

# **Relationship between Financial Reporting Practices and Financial Performance of SMEs in Western Province, Sri Lanka**

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## **Abstract**

The primary aim of this study was to examine the correlation between financial reporting practices and the financial performance of small and medium-sized enterprises (SMEs) in the Western province of Sri Lanka. SMEs are recognized as a vital sector due to their contributions to employment, Gross Domestic Production (GDP), innovation, and poverty alleviation. Considering factors such as data availability and time constraints, the researcher opted for a sample of 120 SMEs of which 85 responded. These SMEs operated within the manufacturing building and construction sectors, and the study was confined to the Western province of Sri Lanka. The research employed descriptive statistics, utilizing a questionnaire distributed via email as the primary method for data collection. The sample was gathered through stratified random sampling. The findings indicated a significant relationship between financial reporting practices and the financial performance of small and medium-sized enterprises in the Western province of Sri Lanka. Additionally, the study revealed that financial reporting practices play a role in enhancing the financial performance of SMEs in Sri Lanka. The study indicates a positive relationship between financial reporting practices and financial performance in SMEs. This suggests that SMEs with improved financial reporting practices tend to perform better. To foster a conducive environment for SMEs, there is a need for government support in establishing and promoting financial reporting standards.

**Keywords:** Financial Reporting Practices, Financial Performance, Small and Medium-Sized Enterprises.