INFLUENCE OF INFORMAL ACCOUNTING RECORDS ON FINANCIAL PERFROMANCE EVALUATION OF MICRO ENTERPRISES IN KANDY DISTRICT IN SRI LANKA

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INTRODUCTION

The complexity of business is increased with the development of technology and globalization. As a result of it the requirement of keeping accounting records has also increased. Accounting records are identified as manual or computerized documentation of organization's financial transactions. Therefore, most of the businesses have identified the importance of the accounting records globally (Rahamon and Adejare ,2014). Therefore, these proper accounting records causes to take powerful decisions with valid and reliable financial data which leads to success of a business (Rathnasiri,2014). In Sri Lankan context also, it is necessary to maintain accounting records under Sri Lanka Accounting standards (SLFRS/LKAS) and Company law of Sri Lanka.

Micro, small and medium enterprises (MSMEs) are perceived as the engine in the world. Moreover, micro enterprises take highest contribution of this with the job creation and economic growth in an economy (Kamau, 2015; Nakhaima, 2016). In Sri Lankan context also, Micro and SME can be identified as the backbone of the economy (Premaratna,2021). When it comes to the discussion of the the problems related to micro enterprises, majority of them do not maintain proper accounting records (Musah, 2017). It is due to various reasons such as lack of sound knowledge regarding keeping records, low educational background, or unskilled accounting staff (Rahamon and Adejare (2014). Sooriyakumaran et al. (2020), states that poor record keeping, or non-availability of financial records have consequences of mismanagement of resources and poor cash management. Misuse, untimely, poor record keeping, and inaccurate accounting records creates poor financial decisions (Kahsay & Zeleke ,2019). Because of these problems enterprise's financial performance is affected adversely.

In order to address this problem researcher has explored four main objectives. The first is to identify the source documents and primary books used by the entity to prepare accounting records. Second, to identify the types of financial statements derived by the entity. Next, to examine the impact of financial records on performance evaluation of business entity. Finally, to determine the relationship of informal accounting records on financial performance evaluation. Tested research model has four variables and demonstrate relationship with financial performance evaluation named as mental accounting, accounting records, financial record management and financial literacy.

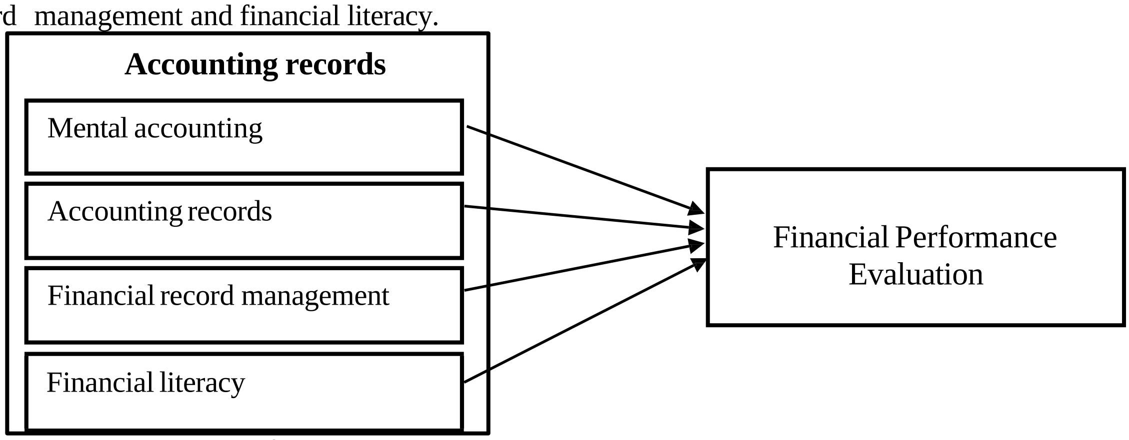

Figure 1: Conceptual framework

Table 1 - Operationalization

Variable	Dimension	Source
Accounting records	Mental Accounting Accounting Records Financial Record Management Financial literacy	A. Tversky and Daniel Kahneman, (1974) Musah and Ibrahim, (2014). Barata and Routledge, (2001) Huston, (2010).
Financial Performance	Growth in sales/ Profit Return on Asset Return on Equity	Kamau, (2015) Micheal, (2005)

Source: Author constructed

METHODOLOGY

A structured questionnaire was used to collect primary data from 240 owners of micro enterprises in Kandy district. Study used descriptive statistical and inferential statistical to analyses the collected data with the SPSS 21.0. Since the study was a quantitative it has been checked for validity and reliability of the study. Correlation analysis is used in this study to demonstrate the relationship between independent and dependent variables. Regression analysis of this study demonstrates the mathematical relationship of the variables. Likert scale questions were used to evaluate the relationship among dependent, independent variables. Study's Cronbach's alpha was found more than 0.70 value. Hence, each variable has high internal consistency among the indicators. Data set of the study was tested for normality, multicollinearity and homoscedasticity. It is found that data are normally distributed, assumption of the homoscedasticity was met and no multicollinearity issues were found.

RESULTS AND DISCUSSION

Table 2 - Results of the model fit of the study

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.684[a]	.468	.461	.44890

Source: Author constructed

The model fit explains that all the independent variables have moderately good model which accounts to variance in dependent variable. The proportion of the variance for a dependent variable is explained by an independent variable. According to R square, the independent variables account for 46.8% of variance of the dependent variable.

Table 3 - Results of the coefficient table

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.939	.194		4.843	.000
MMA	.091	.051	.100	1.782	.076
MAR	.123	.059	.128	2.098	.037
MFRM	.261	.054	.269	4.804	.000
MFL	.278	.045	.334	6.114	.000

Results explained that all these three variables namely accounting records, financial record management and financial literacy have significant impact on financial performance evaluation ($p<0.05$). However, the relationship between mental accounting and financial performance evaluation was insignificant ($p>0.05$). Hence mental accounting was found to be not significant under this study.

Table 4 - Results of the ANOVA table

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	52.302	4	13.075	64.888	.000b
Residu	59.445	295	.202		
al	111.747	299			

Source: Author constructed

Theoretically, if the P value of a study is less than 0.05 a researcher will be able to reject null hypothesis (H_0). According to the table, calculated significant value of independent variables (Mental accounting, accounting records, financial record management and financial literacy) and dependent variable (financial performance) has been shown as 0.000 while it is less than 0.05. Therefore, the alternative hypothesis is accepted with 95% confidence level. Hence it is given that mental accounting, accounting records, financial record management and financial literacy have relationship with the financial performance evaluation of micro enterprises.

Table 5 - Results of the descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Mental Accounting	240	1.88	5.00	3.9196	.66643
Accounting Records	240	1.78	5.00	3.9885	.63650
Financial Record Mgt	240	1.67	5.00	4.0267	.63148
Financial Literacy	240	1.36	5.00	3.9139	.73361
Financial Performance	240	1.63	5.00	3.9246	.61134

Source: Author constructed

It shows that mean values of variables represent a value which was greater than 3 and by considering these values it can be explained that financial performance evaluation of micro enterprises is moderately higher. Under standard deviation financial performance represents 0.611. Theoretically it explains that higher standard deviation demonstrates greater spread in data, and it ranges in between -3 to +3.

Table 6 - results of Hypotheses

Hypotheses	**ρ**	**Result**
H_1	0.076	Rejected
H_2	0.037	Accepted
H_3	0.000	Accepted
H_4	0.000	Accepted

Source: Author constructed

CONCLUSIONS/RECOMMENDATIONS

The initial assumption of the relationship between mental accounting and financial performance was rejected by the regression analysis and all the other independent variables were accepted by regression analysis. Further it has been conducted that there is a significant relationship between accounting records, financial record management, financial literacy, and financial performance.

Relating to model impact of the study, it demonstrates a 46.8% variation of financial performance and therefore it can be assumed that there may be many other factors which are relevant to the financial performance evaluation. However, study revealed that the financial performance of micro enterprises is positively influenced by the accounting records, financial record management and financial literacy.

Study recommended to take measures to enhance the literacy level of overall financial education level. Furthermore, it recommends continuous trainings, improving record keeping practices will help to enhance the financial education level of owners.
In addition to that, owners should pay attention to keep the records in a computer-based repository. Since they have all the information of the business in their mind set of a person there may be a loss of information and it may lead to problematic situation for financial decision making. Therefore, it is recommended that owners of the entity's should pay attention to maintaining a guideline to keep proper accounting records in their business.

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