

# **In-Depth Analysis of the Incorporation of Financial Statements within the Decision-Making Process of Small and Medium Enterprises in Sri Lanka**

**Mohamed Najimudeen Ahamed Lebbe**

MJPACR, Sri Lanka, [almnajimudeen@gmail.com](mailto:almnajimudeen@gmail.com)

**Abstract:** This research investigates into the critical role of financial statements in the decision-making processes of small and medium-sized enterprises in Sri Lanka. Financial statements, including the Statement of Financial Position, Financial Performance, Cash Flow Statement, and Disclosures, serve as crucial tools for assessing a firm's financial health. However, many small and medium enterprises' owners in Sri Lanka face challenges in comprehending and effectively utilizing financial statements for informed decision-making. Neglecting financial information could directly make a negative impact on the performance of firms and going to lead to closing down entities. This study aims to bridge this gap by examining the utilization of financial statements and its impact on revenue in Small and medium-sized enterprises, considering factors such as educational level, business type, and external support for financial interpretation. A questionnaire-based approach was employed, and data were collected from 285 Small and medium-sized enterprises. The findings reveal that the level of an owner's understanding of financial statements directly influences their utilization for decision-making. Education, revenue, frequency of financial statement preparation, and business type are significant determinants of effective financial statement utilization. This research contributes valuable insights to enhance small and medium organizations' owners' financial management strategies and sustainable business practices.

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## **1. Introduction**

Financial statements are crucial tools for analyzing an organization's financial situation and performance. They usually take the form of the Disclosure of Information, Cash Flow Statement, Statement of Financial Position (Balance Sheet), and Financial Performance Report (Income Statement). A company's financial status and business performance during a certain period are summarized in these statements. A financial statement refers to a summary explaining or providing a picture of the financial position and business performance (Atrill & McLaney 2015). When preparing financial statements, businesses must follow generally accepted accounting principles and concepts. The Institute of Chartered Accountants in Sri Lanka has issued accounting standards designed exclusively for small and medium-sized businesses to support them create accurate financial accounts. However, despite the importance of reliable and timely financial information, many small and medium-sized firms in Sri Lanka face challenges in preparing and interpreting financial statements. Owners often lack the necessary skills and knowledge to effectively utilize financial statements when making business decisions. Having reliable and timely financial statements is insufficient because owners also must understand how to interpret and use financial statements (Van Auken, 2005).

Owners of small firms, however, are too often not fully equipped to effectively use financial statements when making a decision (Shawn Carraher, 2011). This Poor utilization of financial statements in the decision-making process may result in significant business failures. To avoid this, owners should link their decisions closely to the firm's strategic goals and understand the financial impact of their choices. Organizations may assess and identify investment possibilities by analyzing the data in financial statements. The use and interpretation of the information contained in financial statements can be influenced by an owner's perceptions of their firm's potential (Shawn Carraher, 2011). In Sri Lanka, many small and medium-sized firms were established with the association of family members, and family members are continuously operating businesses. The owners or family members may interpret financial statements differently, leading to varying decision-making processes. External assistance in interpreting data in financial statements equips owners to make better decisions. The poor attention given to preparing financial statements in small and medium-sized firms in Sri Lanka can be attributed to a lack of financial knowledge and its impact on decision-making. Many owners may not possess strong financial skills, making it challenging for them to fully understand the consequences of their decisions for the firm. Small and medium-sized businesses must invest in financial education and, where necessary, seek expert help to deal with these issues. Owners may improve their financial literacy, secure the success of their companies, and grasp the significance of financial statements by learning more about them.

### **2.1. Literature review**

A financial statement is a crucial tool for assessing the financial health of a firm and includes four main statements: Statements of Financial Position, Financial Performance, Cash Flow Statement, and Disclosures. The Statement of Financial Position could display assets, liabilities, and how these assets are financed at a specific time. The Financial Performance statement provides details on the company's profits and losses for a specified time frame, typically one calendar year. The Cash Flow Statement tracks the movement of cash in and out of the firm. Disclosures provide additional details and clarifications. Small firms' owners may lack the skills and knowledge to fully understand and evaluate financial information to make informed decisions. Owners who are not comfortable

in using financial statements to inform their decisions are likely to use their financial statements less than owners who are more comfortable in using their financial statements. (Shawn Carraher 2011).

Employees who are skilled at comprehending and analyzing financial statements should explain financial statements to owners so they can make informed financial decisions. Internal expertise would be expected to facilitate greater interaction and explanation between the owner and staff expert (Smallbone et al, 1993). However, in some cases, small and medium-sized firms in Sri Lanka may lack internal expertise and rely on family members or relatives to manage their finances. Several factors could influence the use of financial statements in the financial decision-making process of small and medium firms in Sri Lanka.

The educational level of owners can significantly impact financial decisions in small and medium-sized firms. Many owners in Sri Lanka do not possess advanced-level education, which can lead to misinterpretation and misunderstanding of financial statements. Higher education has been shown to increase access to traditional debt and investment funding (Carter et al., 2003). Financial literacy is crucial for making informed decisions about money management (Hayes, 2010), and a lack of financial skills may necessitate training for owners on using financial statements (Berger and Udell, 1998). In Sri Lanka, many small and medium firm owners do not make any investments in more than one sector due to a lack of knowledge in financial literature. This means that small and medium-sized firm owners make investments in sectors in which they have already started up a business.

The revenue level of small and medium firms can also influence financial management decisions. Higher revenue allows for the recruitment of skilled staff and affects both operational and strategic decisions. The level of revenue, sometimes used as a proxy for firm size, affects many dimensions of small firm decisions that include both operational and strategic decisions. (Shawn Carraher 2011) Changing revenue commonly directly impacts a firm's perspective on resource constraints and needs. (Byers et al, 1997). Neeley and Van Auken (2010) found that the level of revenue was one factor affecting small firms' decisions.

The use of computer-based accounting systems for generating financial statements is prevalent among small and medium firms in Sri Lanka. However, the frequency of financial statement preparation can vary. Firms that have financial statements prepared more often may be less sophisticated and have less understanding of how important financial statements are in making decisions (Cassar, 2009).

The quality of information received from financial statements is crucial for decision-making. Many small and medium firm owners in Sri Lanka seek external support to interpret financial statements due to confusion about the information's reliability. Sian and Roberts (2009) reported that owners' understanding of financial statements varies widely, and they are often confused by the information.

The educational level and understanding of financial statements by owners are closely related to their personalities, which can influence the usage of financial statements in decision-making. All small and medium firms in Sri Lanka prepare annual financial statements for legal purposes, which means small and medium firms must submit annual reports to the Inland Revenue Department for tax purposes.

In conclusion, the researcher expected to examine how small and medium firm owners in Sri Lanka utilize financial statements in their decision-making process, considering factors such as educational level, revenue, personality, and reliance on external support for financial interpretation.

## **2.2. . Objective of the Research**

The research is interested in finding out how small and medium firms use financial statements in their day-to-day decision-making process and what the impact of using financial statements is on their revenue.

### **3.1. Research Problem**

While a limited number of studies have examined the utilization of financial statements in the decision-making processes of small and medium-sized enterprises, a significant gap exists in understanding how owners of small and medium-sized firms in Sri Lanka specifically employ financial statements for decision-making. Existing literature in financial management suggests that several factors, such as the unique characteristics of firms, their revenue profiles, owners' knowledge, experiences, and willingness to engage with financial information, could all play crucial roles in influencing the integration of financial statements into the decision-making process of these Small and medium-sized firms.

It's noteworthy that a substantial proportion of small and medium-sized firms face closure within a few years, often attributed to challenges like financial mismanagement and the neglect of financial statement utilization during decision-making. Addressing this gap, the research seeks to explore the intricate ways in which financial statements can be connected within the decision-making processes of Small and medium-sized firms in Sri Lanka. The investigation aims to encompass the operational level, where immediate and tactical decisions are made, as well as the strategic level, where the overarching direction is set.

In essence, the research aims to unravel the enigma of how small and medium-sized firm owners can effectively leverage financial statements to make informed decisions. By investigating into this uncharted territory, the study aspires to provide valuable insights that can empower small and medium-sized firms to bolster their financial management strategies, potentially mitigating closure risks and fostering long-term sustainability.

### **3.2. Research Hypothesis**

**H1:** The level of an owner's financial statement understanding is directly related to their utilization of financial statements for decision-making.

**H2:** The level of an owner's financial statement understanding does not have a positive correlation with their utilization of financial statements for decision-making.

**H3:** An owner's utilization of financial statements for decision-making is positively linked with variables such as comprehension of financial statements, previous year's revenue, educational attainment, financial statement preparation, and business type.

**H4:** An owner's utilization of financial statements for decision-making is not positively linked with variables such as comprehension of financial statements, previous year's revenue, educational attainment, financial statement preparation, and business type.

### 3.3. Research Methodology

The researcher employed a questionnaire-based approach to investigate the research hypotheses. The questionnaire design draws on insights from existing literature and the researcher's expertise in finance. The questionnaire encompasses two main segments: demographic information and details concerning the utilization and comprehension of financial data.

The collection of demographic data serves to capture information about factors such as the firm's operational tenure, organizational structure, business type, owner's gender, and revenue. The second segment is tailored to assess the research hypotheses. The researcher chose a convenient research method to select a sample for the research. The research selected convenience sampling, which involves selecting participants based on their availability and accessibility to the researcher. Since the researcher distributed questionnaires directly to the owners of the SMEs, convenience likely played a role in selecting which businesses to include in the study. The selection of small and medium enterprises was guided by their adoption of appropriate accounting systems in their day-to-day operations. For this study, 350 small and medium firms in Sri Lanka were chosen. The distribution of 350 questionnaires was carried out among the owners; however, the researcher received 285 valid responses from this pool of small and medium-sized firms.

The study identifies two dependent variables: the owner's capacity to comprehend financial statements and their utilization of these statements in decision-making. Additionally, four independent variables were chosen to assess the research hypotheses. Based on prior research, the following equation was formulated by the researcher to empirically test these hypotheses.

$$\text{AUFS} = a_0 + b_1\text{Rev} + b_2\text{Freq} + b_3\text{Edu} + b_4\text{TOB}$$

$$\text{UFDM} = a_0 + b_1 \text{ AUFS} + b_2\text{Prep} + b_3\text{Rev} + b_4\text{Edu} + b_4\text{TOB}$$

AUFS = Ability to Understand Financial Statements

UFDM = Using Financial Statements in Decision-Making

b1Reve = Previous Year's Revenue

b2 Freqe = Frequency of Preparing Financial Statement

b3 Educ = Education Level of Owner

b4TOB= Type of Business

The researcher first used descriptive statistics to see the basic frequency of variables and ordinal regression to examine the research hypothesis. They utilized the mean value (arithmetic mean) as a metric to assess the comprehension of financial statements among owners of small and medium-sized enterprises. The scale used ranged from 0, indicating no understanding of the financial statement, to 2 for understanding any of the two components of the financial statement, 3 for understanding all parts of the financial statement (statement of financial statement, statement of performance report, notes to financial statements, and cash flow statement), to 4, for a comprehensive understanding, including interpreting various components like the statement of financial position, performance report, notes to financial statements, and cash flow statement, as well as calculating ratios from the financial

statement. The second dependent variable was gauged with values: 1 signifying never utilization of financial statements in decision-making processes, 2 representing some time, 3 indicating often, and 4 indicating always using financial statements always in decision-making.

In the primary equation, the interrelationship between the dependent variable and independent variables was explained. The independent variable "frequency of preparing financial statements" was assessed on a scale of 1 (never) to 5 (annually), denoting the frequency of financial statement preparation. (1 = never, 2 = monthly, 3 = quarterly, 4 = every half year, 5 = annually). The previous revenue is the net revenue earned in the last financial year. The researcher divided net revenue into four categories: less than 1 million per annum, less than 2 million per annum, less than 1 million per annum, and more than 3 million per annum. There are seven sector organizations selected for the study purpose: Service Sector, Retailer or Wholesale multi-business, Hotels, Manufacturing, Agriculture Business, Text Tiles, and Others.

The education level of the independent variable was quantified with the following values: 0 (not educated or below Ordinary Level), 1 (educated up to Ordinary Level or equivalent to NVQ 3), 2 (educated up to Advanced Level or NVQ 4), and 3 (educated up to Degree Level or equivalent qualification), and 4 (postgraduate or Higher Qualification).

#### **4. Data Analyzing**

##### **4.1 Descriptive Data Analyzing**

Table 1 presents the distribution of survey respondents across various categories. Among the businesses surveyed, 65 were categorized as service sectors, followed by Text Tiles (61), and Retails or Wholesale Multi-Business (40). Hotels and Agree Business accounted for 39 and 35, respectively. Concerning annual net revenue, the largest percentage of participating firms (126) reported net revenues exceeding 2 million rupees. Additionally, 68 participants stated their revenue exceeded 3 million rupees annually. Regarding the frequency of preparing financial statements, around 74 respondents reported preparing these statements annually, while others reported doing so monthly (72), quarterly (67), or half-yearly (72). The collected data indicated that 154 participants held a Bachelor's Degree as their highest academic qualification. Moreover, 60 participants possessed an Advanced Level qualification, and 51 respondents stated they had a postgraduate degree qualification. The majority of respondents indicated they understood all components of financial statements but struggled with the disclosure aspect of these statements. Specifically, 87 participants mentioned they fully comprehended all parts of the financial statements, including disclosures. Others reported understanding one or more parts of financial statements. Interestingly, 35 participants claimed to never use financial statements in their decision-making processes, while the rest utilised them for financial decision-making. A total of 209 firms reported having more than 4 years of experience in their respective businesses.

**Table 01***Results of Descriptive Statistics*

No	Variables	Frequency	Type of Variable
01	Service Sector	65	Type of Business
	Retailer or Wholesale Multi Business	40	
	Hotels	39	
	Manufacturing	28	
	Agriculture Business	35	
	Text Tiles	61	
	Others	17	
02	Less than 1 Million per annum	32	Net Revenue
	Less than 2 Million per annum	59	
	Less than 3 Million per annum	126	
	More than 3 Million per annum	68	
03	Monthly	72	Frequency of Preparing Financial Statements
	Quarterly	67	
	Half Yearly	72	
	Annually	74	
04	Ordinary Level	20	Educational Qualification
	Advanced Level	60	
	Degree Level	154	
	Post Degree Level	51	
05	Understanding any components	31	Ability to Understand Financial Statements
	Understanding any two components	38	
	Understanding all parts of Financial Statements but not discloser	129	
	Understanding all parts of Financial Statement with discloser	87	
06	Never	35	Using Financial Statements in Decision Making
	Sometimes	41	
	Often	161	
	Always	48	
07	Less than 4 Years	76	Age of Business
	Less than 8 Years	87	
	Less than 12 Years	59	
	More than 12 Years	63	

**4.2 Reliability of Data****Table 2**

<i>Reliability Statistics</i>	
Cronbach's Alpha	No.of Items
.764	7

The researcher employed Cronbach's Alpha test to assess the data's reliability for the research. The calculated Cronbach's Alpha value of .764 indicates a high level of reliability in the data, affirming its suitability for use in the research.

**Table 3**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
Constant	-.157	.155		-1.014	.311		
AUFS	.312	.048	.335	6.450	.000	.477	2.096
Prep	.331	.031	.430	10.637	.000	.789	1.267
Rev	.187	.038	.200	4.929	.000	.786	1.273
Edu	.088	.054	.081	1.623	.010	.520	1.924
ToB	.021	.016	.050	1.374	.171	.964	1.037

The researcher conducted Variance Inflation Factor (VIF) analysis to explore the relationship between independent variables and detect any multicollinearity among them. The analysis resulted shown in table 3 and revealed VIF values ranging from 1.037 to 2.096 across all independent variables, indicating the absence of severe multicollinearity within the model. Additionally, all tolerance values exceeded 0.5, which is commonly deemed acceptable.

**Table 4**

<i>Ordinal Correlation Analysis</i>				
Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Intercept Only	583.870			
Final	392.227	191.643	8	.000
Pearson		430.199	451	.752
Deviance		317.581	451	1.000
Cox and Snell			.490	
Nagelkerke			.535	
McFadden			.273	
Link function: Logit.				

Table 4 explained model fitting information. The chi-square statistic's significance ( $p < .000$ ) suggests that the Final model significantly enhances predictions compared to the baseline intercept-only model. This indicates that the model's predictions are more accurate in predicting the association between the dependent variable and Ability to Understand Financial statements and independent variables: Previous year's Revenue, Frequency of Preparing Financial statements, Education Level of the owner, and Type of Business. Goodness-of-Fit statistics are used to assess the congruence between the observed data and the model that has been fitted. We initiated the analysis with the null hypothesis, a low significance value (such as "0.000") suggests that the model's fit is significantly different from what would be expected. In this analysis, the Pearson Significant .752 pointed out that the model data fit for the analysis. The pseudo-R-Square values for Nagelkerke = 53.5% pointed out that the dependent variable, the ability to understand the financial statement, was explained relatively more than 53% by the four independent variables: Previous year's Revenue, Frequency of Preparing Financial statements, Education Level of the owner, and Type of Business. The ordinal regression analysis demonstrates a favorable degree of accuracy in forecasting the association between the Ability to Understand the Financial Statement and four independent variables: The previous Year's Revenue, the Frequency of Preparing the Statement, the Education Level of the owner, and the Type of Business, as indicated by the Nagelkerke.535. The research accepted the alternative hypothesis that the



level of an owner's financial statement understanding is directly related to their utilization of financial statements for decision-making.

**Table 5**

<i>Parameter Estimates</i>								
		Esti- mate	Std. Er- ror	Wald	Df	Sig.	95% Confidence In- terval	
							Low er Boun d	Upper Bound
Threshold	[AUFS = 1]	-4.982	.743	44.923	1	.000	-6.438	-3.525
	[AUFS = 2]	-3.090	.700	19.482	1	.000	-4.463	-1.718
	[AUFS = 3]	.194	.661	.086	1	.769	1.102	1.491
Location	TOB	-.014	.060	.054	1	.817	-.132	.104
	Rev	.410	.147	7.809	1	.005	.123	.698
	[Freq=2]	-1.106	.392	7.973	1	.005	-1.874	-.338
	[Freq=3]	-.379	.343	1.221	1	.269	-1.052	.293
	[Freq=4]	-.270	.337	.645	1	.422	-.930	.389
	[Freq=5]	0 <sup>a</sup>	.	.	0	.	.	.
	[Educ=1]	-5.514	.685	64.824	1	.000	-6.857	-4.172
	[Educ=2]	-3.979	.485	67.316	1	.000	-4.929	-3.028
	[Educ=3]	-1.435	.350	16.813	1	.000	-2.121	-.749
	[Educ=4]	0 <sup>a</sup>	.	.	0	.	.	.

Link function: Logit.  
a. This parameter is set to zero because it is redundant.

Researchers can draw statistical conclusions about the effects of various factors on the binary outcome using these parameter estimations and the corresponding statistics. Education appeared to be a categorical predictor with different levels: 1, 2, 3, and 4. The estimates for different levels of education indicate that their effects on the dependent variable are negatively associated with the Ability to Understand Financial Statements. The estimated effect for revenue is 0.410, indicating an increase in the log odds of the Ability to Understand Financial Statements. The p-value is statistically significant ( $p = 0.005$ ).

**Table 6**

<i>Model Fitting Information</i>				
Model	-2 Log Like- lihood	Chi- Square	Df	Sig.
Intercept Only	653.753			
Final	334.661	319.091	14	.000
Pearson		754.926	742	.363
Deviance		327.730	742	1.000
Cox and Snell			.674	
Nagelkerke			.747	
McFadden			.483	

Link function: Logit.

Table 6 provides insight into the adequacy of the model fit. The highly significant chi-square statistic (p.000) indicates that the Final model substantially improves predictions in contrast to the basic intercept-only model. This underscores the enhanced accuracy of the model's predictions concerning the relationship between the dependent variable "Using Financial Statements in Decision-Making" and the independent variables, namely: Previous Year Revenue, Frequency of Preparing Financial Statements, Education Level of the owner, type of Business, Ability to Understand Financial statements. Goodness-of-Fit statistics serve the purpose of evaluating how well a fitted model aligns with the actual observed data. The initial assumption, known as the null hypothesis, is made at the start of the analysis. A small significance value, often denoted as "0.000," indicates a noteworthy disparity between the model's fit and the anticipated outcome. In this specific assessment, the Pearson Significance value of .363 indicates that the model reasonably conforms to the observed data in the analysis. The Nagelkerke pseudo-R-Square values, specifically at 74.7%, signify that the extent to which the dependent variable, the capacity to comprehend financial statements - was illuminated is notably greater than 74% by the presence of the five independent variables: Previous Year Revenue, Frequency of Preparing Financial Statements, Education Level of the owner, Ability to Understand Financial Statements and Type of Business. The conducted ordinal regression analysis showcases a promising level of precision in predicting the connection between the Using Financial Statements in Decision Making and the five independent variables: Ability to Understand Financial Statements, Previous Year's Revenue, Frequency of Preparing Statements, Owner's Education Level, and Business Type. This assertion is supported by the Nagelkerke value of .747. The research proved the alternative hypothesis, affirming a direct correlation between Using Financial Statements in decision-making and five independent variables.

**Table 7**

<i>Parameter Estimates</i>		Estimate	Std. Error	Wald	Df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Thres hold	[UFDM = 1]	-6.261	1.050	35.544	1	.000	-8.319	-4.202
	[UFDM = 2]	-2.732	.898	9.258	1	.002	-4.492	-.972
	[UFDM = 3]	2.810	.859	10.692	1	.001	1.126	4.494
Loca- tion	TOB	.121	.073	2.721	1	.099	-.023	.265
	Rev	.655	.180	13.199	1	.000	.302	1.008
	[Freq=2]	-4.977	.620	64.428	1	.000	-6.193	-3.762
	[Freq=3]	-1.312	.464	7.980	1	.005	-2.222	-.402
	[Freq=4]	.505	.395	1.636	1	.201	-.269	1.279
	[Freq=5]	0 <sup>a</sup>	.	.	0	.	.	.
	[Educ=1]	-.016	.844	.000	1	.984	-1.671	1.639
	[Educ=2]	-.254	.604	.177	1	.674	-1.437	.930
	[Educ=3]	.833	.416	4.009	1	.045	.018	1.649
	[Educ=4]	0 <sup>a</sup>	.	.	0	.	.	.
	[AOB=1]	-.935	.436	4.601	1	.032	-1.789	-.081
	[AOB=2]	-.541	.407	1.770	1	.183	-1.339	.256
	[AOB=3]	-.449	.432	1.081	1	.299	-1.295	.397
	[AOB=4]	0 <sup>a</sup>	.	.	0	.	.	.
	[AUF=1]	-4.121	.783	27.721	1	.000	-5.655	-2.587
	[AUF=2]	-2.429	.608	15.958	1	.000	-3.621	-1.237
	[AUF=3]	-1.595	.362	19.396	1	.000	-2.305	-.885
	[AUF=4]	0 <sup>a</sup>	.	.	0	.	.	.

Link function: Logit.  
a. This parameter is set to zero because it is redundant.

It was observed that the Ability to Understand Financial Statements was significantly correlated with Using Financial Statements in the Decision-Making Process. Further, Type of Business and Frequency of Preparing Financial Statements were also correlated with Using Financial Statements in Decision-Making Process.

## **5. Conclusion**

The research highlights the fundamental role of financial statements in guiding the decision-making processes of small and medium-sized enterprises in Sri Lanka. The findings underscore the importance of small and medium firm owners' understanding of financial statements and its direct correlation with their utilization for decision-making. Educational attainment emerges as a key factor influencing effective financial statement utilization, with higher levels of education positively impacting owners' ability to leverage financial information.

The study demonstrates that revenue level significantly influences small and medium firms' financial management decisions, suggesting that higher revenue enables small and medium enterprises to access skilled staff and make more informed operational and strategic choices. Additionally, the frequency of preparing financial statements is shown to affect the comprehension and utilization of financial information. Small and medium enterprises that prepare financial statements more often tend to have a deeper understanding of their financial situation and are more likely to use financial statements in their decision-making processes.

Furthermore, the research emphasizes the significance of external support and expertise in interpreting financial statements. Many small and medium enterprise owners seek external assistance due to the complexities of financial information, underlining the importance of enhancing financial literacy among small and medium enterprises. The findings provide valuable insights for small and medium enterprises to invest in financial education and seek expert guidance to improve their financial management practices and ensure business sustainability.

The research offers actionable recommendations for small and medium enterprises owners to enhance their financial literacy, leverage financial statements effectively, and make informed decisions that contribute to their long-term success and sustainability.

The research presented valuable insights into the utilization of financial statements by small and medium-sized enterprises (SMEs) in Sri Lanka, but it's important to acknowledge certain limitations inherent in the study:

1. The study employed convenience sampling, which may introduce bias into the results. The respondents were selected based on their availability and accessibility, which might not accurately represent the entire population of SME owners in Sri Lanka.
2. While the study considered some factors that influence the use of financial statements in the decision-making process, such as education level, revenue, and frequency of preparing financial statements, there may be other variables that could influence financial statement utilisation and decision-making. For instance, factors like access to finance, industry-specific challenges, or cultural factors were not explored in depth. These factors were not considered in the research.

Several gaps could be addressed to further deepen the understanding of financial statement utilisation and decision-making processes in small and medium-sized enterprises (SMEs). Here are some potential areas for future investigation:

- a. Comparative research across different countries or regions
- b. Given the diversity of industries represented within the SME sector, future research could explore how financial statement utilisation varies across different sectors.

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