



Determinants of accounting practices of Small and Medium Enterprises (SMEs) in Sri Lanka

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ABSTRACT

Received: 04th March 2024

Revised: 22th October 2024

Accepted: 27th October 2024

Published: 11th December 2024

Keywords:

Accounting practices

Firm size

Government Regulations

Small and Medium Enterprises

Accounting practices are employed to generate accurate and timely financial statements for Small and Medium Enterprises (SMEs), facilitating the performance of accounting reports. However, the use of accounting practices in the SME sector cannot be widely seen in developing countries like Sri Lanka. Hence, this research aims to identify the factors that are affecting the accounting practices of SME in Sri Lanka. Researchers have mainly identified variables such as the firm's size, technology, level of education, and government regulations. The objective of this study is to identify the relationships among accounting practices and identified independent variables. A total of 100 respondents were selected through a convenient sampling technique and the data was collected through a questionnaire. The findings of the descriptive analysis, correlation and regression analysis confirmed that the level of education and firm size only impact the accounting practices of the SME in Sri Lanka. The researchers recommend that there is an increasing need to take necessary actions and policy formulations to enhance the literacy of SME owners, especially regarding the need to adhere to accounting practices in ensuring sustained business existence.

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1. Introduction

In Sri Lanka, SME sectors play an important role in many ways. It provides employment opportunities, contributes to the enhancements of GDP growth, introduces new goods and services, and further assists in many economic activities (Wijekoon, Sharma and Samkin, 2023). As a result, to ensure long-term development, many developing countries like Sri Lanka are using SMEs as a strategy to boost economic growth and the government needs to accelerate the expansion of the SME sector. The number of SMEs in Sri Lanka is rapidly expanding. In the context of SMEs, accounting practices are essential since accounting practices help SME

sector businesses to handle short-term issues such as costing for the period, spending for the year, and cash flow in the period. So, these accounting practices provide the information to aid and monitor SME management (Alvarez et al., 2021).

The SME sector has been identified as a critical strategic sector in Sri Lanka as mentioned earlier. It also provides the development of social factors. In past years, the SME sector has been identified as the major source for providing employment opportunities for the workforce in rural areas (Herath and Ramanayake, 2023). They reduce poverty in those areas and as a result, there can be seen a regional development (White Paper, 2002). The SME sector is also important in economic sector development. According to the Central Bank annual report in Sri Lanka, the government provides institutional support for the SME sector development. As mentioned by Asian Summit (2009), certain issues in the Sri Lankan SME sector have hindered the performance of the SMEs and there is a timely requirement to address these issues precisely.

The necessity for comprehensive research on the determinants of accounting practices among SMEs in Sri Lanka cannot be overstated. As the backbone of the economy, SMEs play a vital role in utilizing economic resources efficiently to achieve desired objectives (Prasanna, et al., 2021). However, their effective operation relies heavily on sound financial reporting systems to ensure transparency and accountability. Given the high demand for financial skills within the SME sector, identifying competent individuals to oversee financial services is quite essential, as stakeholders rely on SME financial statements to gather information and insights regarding business performance.

Against the backdrop of Sri Lanka's status as a developing nation, SMEs face a set of challenges. These challenges highlight the need for a deep understanding of local accounting methods and practices to effectively handle economic uncertainties. Therefore, investigating how financial procedures are utilized by SMEs in Sri Lanka and examining their impact on SME performance is a timely requirement. By examining the accounting methods followed among Sri Lankan small and medium businesses, researchers can be concerned about key determinants that shape business performance.

Accounting professionals' expertise is crucial in managing firm profitability, mitigating the threat of new entrants, and addressing uncertainties inherent in the SME sector. Through this research research, insights gained can inform policymakers, business owners, and stakeholders alike, facilitating informed decision-making and ensuring sustainable growth within the SMEs in Sri Lanka. Thus, researching the determinants of accounting practices among SMEs in Sri Lanka holds immense significance in enhancing the resilience and competitiveness of this vital sector in the Sri Lankan Economy.

Research problem

SMEs can be primarily found in Sri Lankan rural areas, and they begin with little skills, capital, and expertise (Prasanna, et al., 2021). Owners of SME, on the other hand, are more likely to take a risk and start their firm, which, in the long run, opens up new prospects for business expansion and contributes to the Sri Lankan

economy. Small and medium-sized businesses are less likely to spend money on accounting services, so they typically hire one person to handle all the accounting work, which includes recording transactions, preparing a balance sheet, financial reports, management accounts, and providing information to owners and other parties (Kipsang & Mwangi, 2016). Small and medium-sized businesses' financial performance is being harmed as a result of this behavior.

Qualified accountants and accounting services can help to minimize failures, and challenges, and attract new prospects. According to Athapattththu & Nishantha (2018), most SMEs in Sri Lanka suffer obstacles and missed chances in the market due to a lack of financial health information and financial service misdirection. Most SMEs believe that implementing proper accounting practices by IFRS is costly, complex, and difficult to implement due to a lack of direction, competent people resources, and insufficient materials. As a result, there is a low level of adoption of proper accounting service providers in Sri Lanka (Jariya & Haleem, 2021).

Due to a shortage of accounting service providers for small and medium businesses, issues such as lack of economic sales identification, insufficient information to make better investment and funding decisions, difficulty in dealing with market competition, industry instability, and a lack of financial resources to make investments arise. Small and medium businesses also miss out on possibilities to diversify financing channels, implement credit guarantee programs, borrow funds from special bank facilities, conduct credit risk studies, uncover tax savings, and take advantage of incentives (Yoshino & Hesary, 2016). In addressing these gaps, this research intends to investigate “the factors that determine the accounting practices of small and medium enterprises in Sri Lanka”.

Research questions

What are the determinants of accounting practices of small and medium enterprises in Sri Lanka?

Are there any significant differences among sectors in small and medium enterprises in Sri Lanka in terms of accounting practices?

Research objectives

To investigate the determinants of accounting practices of small and medium enterprises in Sri Lanka.

To identify whether there is a significant difference among sectors in small and medium enterprises in Sri Lanka in terms of accounting practices.

Research Scope

The study examined the accounting practices used by SMEs in Sri Lanka. SMEs can be classified as restaurant, soap and detergent firms, water bottling firms, textiles, computer software firms, wood and leather firms, consulting firms, mills, making accessories, making innovative items. In this research, the main focus is SME sector companies in the Southern and Western districts. In this study, primary and secondary data were used, and the primary data were collected from the questionnaire while secondary data was collected from the research articles, annual reports, and other reports such as central bank reports and websites. All

the primary data were analyzed using the SPSS software.

Significance of the research

This study examines the amount to which Sri Lankan SME sectors have accepted accounting methods. Second, this study looks at the external factors that influence the acceptance of accounting methods by SME sector companies in Sri Lanka. The findings of this research are expected to aid SMEs, external accountants/auditors, policymakers, and academics by providing information on the progress and factors affecting the implementation of accounting procedures in the Sri Lankan SME sector. This study is intended to pave the way for future studies in the fields of management accounting, organizational design, and SME performance, particularly in developing nations like Sri Lanka. Further, this research is also helpful for future researchers in conducting their research and in developing the literature review to identify the factors affecting accounting practices on SMEs and their relationships.

2. Literature Review

Accounting Practices of SMEs in Sri Lanka

Accounting tools are used for the effective decision-making process in any firm. It delivers a mechanism for collecting and arranging statistics about numerous business activities in an organized manner so that it may be used by management to help run the company. Wijewardana, (2018) emphasizes the significance of keeping accurate records of accounts since it allows small firms to make informed decisions. SMEs use accounting data to forecast purchases and sales, estimate break-even points, and do a variety of other financial studies. According to the report, an absence of good accounting reports has resulted in the liquidation of certain industries, by making it a major issue for corporate success (Amoako, 2013).

According to some studies, the high rate of failure among SMEs can be ascribed to the weak accounting procedures used by these businesses (Okoli, 2011). Accounting systems play a key role in determining the growth of business profitability and as a result, SMEs need to have better accounting systems. So, the SME can determine the sales volume for some time, profits and loss for the year, assets, and liabilities. Hence the firm can enhance the growth of the firm.

Level of education

The level of education of SME owners is critical when deciding what accounting practices are useful for the SME (Armitage et al., 2016). As mentioned by Neneh (2018), the level of education impacts accounting practices and firm performance. Andersen & Samuelsson (2016) represent that manufacturing sector SMEs are developing with the new knowledge of education.

According to Azudin & Mansor, (2018), if the firm is not using the level of education in the SME it will contribute to the challenge when using accounting practices. According to the study by Yeboah (2015 and Kefasi, 2019), SME sector accounting practices have a huge link with the level of education. Ng & Kee (2019) also mentioned

that experience and knowledge of accounting practices are equally important when it comes to the SME sector. The SME sector is also requiring the necessary experience for the implementation of accounting practices (Lampadarios, 2016). According to the study of Baporikar et al.(2016), manufacturing sector SMEs are increasing their performance in the globally competitive sectors. The manager's educational background and rank in the company are determined by his or her educational level. Micro and small business owners and managers require the appropriate education and skills to compete in the marketplace (Gunasekaran et al., 2000; Karadag, 2017). A greater education offers firm owners and managers more knowledge of numerous business techniques that are beneficial to corporate performance.

According to Kipsang and Mwangi (2017), the degree of education has a substantial impact on the accounting practices of small and micro firms in Kenya. Osim, Umoffong & Goddymkpa, (2020) and Kahsay and Zeleke (2019) found that education level has a substantial impact on micro and small business accounting methods. As mentioned by Kirsten, Vermaak, & Wolmarans (2015), Accountants are professionals who provide accounting, management, and advising services. Management accountants and accounting practitioners are mainly familiar with the wide range of firms that need various services and they have the knowledge and abilities to assist the firm managers to attain the firm objectives of maximizing profit. The majority of the SME sector is not using these services to make accounting records (Carey, 2015; Fagbemi & Olaoye, 2016).

SME sector is not using these accounting practices due to the lack of financial resources since the costs for accounting practices are higher than the other expenses in the SME (Cherry, 2016; Maziriri, Mapuranga & Madinga, 2017) Also, a study conducted by Carey (2015) discovered that accounting practices are highly reliable by many organizations, particularly SMEs, in the America, United Kingdom, Australia, Europe because they deliver high-value advise. Due to a lack of resources, the owner takes on tasks that must be performed by the accounting practices They are which raises concerns about the quality and dependability of the evidence provided by the firm (Nandan, 2010). According to Kirsten, Vermaak, & Wolmarans, (2015), manufacturing SME proprietors lack accounting skills and the knowledge of how to run a business. Because of this, they end up with unclear facts, which have an impact on the firm decision-making process. Furthermore, a business owner's decisions have a direct impact on the SME sector's performance, and this phase necessitates the acquisition of specific knowledge and abilities.

Technology

Technology is also one of the most crucial parts of acquiring a competitive advantage for the SME. They allow the SME to speed up the firm's process (Ahmad & Mohamed, 2015; Jamil et al., 2015). As mentioned by the study of Amara & Benelifa (2017) and Pillay, (2016) SMEs are increasing the use of technologies as a tool to activate or promote production. When using the technology, they can integrate the communication from many functions inside the firm and provide flexible functions for the firm. In the global development market, technology plays a huge role in SMEs as it can be used to maintain a competitive advantage over other firms (Karadag 2015).

Manufacturing SME firms have a low acceptance rate of accounting practices, according to Karadag (2015), due to an absence of technology use that prohibited the SME from promoting lower production costs. Lack of formal and informal education, according to Yeboah (2015), is a factor in the failure to accept newer or contemporary technologies. In contrast to Durban, South Africa, medium-sized businesses in America were more aware of current technologies than small businesses (Bharati & Chaudhury, 2015). As a result, in developing countries, SMEs are still lagging when it comes to the adoption of current technologies and applications for accounting procedures (Giotopolos et al., 2017). If the firm is using complex accounting practices, they require advanced accounting technology software that can be used for fast and easy accounting record keeping. Then it can be useful for the SME in increasing the firm profits. The using of technological accounting practices is also increasing the size and infrastructure of the company (Schneider, 2015).

Firm size

An SME's size is determined by various criteria; number of employees, turnover, organization capital, and annual sales (Tuanmat & Smith, 2011). According to the study conducted by Ahamd, (2012), he used 110 manufacturing companies to find the relationship among the firm size and accounting practices. He revealed that large companies show a link between firm size and accounting practices. He also revealed that large companies need more use of accounting practices than SMEs. The growth in net assets is a measure of the firm's size. The firm's size can represent its long-term viability as well as its ability to support its operations and goals. The company's complexity may be reflected in its size. The more resources available and the more complicated the company's operations are, the more formal accounting methods are likely to be required.

Because current MAPs are sophisticated for Egyptian manufacturing enterprises, Ismail and Mahmoud (2012) found that just a few manufacturing firms have implemented modern MAPs. The majority of Egyptian firms prefer to use traditional accounting practice procedures since they are easy to understand and clear to use. The level of accounting practices usage and the reason for using these accounting practices depends on the nature and the size of the SME as mentioned by the Mbawuni & Anertey (2014) research which is conducted by using the Ghanaian telecommunication enterprises in Egypt. Padachi (2012) showed that the magnitude of the assets affects the likelihood of formal accounting records being kept. According to Ahmad & Zabri (2015) and Wu & Boateng (2010), the size of a company as measured by total capital has a considerable impact on accounting practice.

A similar study conducted by Lee (2019) discovered that there is an impact of the firm size on the SME profitability that operated in the United States of America in the financial years of 1987 to 2006. Karadag (2017) discovered that the age of a firm has a substantial impact on its accounting practices in a study of small and medium enterprises in Turkey. Kahsay and Zeleke (2019) found that the age of the firm has a substantial impact on the accounting recordkeeping of micro and small businesses in Debra Birhan, Ethiopia.

Government regulations

There are a variety of tools in OECD Member nations' regulatory regimes that have direct discriminatory effects on SMEs, as well as those that have indirect effects. The latter is frequently the result of regulatory structures designed in the image of giant corporations, which promote economies of scale and stability above adaptability. More broadly, SMEs are frequently burdened disproportionately in complying with a variety of rules, and the cumulative stress of regulatory requirements can cause the failure of business, due to their limited ability to cover the fixed costs of compliance (Bharati & Chaudhury, 2015). For the reason that SMEs play a significant character in economic evolution, create a huge percentage of gross domestic product and create net new jobs opportunities, contribute significantly to innovation, besides play a significant economic development role in rural zones, negative regulatory impacts on smaller businesses can be particularly detrimental (Amara & Benelifa, 2017). The most onerous obstacles that SMEs confront include high compliance expenses, vast and difficult paperwork, and economic regulations that prohibit some activities. Because they have less available capital than larger enterprises, smaller businesses have less capacity to absorb useless expenses. They also have fewer managerial resources to dedicate to administrative tasks. As mentioned by Lee, (2007), a firm's ability to attain long-term achievements in these emerging economies also depends on political and governmental ties. By using strong political and governmental contact, SME sector managers may able to develop a sustainable competitive advantage market (Lee & Wang, 2017).

3. Research Methodology

Research Paradigm, approach

This study tries to look at whether accounting practices have an impact on SMEs' success. By using many approaches, the study is identifying the relationship among the variable using positivist approach. Positivism is an approach that consider the researcher to analyze large amount of data by developing the hypothesis to be tested. This approach is highly structured and allow the replication of same study conducted by future researcher.

Many of the articles such as conducted in Ethiopia, Kenya, and Nigeria which is representing in the second chapter mentioned that the positivisms approach has been followed to identify the relationship among each hypothesis. Therefore, the dominant strategy that can be used for this area of study is identified as the positivism approach.

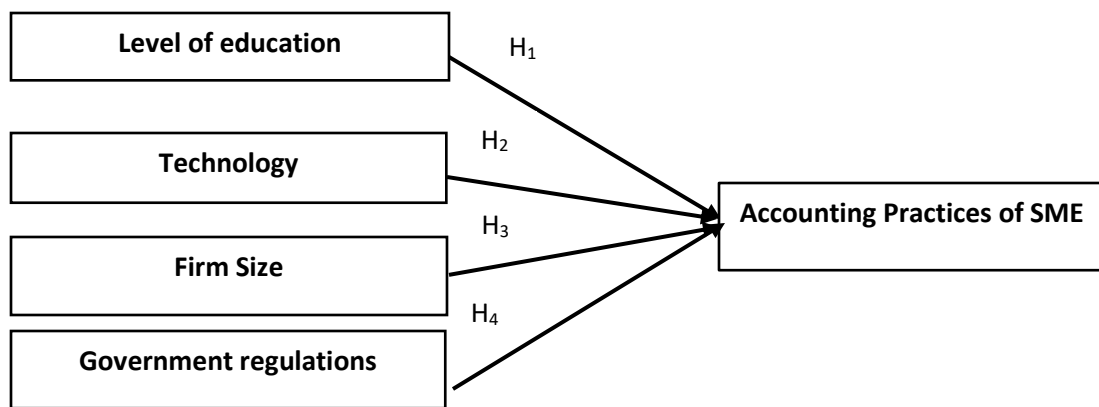
Hypothesis development

H₁: Level of education is impact on accounting practices of SME

H₂: Technology is impacting on accounting practices of SME

H₃: Firm size impact on accounting practices of SME

H₄: Government regulations impact on accounting practices of SME

Conceptual framework**Figure 1: Conceptual framework****Population**

The entire set of people, situations, or objects with certain observable qualities is the population for this study. Managers and owners of Sri Lankan SMEs were among the participants in the survey.

Sampling technique

A sample is a subset of the target population which has been systematically chosen to represent it. Sri Lanka was chosen as the study's subject. The target demographic consists of owners and managers of various Small and Medium Businesses who were chosen for categorization using random sampling procedures. Convenient sampling procedures were used to pick the respondents. Convenience sampling is an easy and lower-cost method that can be used when collecting the data.

Sample size

The sample size of an empirical study whose purpose is to make population conclusions is an important element. The researcher chose small and large companies in the Galle and Colombo districts to acquire the sample size. Using the Morgan table, a total of 242 respondents were chosen. However, for the researcher's convenience, 100 samples were selected from the all population.

Data Collection Procedures

Because this was an original study, the data source was primary. As previously stated, the major instrument for gathering data was a closed-ended questionnaire for Small and Medium Enterprise managers and employees. The researcher and the respondents worked out an opportune time for administering the questionnaire. The researcher assisted in the gathering process as well as the administration of the questionnaire. The entire

exercise lasted one month, and some of the responders were unable to participate owing to company operations.

Data processing and analyzing tool

The data was analyzed quantitatively using Social Science statistical software. Before beginning the analytic process, the researcher edits, categorizes, and codes the data appropriately. Following that, the data is fed into a computer via statistical software for a Social Science application.

4. Analysis and Discussion

Demographics

The goal of this part is to collect demographic data to determine the character of the respondents and the factors that affect their accounting practices. This was based on their gender, age, SME Sectors, as well as respondent professional and academic credentials. This information identifies whether the target population has segments. It contributes to the creation of a clear and ideal picture of each sector and demographic factors such as gender, education, portion, form of the business, employees, and yearly profit.

Table 1: Demographic Profile

Variable	Frequency (<i>n</i>)	Percentage (%)
<i>Province</i>		
Southern Province	79	79.00
Western Province	21	21.00
<i>Gender</i>		
Male	59	59.00
Female	41	41.00
<i>Education</i>		
Upto G.C.E O/L	1	1.00
Passed G.C.E A/L	36	36.00
Undergraduate	17	17.00
University Diploma/Degree	40	40.00
Post-graduate	6	6.00
<i>Position</i>		
Founder	44	44.00
CEO	12	12.00
Manager	44	44.00

<i>Form of the Business</i>		
Sole Proprietorship	51	51.00
Partnership	20	20.00
Company	29	29.00
<i>Business Sector</i>		
Agriculture	4	4.00
Manufacturing	23	23.00
Trading	27	27.00
Service	46	46.00
<i>Yearly Profit</i>		
Below 49,999	15	15.00
50,000 – 99,999	12	12.00
100,000 – 149,999	28	28.00
150,000 - 199,999	45	45.00
<i>Number of Employee</i>		
Less than 20	44	44.00
20-50	30	30.00
51-100	26	26.00

The demographic profile table outlines characteristics of respondents by region, gender, education, position, business structure, sector, annual profit, and workforce size. Most respondents (79%) are based in the Southern Province, while 21% are from the Western Province, with 59% identifying as male and 41% as female. Educational attainment varies, with 1% completing only up to G.C.E. O/L, 36% having passed G.C.E. A/L, 17% currently as undergraduates, 40% holding a diploma or degree, and 6% with postgraduate qualifications. Position-wise, respondents are evenly split between founders (44%) and managers (44%), with CEOs comprising 12%. Business structure shows a predominance of sole proprietorships (51%), followed by companies (29%) and partnerships (20%). In terms of sector, 46% operate in services, 27% in trading, 23% in manufacturing, and 4% in agriculture. Profits vary, with most businesses (45%) earning between Rs. 150,000 and Rs. 199,999 annually, while 28% fall between Rs. 100,000 and Rs. 149,999, and smaller proportions earn less. Regarding workforce, 44% have fewer than 20 employees, 30% have between 20 and 50, and 26% employ 51 to 100 people, reflecting a range of business sizes and structures among the respondents.

Knowledge regarding accounting practices

As shown in the Table 01, most of the respondents had accounting knowledge due to their schooling level, they had basic accounting knowledge. This is good for the organization because a sizable portion of owner-managers have basic knowledge of accounting practices. Then owner and manager can find out whether the business is loss-making or profit-making. It will affect the positive way to organizational performance as well.

Table 2: Awareness of Accounting Practices

		Percent
Valid	Yes	86
	No	14
	Total	100

Source: Author calculation using SPSS Software

This table summarizes respondents' awareness of accounting practices. Out of 100 respondents, 86% indicated they are aware of accounting practices, while 14% stated they are not. This shows that the vast majority of respondents (86%) have awareness of accounting practices, suggesting that accounting knowledge is common among this group.

Usage of accounting system

Table 3: Accounting System Usage

		Percent
Valid	Yes	13
	No	87
	Total	100

Source: Author calculation using SPSS Software

Despite knowing some accounting practices, the majority of SMEs do not use an accounting system, as seen in the table. They refuse to build an accounting system within the firm due to a lack of capitalization and skill in accounting systems, as well as the company's size. They believe it will increase the company's costs.

Descriptive statistic

Table 4: Descriptive statistics

Descriptive Statistics										
	N	Mini mu m	Maxi mu m	Mean	Std. Erro r	Std. Deviati on	Skewness	Kurtosis		
	Statisti c	Stati stic	Stati stic	Stati stic	Stati stic	Statisti c	Statist ic	Std. Error	Statis tic	Std. Error
Total Average Level of Education	100	1	5	3.91	.084	.842	-1.070	.241	1.460	.478
Total Average Technology	100	1	5	3.77	.089	.887	-1.469	.241	1.594	.478
Total Average Firm Size	100	1	5	3.77	.086	.860	-1.268	.241	.868	.478

Total Average Government Regulation	100	1	5	3.30	.080	.797	-.095	.241	-.495	.478
Total Average Accounting Practices	100	2	5	3.72	.068	.682	-1.529	.241	2.692	.478
Valid (listwise)	N 100									

Internal consistency Reliability

Table 5: Cronbach`s Alpha

	Cronbach`s Alpha
Technology	0.914
Level of Education	0.900
Government Regulation	0.902
Firm Size	0.898
Accounting Practices	0.932

Internal consistency reliability is assessed using "Cronbach's alpha" in a social science research. However it typically provides a traditional assessment in the PLS-SEM. According to earlier research, "Composite Reliability" could be used as a replacement (Bagozzi & Yi, 1988; Hair et al., 2012). Above table Cronbach`s Alpha is higher than 0.7. So, all the variables have proven a higher degree of internal consistency reliability.

Difference among sectors in small and medium enterprises in Sri Lanka in terms of accounting practices

Table 6: ANOVA

ANOVA						
Total Average Accounting Practices						
	Sum of Squares	df	Mean Square	F	Sig.	
Between Groups	3.482	4	.870	1.946	.109	
Within Groups	42.506	95	.447			
Total	45.988	99				

Source: Author calculation using SPSS software

Table 7: Ad hoc result**Multiple Comparisons**

Dependent Variable: Total Average Accounting Practices
Tukey HSD

Business sector	Business sector	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Agriculture	Manufacturing	.414	.364	.668	-.54	1.37
	Trading	.027	.360	1.000	-.92	.97
	Service	.336	.351	.774	-.58	1.25
Manufacturing	Agriculture	-.414	.364	.668	-1.37	.54
	Trading	-.387	.191	.185	-.89	.11
	Service	-.078	.172	.968	-.53	.37
Trading	Agriculture	-.027	.360	1.000	-.97	.92
	Manufacturing	.387	.191	.185	-.11	.89
	Service	.309	.163	.237	-.12	.74
Service	Agriculture	-.336	.351	.774	-1.25	.58
	Manufacturing	.078	.172	.968	-.37	.53
	Trading	-.309	.163	.237	-.74	.12

The above table represents that the difference between each pair of business sectors of SME. It includes 95% confidence interval levels for all mean differences. Only the trading sector has a < 0.05 . If we take a good look at the 2 tailed significant values, it can be seen that there are all greater than 0.01. Hence, there is not significant difference among the SME sector and accounting practices.

5. Conclusion

This research mainly focuses on the relationship between accounting practices and independent variables which are impact on accounting practices. For the collection of the data, researchers used primary and secondary data, and the SPSS software was used for the analyzing. Researchers first analyze the reliability and validity test. The structured model represents the relationship between accounting practices and dependent variables. Therefore, only two variables namely, technology and government regulations do not represent the relationship with the accounting practices and level of education and firm size is highly significant with the accounting practices of SME.

H₁: Level of education is impact on accounting practices of SME

The current research representing that level of education is impact on the accounting practices, which are used by SME. These also proved by many researchers. As Neneh (2018) points out, the amount of education has an impact on accounting methods and corporate performance. According to Andersen & Samuelsson (2016), manufacturing SME are developing with new educational knowledge.

According to Azudin & Mansor (2018), if the firm does not use the level of education in the SME, it will make adopting accounting methods more difficult. According to Yeboah (2015 and Omsa et al., (2018), the level of

education has a significant impact on SME sector accounting methods. Ng & Kee (2018) is also mentioned that experience and knowledge of accounting practices is equally important when it comes to the SME sector. Hence, it can be concluded that, findings of the research is valid and appropriate for the SME sector.

H₂: Technology is impact on accounting practices of SME

According to the current research practices, there is no impact of technology for accounting practices. But, previous researchers has proved that, there is a link between technology and SME accounting practices. According to studies by Amara & Benelifa (2017) and Pillay (2016), SMEs are increasingly adopting technology to activate or advertise their productions. Karadag (2015) is mentioned that because the SME was unable to benefit from lower manufacturing costs owing to a lack of technological application and hence there is a relationship between the two variables.

H₃: Firm size is impact on accounting practices of SME

Ahamd (2012) also discovered that large corporations require more accounting practices than SMEs. According to Anertey (2014) and Padachi (2012), the size of the assets has an impact on the likelihood of formal accounting records being retained. The size of a firm as measured by total capital, according to Ahmad & Zabri (2015) and Wu & Boateng (2010), has a significant impact on accounting practice.

In a study of small and medium firms in Turkey, Karadag (2017) discovered that a firm's age has a significant impact on its accounting methods. Kahsay and Zeleke (2019) discovered that the age of the firm has a significant impact on the accounting recordkeeping of micro and small companies. Hence it can be concluded that the findings of the research are valid and appropriate for the SME sector.

H₄: Government regulations impact on accounting practices of SME

There is no impact of government regulations on accounting practices, according to current research practices. Previous studies have shown, however, that there is a link between government regulations and SME accounting practices. Governments in various countries assist SMEs in a variety of ways. Tax benefits, credit facilities, social development support, and financial development are only a few examples (Storey & Tether, 1998). The government's financial assistance encourages SMEs to develop their businesses globally. As a result, they can improve their performance and contribute to significant economic growth, as demonstrated by Clement and Lee's research (2007). As Lee (2007) points out, a firm's capacity to achieve long-term success in these emerging economies is also influenced by political and governmental ties. SME sector managers may be able to expand in a durable competitive advantage market by utilizing strong political and governmental contacts and hence Li, Meng, Wang, & Zhou, (2008) proved that there is an impact of government regulations on accounting practices.

Implications for future researchers and managers

The findings of the research are significant for SME sector managers in identifying the best use of accounting practices. The findings also can be used by the management accountant and the other interested parties to get a thorough knowledge of accounting practices in developing countries like Sri Lanka. Further, the findings of the research can also serve as a foundation for government decision-makers to encourage SMEs to use accounting practices to help them in conducting their accounting practices. As well as SME entrepreneurs can become more professional in managing their accounts by using better accounting practices.

Recommendations

Based on the above-mentioned objectives of the research, the researcher has mentioned the following recommendations.

The empirical studies mentioned that the level of education has an impact on the accounting practices of SMEs. Accounting practices in SMEs are more sustainable when using high education of accounting practices. As a result, the SMEs need to have more practice knowledge of accounting practices.

Early adoption of accounting practices can aid them in identifying the accounting process that will meet adequate firm's demand. According to the research, the SME sector needs to analyze the firm age. In addition, regardless of the firm size, the SME needs to use accounting practices.

SMEs need to spend heavily on technological systems that facilitate the implementation of accounting practices to benefit and maximize the use of accounting procedures. As a result, firms can take a competitive advantage over their competition.

It is suggested that the government needs to provide the best financial support for SME sector development through government business incubators and subsidies. As a result, the government needs to offer services to meet specific demands. Checkups need to be done as soon as possible after support has been given.

Competing internet : The authors declare no competing interests.

Acknowledgements: The authors would like to acknowledge peer reviewers for their useful comments on the earlier version of the paper.

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