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Review Article

Accounting Challenges Faces by Indian Startups

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ABSTRACT

Indian startups have emerged as a major force in the country's economic growth, innovation, and employment generation. Despite rapid growth in the startup ecosystem, startups in India continue to face significant accounting and financial management challenges. Issues such as GST compliance, lack of accounting expertise, cash flow management, regulatory complexity, taxation, investor reporting, and financial transparency create operational difficulties for startup founders. This article examines the major accounting challenges faced by Indian startups and discusses possible solutions for improving financial governance and sustainability.

Keywords: Accounting; Startups; Financial Management; GST compliance, Regulatory complexity.

Introduction

India has become one of the largest startup ecosystems in the world due to increasing digitalization, government support, and entrepreneurial innovation. However, startups operate under uncertain business conditions and often struggle with financial management and accounting compliance. Research indicates that financial constraints, regulatory complexity, and weak accounting practices remain major barriers for startup sustainability [1].

Accounting plays a vital role in business decision-making, taxation, investor confidence, and long-term sustainability. Indian startups often prioritize growth and customer acquisition while ignoring accounting systems during the initial stages. As a result, many startups face difficulties related to compliance, bookkeeping, and financial reporting.

GST and Tax Compliance Challenges

One of the biggest accounting challenges for Indian startups is compliance with Goods and Services Tax (GST) regulations. Startups must regularly file GST

returns, maintain invoice records, reconcile input tax credits, and comply with changing tax rules. Many founders lack sufficient tax knowledge and depend heavily on external accountants or Chartered Accountants for compliance activities.

Research on Indian businesses has shown that GST compliance and digital payment accounting create significant operational pressure on small and medium enterprises [2]. Startups engaged in interstate transactions, SaaS services, or e-commerce operations face additional complexity due to multiple tax jurisdictions and reverse charge mechanisms.

Furthermore, delays in GST filing may result in penalties, blocked input tax credit, and legal notices from tax authorities. Early-stage startups often operate with limited staff, making it difficult to maintain timely compliance.

Lack of Professional Accounting Knowledge

Many startup founders come from technical or engineering backgrounds and may not possess

adequate accounting or financial management knowledge. Consequently, bookkeeping errors, incorrect financial classification, and poor budgeting practices become common.

According to studies on startup operational challenges, startups frequently face managerial inefficiencies due to lack of specialized expertise in finance and accounting [3]. Weak accounting systems reduce the quality of financial information available for strategic decision-making.

Improper accounting practices can also negatively impact investor confidence during funding rounds. Venture capitalists and angel investors typically evaluate financial records, revenue recognition policies, cash burn rates, and compliance history before investing in startups.

Cash Flow Management Problems

Cash flow management is another major challenge for Indian startups. Many startups focus on rapid expansion but fail to maintain sufficient working capital. Delayed customer payments, high operating costs, and irregular funding cycles often create liquidity problems.

Finance-related studies on startups in India reveal that inadequate financial planning and weak capital management significantly hinder startup growth and sustainability [4]. Startups with poor cash flow monitoring may struggle to pay employee salaries, vendor dues, taxes, and operational expenses on time.

In many cases, startups generate revenue growth but still fail because of negative cash flow positions. Proper accounting systems are essential for forecasting cash requirements, controlling expenses, and planning future investments.

Regulatory and Compliance Burden

Indian startups must comply with multiple legal and financial regulations, including Companies Act requirements, ROC filings, TDS compliance, labor laws, and audit obligations. Frequent regulatory changes increase compliance costs and administrative workload.

Research on startup vulnerabilities highlights that complex procedures, documentation requirements, and regulatory uncertainty continue to affect Indian startups [5]. Compliance-related failures can result in penalties, reputational damage, and legal disputes.

Corporate governance studies also suggest that weak internal financial controls and lack of transparency reduce startup credibility and long-term sustainability [6]. Many startups do not establish proper internal accounting systems during the early growth stage.

Difficulty in Adopting Accounting Standards

The adoption of Indian Accounting Standards (Ind-AS) and modern financial reporting frameworks presents another challenge for startups. While larger corporations may have dedicated finance teams, startups often lack trained professionals capable of implementing advanced accounting standards.

Research on Ind-AS implementation in India found that accounting professionals recognize both the benefits and difficulties associated with adopting international accounting standards [7]. Startups may struggle with fair value measurement, revenue recognition, lease accounting, and financial disclosures.

The cost of hiring qualified accountants and implementing accounting software further increases financial pressure on small startups.

Technology and Digital Accounting Challenges

Digital accounting tools and cloud-based accounting systems have become essential for startups. However, many startups face challenges related to software implementation, cybersecurity, data integration, and employee training.

Some startups continue using manual accounting systems or spreadsheets, increasing the risk of errors and fraud. Inadequate accounting technology also affects financial reporting accuracy and operational efficiency.

Modern accounting software such as Tally, Zoho Books, and QuickBooks can simplify compliance and bookkeeping processes. However, startups must invest in proper training and internal controls to maximize the benefits of digital accounting systems.

Investor Reporting and Financial Transparency

Indian startups seeking external funding are expected to maintain transparent financial statements and accurate reporting systems. Investors require detailed financial projections, valuation reports, expense tracking, and audit-ready financial statements.

Poor accounting records often create problems during due diligence processes. Startups with inconsistent bookkeeping or compliance gaps may face difficulties in securing venture capital funding.

Financial transparency is also important for maintaining trust among stakeholders, including employees, customers, regulators, and shareholders. Strong accounting systems improve accountability and corporate governance practices.

Possible Solutions and Recommendations

Indian startups can reduce accounting-related challenges through proactive financial management practices. First, startups should adopt cloud-based accounting software from the initial stage of operations. Digital systems improve accuracy, automate compliance tasks, and reduce manual errors.

Second, startups should hire qualified accountants or outsource accounting functions to professional firms. Early investment in proper bookkeeping and compliance management can prevent future legal and financial complications.

Third, founders should improve their financial literacy and understanding of taxation, budgeting, and cash flow management. Financial awareness enables better decision-making and sustainable business planning.

Fourth, the government can simplify startup compliance procedures and provide accounting support initiatives under Startup India programs. Reduced compliance burden can help startups focus more on innovation and growth.

Conclusion

Accounting challenges remain one of the most critical operational issues faced by Indian startups. Problems related to GST compliance, cash flow management, lack of financial expertise, regulatory burden, and weak accounting systems negatively affect startup sustainability and investor confidence. As the Indian startup ecosystem continues to expand, strong accounting practices and financial governance will become increasingly important.

Indian startups must prioritize financial transparency, compliance management, and modern accounting systems to achieve long-term success. Effective accounting practices not only improve operational efficiency but also strengthen investor trust, regulatory compliance, and business sustainability.

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Conflict of Interest

None declared.

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