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## Financial Accounting Practices and Financial Performance of Small and Medium Enterprises in Sri Lanka

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**ABSTRACT:** *Small and Medium Enterprises (SMEs) significantly contribute to the Sri Lankan economy, particularly in the Northern Province. This study investigates the effects of financial accounting practices on financial performance, focusing on maintaining accounting records, financial reporting & analyzing practices, accounting information systems, Budgeting Practices, and Working Capital Management practices. Data were collected through a self-administered questionnaire from 500 SMEs operating in the Northern Province using a random sampling method. Descriptive and inferential statistics, such as Pearson correlation and multiple regression analyses, were used to analyse the data using the SPSS package. The analysis reveals a positive impact of financial accounting practices on SMEs' financial performance. The findings suggest that robust financial reporting and efficient capital management enhance business performance. These results provide policymakers with insights to support SMEs through improved financial training and frameworks.*

**Keywords:** SME Enterprises, Financial Accounting Practices, Accounting Information Systems, Working Capital Management Practices, Budgeting Practices, Financial Performance

## Introduction

Small and Medium Enterprises (SMEs) are recognized globally as key drivers of economic growth, employment, and innovation, and Sri Lanka is no exception. They contribute over 75% of all enterprises and nearly half of total employment, thereby playing a crucial role in GDP growth and regional development (National Policy Framework, 2016). With relatively low investment requirements, SMEs provide significant social and economic benefits across agriculture, manufacturing, construction, services, and trading sectors (Rathnasiri, 2014; Gamage, 2004). In the Northern Province, their importance is heightened by their role in post-conflict recovery and regional economic resilience.

Yet, sustaining this contribution requires more than entrepreneurial spirit. The long-term survival and competitiveness of SMEs depend heavily on financial management capacity. Accounting practices provide the foundation for business success by generating reliable information for decision-making, performance evaluation, and compliance (Maseko et al., 2011). Proper record-keeping ensures that transactions are identified, classified, and reported systematically, while financial reporting translates this information into insights for internal managers and external stakeholders (Abdul-Rahamon & Adejare, 2014). Budgeting and working capital management, meanwhile, guide resource allocation, liquidity maintenance, and cost control, enabling SMEs to meet obligations and achieve growth targets.

However, accounting practices gain meaning only when linked to financial performance—the ultimate measure of business viability. For SMEs, financial performance can be assessed through indicators such as profitability ratios (net profit margin, return on assets, return on equity), liquidity measures (current and quick ratios), sales and revenue growth, solvency ratios, and cash flow position (Tanveer et al., 2016; Ukko et al., 2019). These metrics reflect not only SMEs' ability to generate income but also their efficiency in resource utilisation, their capacity to remain solvent, and their readiness to secure financing. Research has shown that weak accounting systems hinder SMEs' ability to effectively track and report such indicators, thereby limiting their access to credit and external investment (Reed, 2021; Hussain & Stanikzai, 2022).

In Sri Lanka, evidence suggests that SMEs often adopt accounting practices primarily to meet statutory obligations rather than to evaluate business performance (Rathnasiri, 2014). This gap undermines their ability to systematically measure financial outcomes and respond to challenges such as competition, inflation, and policy changes. Consequently, there is an urgent need to examine how SMEs in the Northern Province adopt financial accounting practices and how these practices influence key financial performance outcomes.

This study contributes by explicitly linking accounting practices—such as record-keeping, reporting, budgeting, and working capital management—to measurable financial performance indicators. By doing so, it highlights pathways for improving SME competitiveness, financial sustainability, and regional development in Sri Lanka.

## **Statement of the Problem**

Although SMEs significantly contribute to national and regional economies by creating employment, fostering new ventures, and opening up new growth opportunities, financing remains a persistent challenge. Despite government programs and development bank initiatives (NEDA, 2011), SMEs in Sri Lanka often struggle to obtain external finance. Prior research identifies poor accounting practices as a key factor contributing to SME failure (Aremu & Adeyemi, 2011). Many enterprises comply with accounting processes solely to satisfy regulatory requirements and fail to leverage financial information to guide decision-making, resulting in poor financial outcomes and reduced long-term sustainability.

The limited literature available on Sri Lankan SMEs provides little clarity on how accounting practices directly influence performance indicators such as profitability, liquidity, or cash flow. Moreover, no well-established framework currently links specific accounting practices to financial outcomes among Northern Province SMEs. This study addresses this gap by investigating the extent of adoption of financial accounting practices and their measurable effect on financial performance.

## **The Objectives of the Study**

- The main objective of the study is to find out the effect of financial accounting practices on the financial performance of selected SMEs in the Northern Province.
- The specific objective of the study is to identify the relationship between financial accounting practices and SME financial performance indicators, including profitability, revenue growth, liquidity, and solvency.

## **Literature Review and Hypotheses Development**

### **Small and Medium Enterprises (SMEs)**

SMEs are widely regarded as the backbone of economic growth in developing nations, contributing significantly to GDP, employment, and innovation. In Sri Lanka, SMEs account for more than 75% of all enterprises and around 45% of employment opportunities (National Policy Framework, 2016). They provide critical contributions to post-conflict recovery and regional development, particularly in the Northern Province. Despite this importance, SMEs often lack structured financial management systems due to resource constraints and limited expertise (Karunananda & Jayamaha, 2011). Research continues to emphasize that weak accounting practices and poor financial management are among the most common causes of SME failure, with financial mismanagement leading to early business closure (Hussain & Stanikzai, 2022; Wach & Tarus, 2021).

### Financial Accounting Practices in SMEs

Robust financial accounting practices enable SMEs to plan effectively, monitor progress, and make informed strategic decisions. According to Abdul-Rahamon and Adejare (2014), accurate record-keeping and reporting systems serve as a foundation for profitability and long-term sustainability. Financial accounting involves recording and classifying transactions, producing financial statements, and communicating results to stakeholders, which collectively influence a firm's reputation and access to credit (Sooriyakumaran, 2020).

Key practices identified in the literature include:

- **Maintaining Accounting Records:** Comprehensive record-keeping facilitates the preparation of financial statements and allows SMEs to monitor performance and growth over time (Balagobei, 2020).
- **Financial Reporting & Analysis:** Reliable financial statements provide insights into profitability, liquidity, and solvency, which are critical for both internal decision-making and external financing (Wiley, 2024).
- **Accounting Information Systems (AIS):** Adoption of AIS improves efficiency, reduces errors, and supports real-time decision-making. Recent evidence from South Asia shows that AIS adoption is positively associated with profitability and growth, though effectiveness depends on user skills and infrastructure (ADB, 2023; Hussain & Stanikzai, 2022).
- **Budgeting Practices:** Budgeting allows SMEs to allocate resources efficiently, anticipate financial needs, and control operational costs, thereby enhancing financial discipline and sustainability (Tharmini, 2021).
- **Working Capital Management:** Efficient management of receivables, payables, and inventory supports liquidity and profitability. Studies demonstrate that SMEs with stronger cash flow and working capital management are more resilient in volatile markets (Gallegos Mardones et al., 2024).

### Financial Performance in SMEs

Financial performance reflects a business's overall financial health and its ability to generate sustainable returns. For SMEs, it is not only an outcome of operations but also a measure of long-term viability and competitiveness. Performance is typically assessed through profitability (net profit margin, ROA, ROE), liquidity (current and quick ratios), solvency (debt-to-equity, leverage), operational cash flow, and revenue growth (Ukko et al., 2019). These measures capture efficiency in resource utilisation, the capacity to meet obligations, and the ability to expand. In Sri Lanka, empirical studies demonstrate that SMEs with strong record-keeping and budgeting systems achieve superior profitability, growth, and financing opportunities compared to those with weak or informal financial practices (Sooriyakumaran, 2020; Balagobei, 2020). Thus, financial performance serves as a tangible benchmark for assessing the impact of accounting practices on SME outcomes.

## Theoretical Framework

Two theoretical perspectives are useful in explaining how financial accounting practices shape SME performance:

- **Agency Theory:** This theory emphasizes the role of transparent reporting and accountability in reducing information asymmetry between owners (principals) and managers (agents). Even in SMEs where ownership and management often overlap, agency theory highlights the importance of accurate financial information to ensure alignment of interests and minimize inefficiencies (La Porta et al., 2000).

**Resource-Based View (RBV):** RBV posits that firms achieve competitive advantage through unique, valuable, and well-managed resources. For SMEs, financial accounting systems, skilled financial staff, and technological adoption (such as AIS) are strategic resources that enhance decision-making, efficiency, and ultimately financial performance (Wernerfelt, 1995).

## Empirical Review

Asaduzzaman (2016) investigated SMEs in Bangladesh and found that 44% maintained accounting records such as profit and loss accounts and cash flow statements primarily to monitor payables and receivables, while 56% did not, citing tax complexities and a lack of financial knowledge. The study emphasized the importance of government training and awareness programs to strengthen accounting literacy among SME owners.

Similarly, Aladejebi and Oladimeji (2019) studied SMEs in Lagos, Nigeria, and revealed that many lacked proper record-keeping systems. The findings indicated that accurate and consistent accounting records are essential for improving decision-making, access to finance, and overall business performance. The authors recommended that SMEs engage professional accountants and adopt computerized systems to improve efficiency. In Sri Lanka, Sooriyakumaran (2020) investigated the relationship between record-keeping and profitability among SMEs in the Jaffna District and found that effective financial recordkeeping directly enhanced profitability and management efficiency.

Recent empirical studies between 2020 and 2024 provide strong evidence that financial accounting practices significantly affect SME financial performance across various contexts. In Sri Lanka, Sooriyakumaran (2020) demonstrated that proper record-keeping practices had a direct positive influence on profitability among SMEs in the Jaffna District, while Balagobei (2020) confirmed that budgeting systems improved overall financial performance. Tharmini (2021) further highlighted that structured financial management practices enhanced profitability and liquidity in Sri Lankan SMEs. Complementing this, Wiley (2024) observed that while SME financial statements are widely prepared in Sri Lanka, they often lack decision-usefulness, undermining their role in securing external financing.

Across South Asia, Hussain and Stanikzai (2022) found that AIS adoption and effective working capital management improved SME profitability in Afghanistan. Khan et al. (2022) reported similar findings in Pakistan, where formal budgeting systems positively influenced sustainability and financial

growth. In addition, the Asian Development Bank (ADB, 2023) reported that the adoption of digital accounting tools by Asian SMEs improved reporting quality, reduced errors, and increased access to credit. However, infrastructural limitations remain a barrier in developing regions.

Beyond South Asia, global studies reinforce these findings. Wach and Tarus (2021) found that Rwandan SMEs adopting modern accounting software experienced stronger profitability and greater access to loans. Gallegos Mardones et al. (2024) confirmed that effective working capital management practices strengthened the resilience and profitability of SMEs operating in uncertain environments. Nadeem et al. (2023) showed that digital transformation and AIS systems improved SME outcomes in the Middle East. Similarly, Abiodun and Oladimeji (2023) demonstrated in Nigeria that structured record-keeping practices enhanced revenue growth and improved long-term survival rates. Ukko et al. (2019) also highlighted that integrating sustainability-oriented accounting strategies improved profitability and stakeholder trust in SMEs in Finland.

In Sri Lanka's Anuradhapura District, Somathilake and Ranathunga (2021) found that preparing accounting records and financial statements, and using computerised accounting systems, significantly improved SME financial performance, with financial statement preparation emerging as the most influential component. Likewise, Aderinto (2025) examined SMEs across Nigeria and confirmed that comprehensive accounting record-keeping positively affects profitability and growth, stressing the importance of continuous financial training and proper documentation.

In Kenya, Nyakundi et al. (2016) analysed working capital management among SMEs and found that efficient cash and inventory management practices significantly enhanced financial performance, though many enterprises lacked formalised systems. Similarly, Thuva and Muturi (2017) investigated income-generating units in Kenyan public universities and found that strong internal control systems improve performance, while high operating costs reduce profitability. In Finland, Ukko et al. (2019) observed that managerial capabilities driven by sustainable financial strategies significantly enhance SME profitability.

Overall, recent empirical evidence consistently demonstrates that effective financial accounting practices—including record-keeping, financial reporting, accounting information systems, budgeting, and working capital management—positively affect SME profitability, liquidity, solvency, and growth. However, the literature in the Sri Lankan context, particularly in the Northern Province, remains limited and fragmented, highlighting the need for further research explicitly linking accounting practices with measurable financial outcomes.

### **Research Gap**

While many studies have explored the relationship between accounting practices and financial performance, there is limited research on SMEs in Sri Lanka. Additionally, findings on the impact of accounting practices are mixed, with some studies showing positive effects and others indicating no significant relationship. This study aims to fill this gap by investigating the impact of selected

financial accounting practices on the financial performance of SMEs in the Northern Province of Sri Lanka.

### **Hypotheses Development**

A hypothesis is a tentative statement about the relationship between two or more variables. It is a specific, testable prediction about what you expect to happen in a study.

**H1:** There is a significant relationship between accounting practices and the financial performance of SMEs

**H2:** There is a significant effect on financial Accounting Practices and the financial performance of SMEs

### **Methodology**

#### **Research Design**

This study employed a descriptive, quantitative research design to examine the adoption of financial accounting practices and their effects on the financial performance of SMEs in Sri Lanka's Northern Province. This design enabled a clear description of SME accounting practices and a statistical analysis of their relationship with financial performance.

According to the Department of Census and Statistics and Northern Province SME records (2022), the province has approximately 7,500 SMEs across sectors such as agriculture, fisheries, manufacturing, construction, trade, and services. A sample of 500 SMEs was selected using stratified random sampling to ensure proportional representation of micro, small, and medium enterprises across Jaffna, Kilinochchi, Mannar, Mullaitivu, and Vavuniya districts.

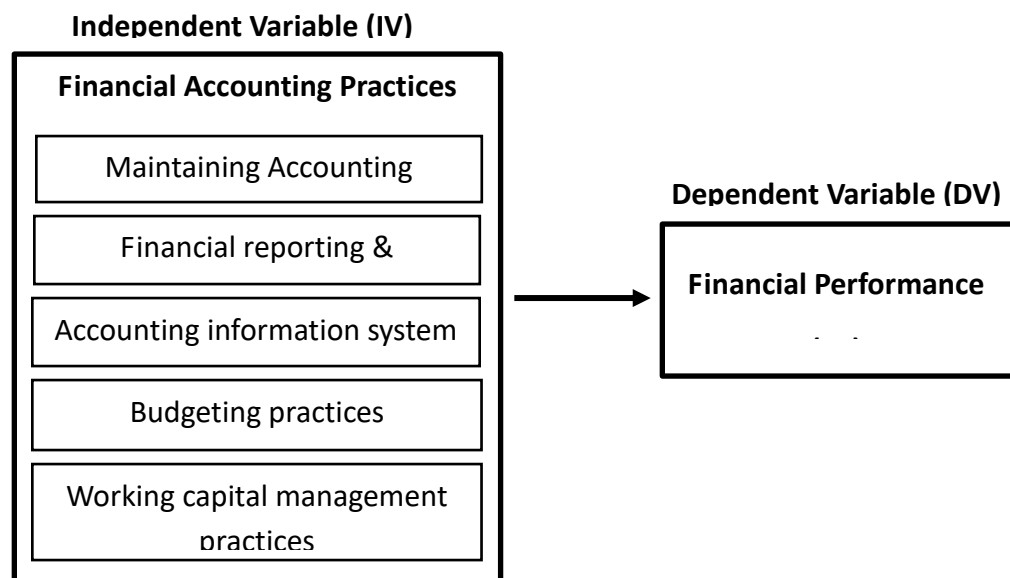
Primary data were collected through a structured questionnaire divided into two sections. Section A gathered demographic and business information, while Section B focused on accounting practices (record-keeping, financial reporting, budgeting, use of accounting information systems, and working capital management) and financial performance indicators (profitability, liquidity, solvency, revenue growth, and operational cash flow). Responses were measured on a five-point Likert scale. The 46-item questionnaire was adapted from prior studies and validated by experts from the accounting and SME finance fields. Reliability was confirmed using Cronbach's alpha, with all constructs above 0.70.

Data analysis was conducted using SPSS version 20. Descriptive statistics summarized SME characteristics and accounting practices. In contrast, inferential statistics, including correlation and multiple regression analyses, examined the strength, direction, and significance of relationships between accounting practices and financial performance. Diagnostic tests ensured model robustness,

including multicollinearity (VIF), autocorrelation (Durbin–Watson), residual normality (Shapiro–Wilk test and normal probability plots), and heteroscedasticity (Breusch–Pagan test)..

### Conceptualization of the Study

Conceptualization involved defining the five main variables of the study: maintaining accounting records, financial reporting, accounting information systems, budgeting practices, and working capital management. These were analyzed to determine their impact on the financial performance of SMEs in the Northern Province.



**Figure 3.1: Conceptual framework**

Source: Researchers' Design, 2023

### Empirical Specification of Model

#### Regression Model

This study adopts a multiple regression model to examine the relationship between financial accounting practices and the financial performance of SMEs in the Northern Province of Sri Lanka. The goal is to determine the combined and individual effects of these accounting practices on SME performance, measured by financial performance indicators. The regression model is specified as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + e$$

Where:

- **Y** = Dependent variable (Financial Performance of SMEs)
- **$\beta_0$**  = Constant (the value of Y when all X variables are 0)

- $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  = Coefficients of the independent variables
- $X_1$  = Maintaining Accounting Records (MAR)
- $X_2$  = Financial Reporting & Analyzing Practices (FRAP)
- $X_3$  = Accounting Information Systems (AIS)
- $X_4$  = Budgeting Practices (BP)
- $X_5$  = Working Capital Management Practices (WCMP)
- $e$  = Error term (random disturbance)

The regression model was estimated using Analysis of Variance (ANOVA) to test the hypotheses, with Pearson's product-moment correlation applied at the 0.05 significance level. The regression results were interpreted at the 95% confidence level to assess the significance of the independent variables in influencing SME financial performance.

## I. Result and Discussion

### Reliability Analysis

Reliability analysis was performed using Cronbach's alpha to determine the internal consistency of each construct. All variables exceeded the 0.70 threshold, confirming high reliability of the measurement instrument (Table 4.1).

Table 4.1: Reliability test results for the study variables

| Variable                                  | Cronbach's Alpha | No of item |
|-------------------------------------------|------------------|------------|
| Maintaining Accounting Records            | .777             | 5          |
| Financial Reporting & Analyzing Practices | .813             | 8          |
| Accounting Information System             | .839             | 5          |
| Budgeting Practices                       | .799             | 4          |
| Working Capital Management Practices      | .895             | 12         |
| Financial Performance                     | .846             | 12         |

Source: Output of SPSS\_20

### Multicollinearity Tests

Multicollinearity occurs when independent variables in a model are highly correlated. Tolerance and Variance Inflation Factor (VIF) are used to assess this. A VIF below 10 and a tolerance above 0.1 indicate no multicollinearity. Table 4.2 shows that the VIF values for all variables were below 10, and the tolerance was above 0.1, confirming no multicollinearity

. Table 4.2: Multicollinearity Test

| Model | Tolerance | VIF   |
|-------|-----------|-------|
| MAR   | 0.755     | 1.324 |

|             |       |       |
|-------------|-------|-------|
| <b>FRAP</b> | 0.358 | 2.793 |
| <b>AIS</b>  | 0.336 | 2.976 |
| <b>BP</b>   | 0.529 | 1.89  |
| <b>WCMP</b> | 0.41  | 2.439 |

Source: Output of SPSS\_20

### Normality Test

Normality was examined using the Kolmogorov–Smirnov and Shapiro–Wilk tests. All variables recorded  $p < 0.05$ , suggesting mild deviations from normality. However, given the large sample size ( $n = 500$ ), this is acceptable as per the Central Limit Theorem.

Table 4.3 Normality Test

| <b>Variable</b> | <b>Kolmogorov–Smirnov Sig.</b> | <b>Shapiro–Wilk Sig.</b> |
|-----------------|--------------------------------|--------------------------|
| MAR             | 0.000                          | 0.000                    |
| FRAP            | 0.000                          | 0.000                    |
| AIS             | 0.000                          | 0.000                    |
| BP              | 0.000                          | 0.000                    |
| WCMP            | 0.000                          | 0.000                    |
| FP              | 0.000                          | 0.000                    |

Source: Output of SPSS\_20

### Autocorrelation Test

The Durbin–Watson statistic of 1.713 falls within the acceptable range of 1.5–2.5, indicating no evidence of autocorrelation among residuals. Hence, the independence assumption is satisfied.

### Heteroscedasticity Test

The Breusch–Pagan test returned a  $p$ -value  $> 0.05$ , confirming the absence of heteroscedasticity. Thus, the residual variance remains constant, validating the homoscedasticity assumption.

### Correlation Analysis

The Pearson correlation results in Table 4.4 indicate that all independent variables are positively and statistically significantly related to financial performance ( $p < 0.05$ ). Working capital management practices ( $r = 0.525$ ) and financial reporting and analysis practices ( $r = 0.506$ ) showed the strongest correlations with financial performance, suggesting their critical role in SME success.

Table 4.4: Correlation Analysis

| <b>Variables</b> | <b>FP</b> | <b>MAR</b> | <b>FRAP</b> | <b>AIS</b> | <b>BP</b> | <b>WCMP</b> |
|------------------|-----------|------------|-------------|------------|-----------|-------------|
| <b>FP</b>        | 1         |            |             |            |           |             |
| <b>MAR</b>       | .431**    | 1          |             |            |           |             |
| <b>FRAP</b>      | .506**    | .447**     | 1           |            |           |             |
| <b>AIS</b>       | .458**    | .433**     | .760**      | 1          |           |             |

|             |        |        |        |        |        |   |
|-------------|--------|--------|--------|--------|--------|---|
| <b>BP</b>   | .468** | .331** | .624** | .617** | 1      |   |
| <b>WCMP</b> | .525** | .450** | .673** | .714** | .611** | 1 |

Source: Output of SPSS\_20

### Regression Analysis

Multiple regression analysis was conducted to assess the impact of accounting practices on SMEs' financial performance. The model summary (Table 4.5) shows an adj R-squared value of 0.342 indicates that the independent variables explain 34.2% of the variation in financial performance.

Table 4.5: Model summary

| <b>R</b>          | <b>R Square</b> | <b>Adjusted R-Square</b> | <b>Std. Error of the Estimate</b> |
|-------------------|-----------------|--------------------------|-----------------------------------|
| .591 <sup>a</sup> | .349            | .342                     | .41835                            |

Source: Output of SPSS\_20

### ANOVA

The **ANOVA test** confirmed that the overall model is statistically significant ( $F = 56.604$ ,  $p = 0.000$ ), indicating that the predictors collectively influence financial performance.

Table 4.6: ANOVA

| <b>Model</b> | <b>Sum of Squares</b> | <b>df</b> | <b>Mean Square</b> | <b>F</b> | <b>Sig.</b>       |
|--------------|-----------------------|-----------|--------------------|----------|-------------------|
| Regression   | 51.067                | 5         | 10.213             | 56.604   | .000 <sup>b</sup> |
| Residual     | 89.134                | 494       | .180               |          |                   |
| Total        | 140.201               | 499       |                    |          |                   |

Source: Output of SPSS\_20

### Regression Model Coefficients

The coefficients indicate the impact of each variable on financial performance. Maintaining Accounting Records (0.191), Financial Reporting (0.157), Budgeting Practices (0.106), and Working Capital Management Practices (0.203) positively influenced financial performance. The Accounting Information System had a negative, insignificant impact (-0.032).

Table 4.4: Regression Coefficients

| <b>Model</b>      | <b>B</b> | <b>Std. Error</b> | <b>Beta</b> | <b>t</b> | <b>Sig.</b> |
|-------------------|----------|-------------------|-------------|----------|-------------|
| <b>(Constant)</b> | 1.565    | 0.14              |             | 11.202   | 0.000       |

|             |        |       |        |        |       |
|-------------|--------|-------|--------|--------|-------|
| <b>MAR</b>  | 0.191  | 0.038 | 0.206  | 4.987  | 0.000 |
| <b>FRAP</b> | 0.157  | 0.052 | 0.181  | 3.028  | 0.003 |
| <b>AIS</b>  | -0.032 | 0.047 | -0.042 | -0.679 | 0.497 |
| <b>BP</b>   | 0.106  | 0.031 | 0.167  | 3.388  | 0.001 |
| <b>WCMP</b> | 0.203  | 0.048 | 0.238  | 4.242  | 0.000 |

Source: Output of SPSS\_20

The regression equation is:

$$FP = 1.565 + 0.191MAR + 0.157FRAP - 0.032AIS + 0.106BP + 0.203WCMP$$

. The regression results show that maintaining accounting records ( $\beta = 0.191$ ,  $p < 0.05$ ), financial reporting and analysis practices ( $\beta = 0.157$ ,  $p < 0.05$ ), budgeting practices ( $\beta = 0.106$ ,  $p < 0.05$ ), and working capital management practices ( $\beta = 0.203$ ,  $p < 0.05$ ) significantly and positively influence the financial performance of SMEs in Sri Lanka's Northern Province. This indicates that SMEs with structured accounting and financial management systems achieve stronger profitability and sustainability.

Conversely, the accounting information system (AIS) variable ( $\beta = -0.032$ ,  $p > 0.05$ ) had a negative but insignificant impact, suggesting limited or inefficient adoption of digital accounting tools due to cost and training challenges.

These findings align with Balagobei (2020) and Wach and Tarus (2021), who highlight the role of sound accounting practices in enhancing SME performance, and with Nyakundi et al. (2016) and Hussain and Stanikzai (2022), who emphasized the importance of effective working capital management.

All diagnostic tests, including normality, multicollinearity, autocorrelation, and heteroscedasticity, were satisfied, confirming the reliability and robustness of the regression model.

## Conclusion and Recommendations

### Conclusion

This study underscores the critical role of SMEs in Sri Lanka's economy. It investigates how financial accounting practices influence their financial performance, with a particular focus on the Northern Province—a region recently emphasized in government development initiatives. Using stratified random sampling, 500 SMEs across various sectors were examined. The findings reveal that practices such as maintaining accounting records, performing financial reporting and analysis, budgeting, and managing working capital significantly enhance financial performance. In contrast, accounting information systems (AIS) showed no significant impact, suggesting that digital accounting adoption remains limited among SMEs in this region. Overall, SMEs that implement structured accounting and

financial management practices demonstrate improved profitability, sustainability, and operational efficiency.

The study contributes to the existing literature by filling a gap in the literature on Northern Province SMEs, highlighting which financial accounting practices are most widely applied and effective in enhancing financial outcomes. These insights can guide SME operators, policymakers, and financial practitioners in formulating strategies to strengthen financial performance. For SMEs in the Northern Province, adopting comprehensive record-keeping, consistent financial reporting, disciplined budgeting, and effective working capital management is crucial. While the limited impact of AIS indicates the need for greater investment in digital accounting tools, its integration could facilitate smoother daily operations, improve record accuracy, and enhance access to external financing in the future.

Policymakers and SME support organizations should encourage the development of training programs and capacity-building initiatives focused on accounting and financial management. SME owners and managers are advised to prioritize accurate and complete business records, employ skilled personnel, and adopt formal financial management practices to support informed decision-making. Furthermore, the formulation of standardized guidelines for financial statement preparation and reporting tailored to SMEs in the Northern Province will ensure consistent and reliable financial information, fostering transparency, access to credit, and long-term business growth. Future research could expand these findings by including SMEs from other provinces to explore additional factors affecting performance and to develop a more comprehensive understanding of financial accounting practices across Sri Lanka.

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