

**APPLICATION OF SRI LANKA ACCOUNTING STANDARDS
IN SMALL & MEDIUM SIZED ENTERPRISES**

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Abstract

Small and Medium Enterprises (SMEs) play an important role in both developed countries and developing countries. It contributes to the growth of the economy through employment generation, new venture development and by opening up new avenues for the growth in the economy. The Central Bank of Sri Lanka (1998) had stated that inadequate capital, inadequate institutional credit facilities, use of outdated technology, improper accounting techniques, inadequate sales promotion competencies and inattentiveness of small businesses are the main problems faced by the small businesses in Sri Lanka. Huck and McEwen (1991) argue that 12 competency areas such as starting a business, planning and budgeting, management, marketing/selling, advertising and sales promotion, merchandising and finance and accounting is needed for small business success. This study is done in relation to the factors leading to non-compliance with Standard accounting practices by the small and medium scale enterprises (SMEs) in Sri Lanka.

The main objectives of the study focused on identifying the nature of the accounting practices and the factors leading to non-compliance with standard accounting practices by the SMEs. Efforts are made to examine the possible causes for noncompliance with the Standard accounting practices by the SMEs in Sri Lanka and the researcher expects that this study would fill the knowledge gap. The researcher uses structured interviews to collect data and selects 30 SMEs and 10 auditors for the study. Two interview guides will be prepared by the researcher for the SME owners, and for the Auditors.

In the conceptual model the non-compliance is considered as the dependent variable and the independent variables are the cost of adherence to accounting standards, knowledge and competence of the owners, lack of qualified employees, relevance of standard guidelines and parties interested in the financial reports. The key finding is that, higher cost of adherence to accounting standards, lack of knowledge and competence of the owners, lack of qualified employees, and unavailability of parties interested in the financial reports other than owner is leading to non-compliance and the relevance of standard guidelines does not have a relationship with non-compliance. The non-compliance with Standard accounting practices is not only due to SMEs 'can't comply' with them, but also due to not complying with them even when they are able to comply. The researcher finally makes recommendations to the policy makers, government and professional accounting bodies to design the policies and frameworks to ensure SMEs' compliance with standard accounting practices.

Key words: SME Accounting, Standard Accounting Practices, SME, Auditors, SLASSE