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Accounting Practices and Organizational Performance: Evidence from Small and Medium Scale Enterprises in Sri Lanka

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Abstract
Over the past few decades, the researchers demonstrate consistent effort in investigating the Small and Medium scale Enterprises (SMEs). This sector plays a crucial role in the economic growth in both developing and developed countries. The research investigated how accounting practices influence the organizational performance of small and medium scale enterprises in Sri Lanka. Accounting practices consists of record keeping, budgeting practices and payroll accounting whereas organizational performance is measured by organizational goal achievement, organizational effectiveness and organizational efficiency records. A structured questionnaire was used to collect the primary data from 75 SMEs which were selected by means of the random sampling technique. The results revealed that among the accounting practices, only record keeping and budgeting practices have significant positive influence on organizational performance of Small and medium enterprises in Sri Lanka. It can be recommended that academic institutions and other bodies which are responsible for SMEs should organize training programmes for those operators who do not have the technical knowhow in the field of accounting to come to grips with it and also provide some SME-specific accounting guidelines and template forms for capturing accounting practices for the operators to use.

Keywords: Accounting Practices, Organizational Performance, Record Keeping, Budgeting Practices.

JEL Classification: M41.

1. Introduction

Small and medium enterprises (SMEs) are considered as vital for promoting economic growth and social development of Sri Lanka. In recent years, SMEs have been identified as a key source of income generation, employment, poverty alleviation and regional development. The SMEs engage in broad areas of economic activity such as agriculture, mining, manufacturing, construction and service sector industries. Accounting practices are crucial in the success of contemporary business organizations. It foils the exploitation of assets, increases production and yield, controls expenses and helps to improve the efficiency of the overall management. The role of management is *vital* in the whole development of a business organization. Accounting is an essential tool for recording, analyzing, monitoring and evaluating the financial status of the organisations. It provides a source of information to owners and managers of SMEs operating in any industry for measuring financial performance (Maseko & Manyani, 2011).

Today's accounting system provides more appropriate, consistent and suitable financial information to stakeholders to make the effective financial decisions concerning their business entities. According to the business dictionary 'Accounting' can be defined as a systematic procedure that helps to identify record, measure, classify, verify, summarize, interpret, and communicate financial information. It reveals profit or loss for a specific period, and the value and nature of an organization's assets and liabilities and owner's equity. It involves ascertainment, recording, summarizing, and reporting of financial facts used in evaluating and monitoring an organization's economic undertakings. An accounting system, therefore, is an organized discipline of manual and computerized accounting methodology, processes, and wheels which are employed in gathering, recording, classifying, analyzing, summarizing, interpreting, and presenting accurate and timely financial information for decision making in an organization.

The importance of organizational performance measurement to any business organization, large or small, can't be over-emphasized. In any sense, profit can analogously be viewed as the life-blood of a business and hence the accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement. Reported profits reflect changes in wealth of owners and this can explain why major economic decisions in business are centered on financial performance as measured by profitability (Cooley & Edwards, 1983). It has