Maintaining Accounting Records and Profitability of SMEs: Evidence from Jaffna District in Sri Lanka
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Abstract:
The need of Small and Medium Enterprises (SMEs) in numerous economies is stressed because of they assume imperative jobs in the economy of both developed and developing nations through production of work and decrease of destitution among populace. Nonetheless, dominant part of SMEs has neglected to perceive the significance of their maintainability and primary source to keep their business gainfulness by utilizing very much organized keeping accounting records that would have empowered them to keep the exact financial statements. The examination set out to investigate the degree to the continuing keeping accounting records are being bolstered to procuring productivity of SMEs. Surveys were managed to 218 SMEs proprietors out of which 200 questionnaires were exact financial statements. The examination set out to investigate the degree to the continuing keeping accounting records are being bolstered to procuring productivity of SMEs. Surveys were managed to 218 SMEs proprietors out of which 200 questionnaires were substantial and broke down utilizing Likert scale. It was seen that while respondents concur that significant advantages of keeping legitimate records is to know the productivity of the business and that record keeping is vital to the achievement of the business. The investigation prescribes that SMEs administrators should endeavor to keep the best possible keeping accounting records to recognize and expand the benefit just as manageability of the entity.

Keywords: Maintaining accounting records, Small Medium Enterprises (SMEs), Profitability, Sri Lanka, Jaffna District.

1.0. INTRODUCTION
Internationally, Small Medium Enterprises (SMEs) has been complimented to have vigorous impact in the economy of both developed and developing nations. About 75% of work power in Europe comprises of SMEs (Rathnasiri, 2014). The Small Medium Enterprise (SME) segment has been distinguished as a critical vital area in the general strategy targets of the Government of Sri Lanka (GOSL) (Madurapperuma at el, 2016). Chamara (2016) demonstrated that 45% of SMEs were confronted the disappointment in Sri Lanka. And furthermore, the researcher referenced the accompanying purposes behind that: absence of legitimate arranging, not having state-of-the-art solid bookkeeping information, insufficient money related and human capital administration rehearses and deficient duty of proprietors for business the executives. Arjuna Herath (2014) president CA, Sri Lanka, uncovered that entrance to back is probably the greatest test SMEs face, and because of this, they experience issues to supporting the business bringing about over 40% of SMEs stopping to exist inside ten years of activity. In furthermore when presented the Sri Lanka Financial Reporting Standards (SLFRSs) for SMEs, the atherised person referenced that it was essential to guarantee that SMEs follow an accepted financial structure with accurate financial statements. On the off chance that they keep the precise financial records, they can without much of a stretch access the finance just as maintainability. Keeping up the accounting books and records are exceptionally basic prerequisites for appropriate administration and control of the business tasks (SLFRSs). This will encourage the right receipt and installment of money and different exchanges entered by the organization. It is required to keep up the books of records under Sri Lankan financial reporting standards (SLFRSs) and Sri Lankan company law. Agbemava, at el (2016), referenced that greater part of SMEs don't have the best possible keeping accounting records in any case referenced to as inadequate records. SMEs proprietors have neglected to distinguish the significance of keeping up accounting records that would have supported them to keep the precise financial reports. The observational investigations of Ibrahim, 2015; Germain, 2010; Butler, 2009 referenced that one reason of SMEs disappointment is ill-advised upkeep of accounting records. Williams (2008) referenced as a record is a record of money inflows and outpourings according to the separate resource, obligation, pay and cost. Abdul Rahaman at el (2014) noticed that keeping record of salary and consumption helps a proprietor of business to monitor money related exchanges. Dawuda and Azeko, (2015) referenced that poor record keeping or non-accessibility of money related records have results of blunder of assets and poor money the board. These have prompted the breakdown of numerous SMEs. (Arjuna Herath 2014), Utilization of bookkeeping records truly impacts the accomplishment of an association's targets (Oladejo, 2008). Amoako at el (2014) noticed the significance of accessibility of precise money related data to proprietors and administrators for estimating of productivity and execution can't be over underscored. Rathirani at el (2017) presumed that some entrepreneurs in Jaffna region are as yet not mindful of the significance and advantages of keeping up bookkeeping records. In Jaffna SMEs who set up their keeping accounting records with the end goal of acquire charge leeway, get bank advance...
and government help. Aside from statutory necessities, SMEs once in a while consider sound bookkeeping framework, yet poor people and inadequate record keeping has prompted the breakdown of number of the SMEs in Jaffna (Rathirani, 2017). This disappointment drove them to suicide endeavor or flee starting from the earliest stage. The main objective of this study is to analyse the extent of maintaining accounting records is being used to measure the profitability of SMEs in Jaffna district.

However, the specific objectives include:
Whether the Cash Inflow Document (CID) are significantly impact on profitability of SMEs, Cash Outflow Documents (COD) are significantly impact on profitability and Fixed Assets Records (FAR) are significantly impact of profitability.

2.0 LITERATURE REVIEW

2.1 Theoretical Framework - Decision – useful information is the fundamental objective of financial reporting. Decision usefulness approach to financial reporting is an approach to the preparation of financial accounting information that emphasis on the theory of investor decision making in order to infer the nature and types of information that investors need (Decision Usefulness Approach, 2009).The Financial Accounting Standard Board’s conceptual framework states that the purpose of financial reporting is to provide information that is useful for business decisions (Concepts statement No. 1, FASB 1980, Paragraph 34). According to Wang (2012), decision usefulness is defined in terms of relevance, reliability, comparability, and understandability. Decision usefulness theory is adopted to satisfy the information needs of the users of accounts namely: investors and creditors.

2.2. Small and Medium Enterprises (SMEs)
Different countries, institutions and individuals have defined SMEs in different ways. The common parameters for defining SMEs includes number of employees, sales, volumes, financial strength, relative size, initial capital outlay and independent ownership (Ibrahim, 2015). In Sri Lanka SMEs Central Bank of Sri Lanka (no1 2017 circular) define SMEs as an enterprise which employ less than 300 employees and which have an annual turnover not exceeding Rs.750 Mn.

2.3. Maintaining Accounting Records
Keeping up Accounting Records includes a procedure that is trailed by Accountants and accounting staff in preparing crude money related information into yield data advice regarding financial statements. The process ranges from creation of business transactions, analyze and record the transactions in the journals by account name, post information from journals to ledgers, prepare a trial balance, journalize adjusting entries, post adjustments from the journal to the ledger, prepare an adjusted trial balance, journalize closing entries, post-closing entries from the journal to the ledger, prepare a post-closing trial balance to prepare the financial statements (William et al 2008).

The principle reason to keep up the records are: to convey a careful, orderly delineation of working outcomes, to allow a speedy examination of current information with earlier years’ working outcomes and financial objectives, to offer financial report for use by the board, brokers and imminent lenders, to encourage the brief documenting or reports and expense forms to administrative and charge gathering government organizations, to uncover representatives extortion, robbery, waste and record keeping blunders, to consider quick, precise, and solid access to records, guaranteeing the opportune devastations of excess data and the recognizable proof and security of fundamental and generally significant records and it is essential when a firm is looking for subsidize from a bank for extension. Onaaloapoot et al (2014) recommended that keeping up bookkeeping records has become the establishment on which the totality of current business depends. This is on the grounds that without it, it will be difficult to discover the degree of gainfulness and the degree of business vulnerability to misrepresentation. Money inflow alludes to a business or organization's wellsprings of cash or pay, while money outpouring alludes to a business or organization's costs. A business endures on the off chance that it can create a bigger money inflow versus a money surge (Anne 2014). Then again, the proprietor of a little and medium business as a rule depends essentially on a clerk and an outside bookkeeping firm to keep up the organization's records and give direction. Accordingly, the little and medium entrepreneurs ought to be acquainted with, and perceive the significance of, legitimate recordkeeping prerequisites and income arranging. The bookkeeping record keeping, on a very basic level incorporate the Cash Inflow Documents (CID) which incorporate the source archives and prime passage, diary exchange and records of all business exchange. Money Outflow Documents (COD) likewise like the abovementioned (Abuka and Ekwe, 2014, Maseko and Manyani, 2011). Keeping the Fixed Assets Record (FAR) forward-thinking will diminish the costs through misfortune anticipation and improved gear support just as expanding the venture plan (Zotorvie, 2017). Benefit of the SMEs estimated by the gross benefit, net benefit and resources development (Daniel 2017, UjvalNanavati 2017)

2.4. Relationships between Accounting Records and profitability of business
It alludes to the capacity of business to satisfy the necessary guidelines, expanded piece of the overall industry, improve offices, guaranteeing returns on productivity, and complete decrease and once this is accomplished, a business is accepted to perform adequately (Fitzgerald et al 2006). On the other handlkechukwu (1993) expressed that, keeping up bookkeeping records are vital for the fruitful execution of a business. With the money related report produced from a decent recordkeeping framework, execution during one timeframe (month, quarter or year) with another period can be thought about. An exact record keeping up of the business’ money related execution is vehicle to screen benefit and execution in explicit territories. In this manner, if appropriate keeping up bookkeeping records are kept, they will encourage proficient, legitimate convenient dynamic and upgrade productivity in SMEs.

In an investigation led by Okoli (2011), he declared that because of powerlessness of SME proprietors not keeping appropriate records they were not ready to evaluate their gainfulness successfully. Okoli (2011), further contended that there is requirement for SME to keeping up the best possible bookkeeping records so as to upgrade their productivity and
progression. In an examination directed by Abayomi and Adegoke, (2016) in 2015, out of 94 respondents, 76 concurred that keeping up bookkeeping record is progressively valuable to distinguish their gainfulness. And also this position is validated by the discoveries of Abdul Rahamon and Adejare (2014) who noticed, that there is a solid positive connection between accounting records keeping and profitability of SMEs.

Based on the above literature evidence, the following hypotheses are developed for the study.

H1. Cash inflow documents are positively impact on profitability of SMEs in Jaffna district.
H2. Cash outflow documents are positively impact on profitability of SMEs in Jaffna district.
H3. Fixed assets records are positively impact on profitability of SMEs in Jaffna district.

3.0 METHODOLOGY

SMEs registered in divisional secretary (DS) office of Jaffna district, represent the SMEs sector in the region. SMEs which are registered until December 2018 were selected a population. From them two DS divisions which had large number of registered firms were considered for the research work which were Jaffna and nallur DS division. The total number of population was 3485. Sekaran (2016) recommends that when selecting number of sample size, the representation of more than 30 and less than 500 people are appropriate sample for social science research. Hence from the population the data was collected from the survey of 200 respondents out of 218 questionnaires given out to SME owners/managers/ Accountant. From them eleven questions asked regarding the variables.

The steps followed were: study design, data collection, and quantitative analysis of inferential was done by using SPSS and AMOS which provide more meaningful and valid results with latent variable, assumptions and complex structure. The theoretical model of writing performance is constituted by the following observed variables. Maintaining accounting records among SMEs were defined in terms of the three observed variables/ independent variables: Cash Inflow Documents (CID), Cash Outflow Documents (COD) and Fixed Assets Record (FAR) with dependent observed variable of Profitability of SMEs shows in Figure 1. The theoretical model represents three proposed bivariate correlations and three predictors, as in a multiple linear regression

![Figure 1. Hypothesized theoretical model of Maintaining Accounting Records and Profitability of SMEs.](image)

<table>
<thead>
<tr>
<th>Table 1. Reliability Statistics</th>
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</thead>
<tbody>
<tr>
<td>Cronbach’s Alpha</td>
</tr>
<tr>
<td>.922</td>
</tr>
</tbody>
</table>

Reliability of the questions was checked by conducting Cronbach’s alpha test through SPSS 26. A minimum of 0.7 should be acceptable (Nunnally 1978). In the research reliability of the questionnaire was .922. It shows the excellent reliability of the data.

<table>
<thead>
<tr>
<th>Table 2. KMO and Bartlett's Test</th>
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</thead>
<tbody>
<tr>
<td>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</td>
</tr>
<tr>
<td>Bartlett's Test of Sphericity</td>
</tr>
<tr>
<td>df</td>
</tr>
<tr>
<td>Sig.</td>
</tr>
</tbody>
</table>

Measure the KMO(Kaiser-Meyer-Olkin) and Bartlett’s test in SPSS show the suitability of the data for structure detection. The KMO Measure of Sampling Adequacy. High values (close to 1.0) generally indicate that a factor analysis may be useful with data. If the value is less than 0.50, the results of the factor analysis probably won't be very useful. In the research sample KMO was .918. It indicate that factor analysis was useful in the research data. Bartlett's test of sphericity tests the hypothesis that your correlation matrix is an identity matrix, which would indicate that your variables are unrelated and therefore unsuitable for structure detection. Small values (less than 0.05) of the significance level indicate that a factor analysis
may be useful with your data. Here .000 mention the significance level of the factor analysis. In the inferential analysis correlation, Confirmatory Factor Analysis (CFA) and over all model fit was done by using SPSS and AMOS.

### 4.0 DATA PRESENTATION AND ANALYSIS

#### Table.3. correlation analysis of variables

<table>
<thead>
<tr>
<th></th>
<th>Profitability</th>
<th>CID</th>
<th>COD</th>
<th>FAR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CID</strong></td>
<td>Pearson Correlation</td>
<td>.680**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>200</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td><strong>COD</strong></td>
<td>Pearson Correlation</td>
<td>.653**</td>
<td>.759**</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td><strong>FAR</strong></td>
<td>Pearson Correlation</td>
<td>.614**</td>
<td>.733**</td>
<td>.712**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

The above table shows the correlation among the Independent and dependents variables at the level of 0.01. Hence independent variables are significantly and positively correlated with dependent variable at the level of 1%. The research conducted the confirming the measurement model by CFA. CFA was performed using AMOS and the validity of the measurement model was found out using various reliability and validity checks. Reliability and validity check for the data was conducted using CFA and the final result is shown in a graphical manner. All the four constructs are shown to be intercorrelated as shown in figure 2 and 3 as unstandardized and standardized estimates.

![Figure.2. AMOS output of the measurement model or CFA - Unstandardised estimates](http://ijesc.org/)
The Model fit indices for the constructs have been found and the summary of the result is shown in the table 2 where the obtained Model fit indices are compared with the recommended value.

<table>
<thead>
<tr>
<th>Indices</th>
<th>Recommended Value</th>
<th>Model Fit Indices</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMIN/df</td>
<td>&lt; 3</td>
<td>1.421</td>
</tr>
<tr>
<td>p-value</td>
<td>≥ 0.05</td>
<td>.044</td>
</tr>
<tr>
<td>GFI</td>
<td>≥ 0.90</td>
<td>.955</td>
</tr>
<tr>
<td>AGFI</td>
<td>≥ 0.80</td>
<td>.922</td>
</tr>
<tr>
<td>NFI</td>
<td>≥ 0.90</td>
<td>.961</td>
</tr>
<tr>
<td>CFI</td>
<td>≥ 0.90</td>
<td>.988</td>
</tr>
<tr>
<td>RMSEA</td>
<td>≤ 0.08</td>
<td>.046</td>
</tr>
<tr>
<td>P Close</td>
<td>≥ 0.05</td>
<td>.000</td>
</tr>
</tbody>
</table>

The use of CMIN/ contain the Chi Square ratio as a measure of fit. It is the minimum value of the discrepancy. The recommended CMIN value for the goodness of fit is less than 3 (Byrne, 2010). The obtained CMIN value was 1.421. Hence researcher can conclude that the model is fit. The recommended p-value should be greater than or equal to 0.05. It was observed that the obtained p-value is 0.044. Hence the fitness of the data in the model is nearly statistically significant.

Adjusted Goodness of fit (AGFI) has the similar characteristics Good of fit index (GFI). The main difference between AGFI and GFI is the former adjust the number of degrees of freedom. Both AGFI and GFI are absolute indices. The study has obtained the GFI and AGFI value for CFA by running AMOS as 0.955 and 0.922 which is in the acceptable level for the goodness of fit (Shelvin and Miles, 1998). Normed Fit Index is the ratio of the difference between chi square value and null model to the chi square value. It analysis the discrepancy between the hypothesised model and the null model of chi square value. Any NFI value which is equal to or above 0.90 indicates that it is a good fit (Bentler & Bonett, 1980). Any value of comparative fit index (CFI) that is above 0.90 is acceptable good fit measure (Hu & Bentler, 1999). However, few researcher’s emphasis that 0.95 should be kept as the cut of value to determine the goodness of fit. The AMOS output result shows the CFI value for CFA as 0.988 which indicate that it is in the acceptable range. Root mean square error of approximation (RMSEA). Any value which is less than 0.08 indicates that it is in the acceptable range (MacCallum et al, 1996).

The study has obtained the RMSEA value as 0.046 which is less than 0.08 indicating that researchers can generalise our hypothesised model to the population. Hence the study found that, the overall model fit indices are within the acceptable recommended values as proposed by the researchers, so the study can conclude that the hypothesised model fits the sample data. All the four parameters have met all the other recommended value to verify fitness of the Model. Hence the researchers can conclude that the Model is perfectly fit. The structural model path diagram is shown in figure 4 is a graphical representation of the mathematical equation (Byrne, 2010). It shows how the independent and dependent constructs are interrelated with each other in a structured mathematical manner.
Figure 4. Conceptual framework with hypothesis

Figure 5 indicates the unstandardised path regression coefficients and the relationship between unobserved and observed variables with respect to the path diagram. Figure 6 indicates the standardised path regression coefficients and the relationship between unobserved and observed variables with respect to the path diagram.

Figure 5. The Structural Model Path in Unstandardized estimates
From the above the study can conclude that the Model is perfectly fit. Path Analysis with SEM is similar to traditional methods like correlation and regression. Path analysis is a pure structural model, it contains no measurement part.

In order to obtain a clear view of the predictive power of maintaining accounting records elements, further analysis was done using Structural Equation Modeling with the help of AMOS in order to establish the effect of the independent variable (maintaining accounting records) on the dependent variable (profitability of SMEs). The estimate implies that one unit increase in the multiplicative effects of COD leads to 25% positive variance in profitability of business. This path is significant (p < .001).

The estimate implies that one unit increase in the multiplicative effects of FAR leads to 14% positive variance in profitability of business. This path is significant (p < .038). The study accepted the hypothesis that maintaining accounting records are positively related with profitability of business.
The above table shows the regression among the independent and dependent variables. Hence H1 is accepted. Like this H2 and H3 also accepted.

5.0 CONCLUSION

The respondents supposedly understood the significance of accounting record keeping and its positive effect on business. While respondents concur that the significant advantages of keeping legitimate record is to know the productivity of the business and that maintaining accounting record is critical to the achievement of the business. Maintaining accounting records are exceptionally basic for dynamic and lion's share of the respondents don't plan yearly financial reports. Discoveries likewise uncovered that larger part of the small and medium scale business administrators measure execution of their organizations. Benefit is generally utilized as a proportion of monetary execution; laborers give a most grounded linkage to effective business execution. Findings indicated that there is a solid positive connection between keeping up accounting record and productivity of SMEs. In light of the findings made over the span of this investigation, the accompanying proposals are therefore recommended: Small and medium scale business administrator units ought to guarantee that total and precise business records are kept on the grounds that they are fundamental for dynamic. There is requirement for the proprietors and supervisors to grasp appropriate bookkeeping records maintaining rehearses in control to increment the productivity of element. Finally, the study recommends that SMEs operators should seek for basic accounting knowledge to enable them maintain some records properly and where possible engage the services of SMEs Professionals who will be able to keep proper record and prepare relevant financial report at a minimal cost for the business, banks and for other third-party usage.

6.0. REFERENCES


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