

The Impact of Accounting Practices on Performance of Small and Medium Enterprises in Sri Lanka

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Abstract

This research aims to find out the effect of accounting practices on the performance of SMEs in the Rathnapura district in Sri Lanka. The SME sector has become a crucial segment in developing countries. Therefore it is essential to improve the growth of SMEs to gain sustainable development. Furthermore, Empirical results emphasized that better accounting practices lead to a higher chance of success and good record keeping. The types of records maintained could be correlated with business success on the one hand or the resistance to failure on the other. The researcher adopted a descriptive research design. The target population constitutes SMEs in Rathnapura District, which a representative sample was selected through a stratified random sampling technique and the selected sample was 225 SMEs in Rathnapura District. Descriptive statistics, correlation analysis, multiple regression methods were applied to analyze the data. The study was considered the challenges associated with SMEs' accounting practices, level of accounting knowledge, maintaining accounting records, and the impact on the financial performance of SMEs in preparing financial statements.

The study found out that accounting knowledge level, maintaining accounting records, and challenges associated with accounting practices had a significant influence on financial performance. In contrast, the influence of preparing financial statements had an insignificant influence. The results of the multiple regressions revealed that accounting practices had a significant influence on the financial performance of SMEs.

The study recommends that it should be ensured and increased education on the need for accounting practices in SMEs. This can be done through seminars, workshops, symposia, and other mediums to maintain proper accounting practices.

Key words: *SME, Accounting Practices, Financial Performance*