lack of money and they try to remove these problems but they don't know that what is the correct way. In a small survey I found that many businessmen are not fulfilling the basic issues of collecting money for business which are Accounting and Taxation. I am trying to say that Accounting and Taxation are the main Contemporary issues in finance which are ignored by the small scale businesses because they have not enough knowledge or they are in confusion. Through this research paper I want to present the real picture of this problem.

Keywords: Finance, Accounting, Tax, Business etc.

1. INTRODUCTION

Finance is the key of success of all kind of businesses. Without finance (money) any business can't be run but in present time near about 80% small scale businessmen have not enough capital to run their business. They are earning very low amount and that earning is not sufficient for their livelihood. In this case, how can they engage their earning in the business! They know very well that without enough finance their business can't touch the height of success. They don't have own capital so they need borrowed capital. There are many attractive offers for the lending finance in the market so they go to take the benefit of these offers, but when they go there they face two questions

- (1) Are you salaried person?
- (2) Do you file Income tax return?

If they replied- **No**, Financer said I am sorry I can't give you the loan.

Why did financer refuse to provide them finance? The answer is- because they don't have any evidence of income. Financer think, if I give them the loan how will they refund?

This is the main issue of finance which occurs absence of Accounting and Taxation.

Accounting and Taxation are grand pillars of success of any business. All the persons who are directly or indirectly connected with the us in the business want to know the progress of the business because their financing decisions depend on the progress report of the business. For presenting the progress report of any business accounting and taxation play very important role. But unfortunately there are many businessmen who do not understand that accounting and taxation can be helpful for the success of their business. They think that they are wasting money for preparing the accounting and after that they will be trapped by the government in taxation.

Here I am talking about those retailers who have not enough money for extension of their business and they have lack of knowledge of accounting and taxation. Accounting is very important work for each and every business because economic growth and success of the business can be reported by the accounting. All the businessmen want to know the real profit of the business which is necessary not only for them but for those persons also, who are trusting on that business because they are giving goods on credit and loan also. So the suppliers, lenders as well as the government all want to know the progress report of the business which is shown by the accounting. But it is not cleared by the saying of the businessman only, he will have to prove, for which taxation is helpful.

But there is too much confusion in the mind of businessman, for instance-

Should he keep correct accounting?

OR

Should he keep fake accounting?

If he keeps correct accounting-

In case of low profit there is no goodwill of the business in the market because solvency ratio will not be good.

In case of high profit there is problem of paying the high amount of tax.

If he keeps fake accounting-

He shows balanced profit and maintains goodwill of the business as well as saves himself from the high payment of tax.

Keeping these facts in the mind the main objectives of the research are-

- To study of the reality of accounting work of small scale business.
- To study of the rules and regulations followed by the small scale business for the accounting and taxation.
- To study of the actual tax liability of small scale business .
- To study of the fact that small scale business are paying actual amount of tax or not.

There are many problems of accounting and taxation in small scale business like-

- Billing for small items sale is not made, because of it the real turnover is not shown.
- In case of big sale, the purchaser does not want to take the bill to save the tax amount.
- U/S 44 AD of Income tax act there is no need of auditing and maintaining the books of accounting if turnover is not more than 1crore and 8% of turnover is deemed taxable income.
- There are many goods of small scale business which are tax free under VAT Act and if the dealer sales only these types of goods then registration under VAT Act is not compulsory.

There are two parts of taxation-

- Direct Tax
- Indirect Tax

Every businessman faces both the parts of taxation but limits are separate so the dealers are trapped by the government, for instance-

If any dealer who is below age of 60 years shows taxable income of Rs. 2,00,000/ using fake accounting then he will not have to pay any amount of income tax but goodwill of his business will be low in the market because of low earning.

Other side If he shows taxable income of Rs. 5,00,000/ to maintain goodwill of the business then he will have to pay Rs. 30,900/ as income tax for A.Y.2014-15 (Without cr.of Rs.2000) and if the rate of return is 10% then the turnover will be $5,00,000 \times 100 \div 10 = 50,00,000/$ and he will cross the limit of Rs. 5,00,000 under VAT Act and he will have to pay VAT @ 12.5%. It is other thing that he will get input credit if he purchased goods from registered dealers of the same state but if he purchased goods from unregistered dealers or dealers of other states he will not get any input credit and whole amount of tax he will have to bear.

In this way there are many problems in front of the dealer and he tries evasion of tax at any cost.

2. MATERIAL AND METHOD

Information has been sourced from random sample of 150 retailers. Questionnaire were distributed and collected and personal interview was taken. The study is based on primary data.

3. CLASSIFICATION AND TABULATION OF DATA

On the basis of collected information, following result abstracted:-

Table 1

	Particular of retailers	No	Percentage
A	Registered dealers	66	44
B	Dealers who have not enough capital	98	65.33
C	Dealers who want loan capital	104	69.33
D	Dealers who maintain accounts	68	45.33
E	Dealers who pay tax	53	35.33
F	Dealers who understand importance of accounting and taxation for business	49	32.67

Chart Presentation for Table 1

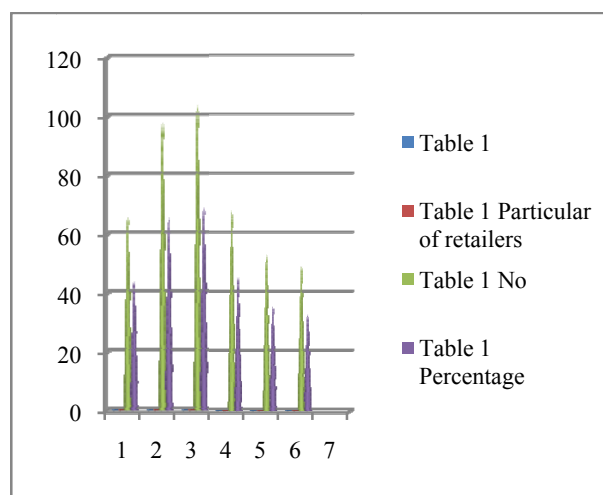
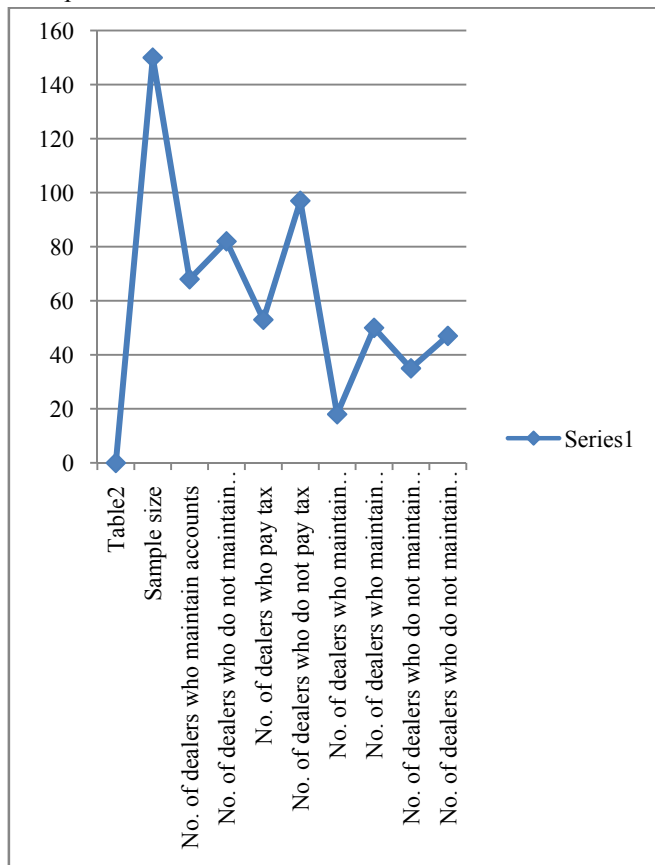


Table2

Sample size	150
No. of dealers who maintain accounts	68
No. of dealers who do not maintain accounts	82
No. of dealers who pay tax	53
No. of dealers who do not pay tax	97
No. of dealers who maintain accounts and pay tax	18
No. of dealers who maintain accounts but do not pay tax	50
No. of dealers who do not maintain accounts but pay tax	35
No. of dealers who do not maintain accounts and do not pay tax	47

Chart presentation for Table 2



4. INTERPRETATION OF DATA

On the basis of collected data the hypothesis test is as follows using “Chi-square” test.

Hypothesis:- “Retailers maintain accounting on the basis of reality and they pay fair amount of tax”

Test of hypothesis

On the basis of tabulation, actual data (fo)are as follows:-

Dealers Dealers	Who pay tax (B)	Who do not pay tax(b)	Total (N)
Who maintain account(A)	18 (AB)	50 (Ab)	68

Who do not maintain account (a)	35 (aB)	47 (ab)	82
Total (N)	53	97	150

Expected data (fe) are as follows

$AB = A \times B / N = 68 \times 53 / 150 = 24$

$aB = a \times B / N = 82 \times 53 / 150 = 29$

$Ab = A \times b / N = 68 \times 97 / 150 = 44$

$ab = a \times b / N = 82 \times 97 / 100 = 53$

Chi-square test table

Fo	Fe	(fo-fe)	(fo-fe) ²	(fo-fe) ² /fe
18	24	-6	36	1.5
50	44	6	36	0.82
35	29	6	36	1.24
47	53	-6	36	0.68
N = 150	N = 150			$\Sigma (fo-fe)^2/fe = 4.24$

d.f. = (c-1) (r-1) = (2-1) (2-1) = 1

For d.f. 1 Chi-square table value at 5% confidential level is 3.84

5. CONCLUSION

Calculated value of chi-square is 4.24 and table value for d.f. 1 at 5% confidential level is 3.84, so the hypothesis is wrong and it can be said that “Accounting work is not done on the basis of reality and fair & actual amount of tax is not paid by the “small scale business”

6. SUGGESTIONS

On the basis of above facts and problems following suggestions can be given-

- Retailers should complete their accounting work on the basis of reality so that clear picture of the business can be seen.
- Retailers should pay the actual amount of tax on the basis of real accounting so that they can maintain their goodwill.
- Accounts and Income tax return are useful to take loan so they should follow the rules and regulations of accounting and taxation.
- The government should make new plans and policies for the growth and success of small scale business.
- Retailers should adopt new plans and discount offers etc. to increase the sale and profit they should not adopt unfair ways to save money.
- There are many schemes of government for small scale businesses so retailers should adopt them for removing finance crisis.

- Accounting and taxation are grand pillars of success of any business and for getting finance, so retailers should follow it in correct way.

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