

**Selected Accounting and Financial Management Practices
of Small and Medium Enterprises (SMEs) in Sri Lanka**

By

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M.Sc. Program

Year 2014



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A thesis submitted to the University of Sri Jayewardenepura
in partial fulfillment of the requirements for the Degree of
Master of Science in Management on 31st of January 2014

“The work described in this thesis was carried out by me under the supervision of Dr. A.A.J. Fernando and a report on this has not been submitted in whole or in part to any University or any other institution for another Degree/Diploma”.



Uggalla Arachchige Hashika Aroshini Rathnasiri

Date: 07/07/2014

“I certify that the above statement made by the candidate is true and that this thesis is suitable for submission to the University for the purpose of evaluation”.

A handwritten signature in black ink, appearing to be 'A.A.J. Fernando', with a large, sweeping loop at the top.

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List of Abbreviations

IFRS	International Financial Reporting Standards
CSSI	Cottage and Small Scale Industries
MIC	Ministry of Industry and Commerce
NEDA	National Enterprise Development Authority
TDF	Technology Development Fund
TF	Task Force
DS	Divisional Secretaries
QLFS	Quarterly Labour Force Survey
DCS	Department of Census & Statistics
CED	Committee of Economic Development
SBA	Small Business Administration
CBSL	Central Bank of Sri Lanka
DSI	Department of Small Industries
SLSI	Sri Lanka Standards Institution
IDB	Industrial Development Board of Ceylon
FCCISL	Federation of Chambers of Commerce and Industry of Sri Lanka
CNCI	Ceylon National Chamber of Industries
SLEDB	Sri Lanka Export Development Board
SMEPU	SME Policy Unit
SMEA	SME Authority
BDS	Business Development Service
IFAC	International Federation of Accountants
IFC	International Finance Corporation
USAID	United States Agency for International Development
JICA	Japan International Cooperation Agency

ADB	Asian Development Bank
UNIDO	United Nations Industrial Development Organization
EIED	Employment Investment and Enterprise Development Division
EDB	Export Development Board
ITI	Industrial Technology Institute
SMI	Small and Medium Institutions
CISIR	Ceylon Institute of Scientific and Industrial Research
SLECIC	Sri Lanka Export Credit Insurance Corporation
ICT	Information and Communication Technology

Acknowledgements

First and foremost I would like to express my sincere gratitude to my supervisor Dr. A.A.J. Fernando, Senior Lecturer, Faculty of Management Studies and Commerce, University of Sri Jayewardenepura, for his thoughtful guidance, invaluable expertise, intellectual support and encouragement throughout the period of my study. His wide knowledge and logical way of thinking have provided a good basis for the thesis. Sir, I am grateful in every possible way and hope to keep up our collaboration in the future.

I also grateful to Professor. K.D. Gunawardana for giving us comprehensive knowledge on research methodology. I am especially grateful to the course coordinator Dr. J.P. Kumarasinghe, former coordinator of the M.Sc program and all the lecturers who guided me in various ways to make me success in the academic journey.

I should express my heartfelt thanks to Mr. L. Thrimawithana, Assistant Director (Policy), National Enterprise Development Authority for guiding me to access the SME databases maintained by Ministry of Industry and Commerce and also Mr. Saminda, Executive officer (Technical Division), Industrial Development Board paves the path to access the IDB library facilities, who gave me tremendous support in my data collection process. Also I am thankful for all the SME owner/mangers who gave me the information within their busy schedules.

I would like to acknowledge my parents, my husband and my daughter, without whose support, encouragement, understanding and patience this task would be a burden to me. Especially my mother and husband for caring my daughter, while I was at the write up

stage of the thesis. Thanks for your commitment and dedication, really this is an outcome of your caring support.

Finally I would like to thank all the others who supported me in various ways but could not able to thank individually.

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ABSTRACT

This research is attempted to explore whether and to what extent Sri Lankan Small and medium enterprises (SMEs) adopt accounting and financial management practices and how such practices are incorporated with prevailing information systems and financial reporting practices. Determining the population of SMEs in Sri Lanka is imprecise. Considering the number of establishments, availability of data, time constraints etc the researcher selected the target sample of 60 SMEs which are registered in the Ministry of Industry and Commerce (MIC) within the period of year 2008 to 2013, operating their businesses in the manufacturing sector and the study is limited to the western province in Sri Lanka. A questionnaire was chosen as a data collection instrument. The sample has collected by using disproportionate stratified random sampling design by using Statistical Package for Social Science (SPSS) software (PASW 18). Data was not normally distributed, non-parametric statistical tests were conducted. Calculations of averages, frequency distribution, cross tabulations and percentage distribution used as the tools of descriptive analysis. In addition to the descriptive measurements, a non-parametric Kruskal-Wallis test and Mann Whitney U test were used to test the hypothesized relationships.

Analysis of the study reveals that SMEs pay more consideration in preparation and monitoring of three components of financial statements balance sheet, statement of profit and loss account and cash flow statement. Thus Sri Lankan SMEs prepare the reports

which help the owner/managers to control the financial position and performance of the business. Results demonstrated that the highest importance is placed on preparation and monitoring of cash flows of the businesses which is critical to the success and survival of SMEs. But most of the SMEs have maintained the informal accounting systems and lack of comprehensive set of financial reports. Also study noted that low level of adoption of working capital management practices among Sri Lankan SMEs. Due to the uncertainty of the Sri Lankan business environment, SMEs should maintain up to date accounting and financial information for decision making.

Results of non parametric tests revealed that legal form, size of the business based on number of employees, education background of owner/manager, leverage of the business are the variables which showed significant difference in adoption of accounting and financial management tools and techniques. However, the variables of number of operative years under existing management and the location of the business were not determining significant differences in adoption of accounting and financial management tools and techniques. These findings suggested that SMEs should highly regard accounting and financial management practices as one of the tools to improve the performance.

Also it is recommended policy makers to consider SMEs under a single ministry and stipulate specific, consistent policy focusing on the development of the sector addressing the core constraints inhibiting the growth of the sector. Further educating SME owner/managers about the importance of prudent accounting and financial management practices for the long term success and survival is vital.

Keywords: *Small and medium enterprises, accounting and financial management practices, Sri Lanka, MIC*