

Users SME owners and accountants' perceptions of financial information in small and medium sized entities: A Sri Lanka Case Study

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Abstract

Purpose: This paper aims to examine the perceptions of owners and accountants of small and medium sized entities (SMEs) **on the users and their financial information needs of SME financial reporting.** ~~adoption of International Financial Reporting for Small and Medium sized entities (IFRS for SMEs).~~

Methodology/ Research Approach: Postal questionnaire surveys with owners and accountants of SMEs were used to identify users and their financial information needs. In total, 1498 questionnaires were sent to SME owners, and accountants. A total of 358 questionnaires were returned, generating 323 usable questionnaires. The management branch of stakeholder theory is used for the study which asserts that company management is expected to meet the expectations of those stakeholders who are more powerful than others.

Results: The users of Sri Lanka SME financial information were limited to owners, banks and Department of Inland Revenue. Users and financial information needs of owners varied in relation to the size of the SME. Financial information are useful for making capital investment and planning decisions for owners regardless of the size of the SME. By sharing information with outside parties, disclosures can diminish information asymmetries between the firms and its stakeholders. The top three reasons for which owners use SME financial information are for planning purposes, estimating income tax liabilities, and taking marketing and pricing decisions.

Implications: This paper extends existing knowledge on users and their financial information needs of SMEs in developing countries. Consequently, the findings of this paper make a valuable contribution to the work of practitioners such as local and international standards-setters and regulators who may be considering developing/revising financial reporting framework for SMEs either worldwide or in developing countries.

Originality: Although SME financial reporting has attracted enormous attention in the recent accounting literature, academic research into SME financial reporting is scant. This paper extends existing knowledge on users and their financial information needs of SMEs in developing countries. The general purpose financial reporting model and the accounting standard IFRS for SMEs in particular would not be applicable to Sri Lankan SMEs unless it modifies to reflect the financial information needs of users of Sri Lankan SME financial information.

Key words: Financial reporting; Small and medium sized entities (SMEs); Developing countries, IFRS for SMEs, Stakeholder theory

SME owners and accountants' perceptions of financial information in small and medium sized entities: A Sri Lanka Case Study

1. Introduction

The economic importance of SMEs, especially in developing countries,¹ has been widely documented (see, for example, Matsoso et al., 2021; Kaawaase et al., 2020; Kuruwitaarachchi et al., 2020; Masbuqin et al., 2020; Wijekoon et al., 2022). For example, in Sri Lanka, SMEs account for more than 90 per cent of total number of industrial establishments (Fonseka et al., 2022; Perera et al., 2022) and contribute 52 per cent to the country's Gross Domestic Product (GDP) (Sri Lanka Export Development Board, 2021). Given that SMEs are increasingly important in the economy of developing countries, it is equally important that there is a clear set of principles underpinning financial reporting for these entities.

Financial reporting of SMEs has attracted enormous attention in the accounting literature especially after the issuance of the accounting standard International Financial Reporting Standards for Small and Medium-sized Entities (*IFRS for SMEs*) by the International

¹ World Bank defines a developing countries as those with “low income and middle income economies” (World Bank, 2015 p. 18). The term *country*, is used interchangeably with *economy*. The term *developing country* is used interchangeably with *emerging country*.

Accounting Standards Board (IASB).² Sri Lanka adopted this accounting standard with effect from 1 January 2012. *IFRS for SMEs* is aimed at entities that publish general purpose financial reports and are not publicly accountable (International Accounting Standards Board, 2009).

However, how the IASB developed the standard has attracted opposition. A major criticism was the ‘top down’ approach using a framework that is biased towards large and/or listed companies (Devi and Samujh, 2014; Di Pietra et al., 2008; Evans et al., 2005; Perera et al., 2022). Unlike large entities, SMEs are more likely to focus on survival than on growth and profit maximisation (Hasle, Limborg, Kallehave, Klitgaard, and Andersen, 2012; Samujh, 2011; Wijekoon et al., 2022). Additionally, the separation of ownership and control is not common in the majority of SMEs (Carsberg, Page, Sindall, and Waring, 1985; Sassi and Damak-Ayadi, 2022) and most of them are formed and operated as family businesses (Fox, Nilakant, and Hamilton, 1996; Motwani, Levenburg, Schwarz, and Blankson, 2006; Tatoglu, Kula, and Glaister, 2008; Wijekoon et al., 2022). It is claimed that smaller firms have fewer financial statement users and different information needs than larger ones (Di Pietra et al., 2008; Evans et al., 2005; Sassi and Damak-Ayadi, 2022) and difficult to design a single standard useful for the heterogeneous group of entities (Di

² The IASB was founded in 2001 and was preceded by the International Accounting Standards Committee (IASC) from 1973 to 2000. In this study, both will be referred to as the IASB and the term IFRS used, when referring to the entire set of standards issued by the IASC and the IASB.

Pietra et al., 2008; Eierle and Haller, 2009; Eierle, Haller, and Beiersdorf, 2007; Evans et al., 2005). Thus, a critical question that arises is whether the primary users of SME financial information remain same as the users of larger and/or listed companies.

In addition to these concerns, the IASB's project on *IFRS for SMEs* has been criticised for lack of inputs from developing countries in the discussions leading to the formulation of the standard (Bohušová and Blašková, 2012; Chand and Cummings, 2008; Devi and Samujh, 2014; Schutte and Buys, 2011; Singh and Newberry, 2009; Md Zaini et al., 2018). The summary of submissions to the Exposure Draft on the *IFRS for SMEs* shows that a substantial number of responses were received from the UK and Germany (Bohušová and Blašková, 2012; Singh and Newberry, 2009). No responses were provided by users of SME financial information, the intended recipients of the reports prepared under the *IFRS for SMEs*. The director of *IFRS for SME* project had established an informal user panel to obtain comments from the users' perspectives (Perera et al., 2022; Ram and Newberry, 2013). The panel membership however, was criticised by some board members of IASB as they were investments and security analysts who dealt mostly with large entities and were not appropriate individuals to comment on SMEs (Ram and Newberry, 2013). The adoption of a standard such as *IFRS for SMEs* that does not have the support of the international SME community could result in possible undesirable consequences.

An analysis of literature revealed a lack of empirical research and grounded studies from the developing countries on users and their information needs of SME financial information. Di Pietra et al. (2008), Evans et al. (2005), and Sian and Roberts (2009) who identified significant gaps in the research literature on SMEs, concluded that there was a lack of clarity about the users and their uses of SME financial information. Much of the extant literature focused on SMEs in general (Sian and Roberts, 2009, Sassi and Damak-Ayadi, 2022). The above deficiencies highlight a gap in the literature and provide a rationale for the present paper. This paper therefore, aims to examine the perceptions of owners³ and accountants on users and their information needs of SME financial reporting in a developing country context of Sri Lanka.

The research questions the paper attempts to address are:

1. What are the perceptions of SME owners' and accountants' on users of SME financial information and their information needs?
2. How do SME users and owner's financial information needs differ with regard to size of SMEs?

³ The term owners includes both non owner managers and owner managers of SMEs.

Given the paucity of empirical literature surrounding the issue associated with the users and uses of SME financial information in developing country settings, the results of the current study are expected to be of particular relevance to national and international standard setters who are currently grappling with the development/modification of financial reporting frameworks for SMEs. The current study provides empirical evidence that could be used to inform the international debate on SME financial reporting. The findings of this study have implications to standard setters in Sri Lanka and other developing countries and in particularly International Accounting Standards Board in revising and/or developing financial reporting framework for SMEs.

The remainder of this paper is organised as follows. First, a contextual understanding of the financial reporting environment in Sri Lanka is provided. Second, prior literature on users and uses of SME financial information is discussed. These sections enable to identify gaps in the literature and provide rationale for the paper. Third, the theoretical framework on managerial branch of stakeholder theory is presented. Fourth, the research method is outlined and the findings and implications for future research are discussed.

2. Research context

Sri Lanka was considered appropriate research setting because it is a developing country, and adopted International Accounting Standards for Small and Medium sized Entities

(IFRS for SMEs) in 2012. Sri Lanka is a tropical island nation with a total land area of 65,610 square kilometres. Sri Lankan SMEs are engaged in a wide range of business activities including agriculture, mining, fisheries, industry/manufacturing, construction, tourism and services in rural, urban and estate settings (Department of Census and Statistics, 2015). Sole ownership is the dominant legal status in SMEs (Department of Census and Statistics, 2015).

In Sri Lanka, there is no universal definition for SMEs. Various government agencies and other organisations use different criteria to identify SMEs based on their assistance programmes. For the data collection purpose of this study, SMEs defined as firms with 5-99 employees. This determination is consistent with the definition given by the World Bank's enterprise survey for Sri Lanka (World Bank, 2016). World Bank (2016) defines SMEs as firms with 5-99 employees for their enterprise survey data for Sri Lanka. This definition was selected because it helps to differentiate small businesses from larger businesses, and it allows for easy gathering of accurate, relevant and useful data from the Department of Census and Statistics of Sri Lanka. This study selects SMEs from a database maintained by the Department of Census and Statistics of Sri Lanka, which categorises entities on the criterion of number of employees. Based on the industrial survey conducted by the Department of Census and Statistics, (2013) three clusters of SMEs were identified as small SMEs (between 5 to 15 employees), medium SMEs

(between 16-39 employees) and large SMEs (between 40-99 employees) for analysing how SME users and their financial information needs differ according to the size of SMEs. Both state and private banks are the main capital providers to SMEs in Sri Lanka (Ministry of Finance and Planning, 2013). The donor agencies such as Asian Development Bank (ADB), and World Bank play an important role in granting loans and promoting SME sector activities in the economy (Ministry of Enterprise Development, 2012). The lack of developed accounting infrastructure has been identified by these aid agencies as a major obstacle to economic development in developing nations (Devi and Samujh, 2015; Kurtzman, Yago and Triphon, 2004). To this end, agencies such as the World Bank and the Asian Development Bank require certain standards of financial accountability from their aid recipients (Mir and Rahaman, 2005; Singh and Newberry, 2009).

Under the Companies Act No.7 of 2007, public company financial statements are open for public inspection, while private company financial statements are not. The Registrar may, by notice in writing require a private company to deliver to him financial statements of the company together with copies of any auditor's report on those statements (Companies Act, 2007). The Inland Revenue Act No. 10 of 2006 requires all listed companies and companies including partnerships, and sole proprietorships to submit their annual tax return to the Department of Inland Revenue together with financial statements

prepared by an approved accountant (Inland Revenue Act, 2006). Based on company's turnover or profits, certain proprietorships and partnerships are also required to submit audited financial statements (Inland Revenue Act, 2006).

The Institute of Chartered Accountants of Sri Lanka (ICASL) is the sole authority for promulgating accounting and auditing standards in Sri Lanka. Accounting Standards in Sri Lanka are based on the corresponding International Financial Reporting Standards (IFRSs) formulated by the International Accounting Standards Board (Institute of Chartered Accountants of Sri Lanka, 2014). Entities having public accountability are required to comply with the Sri Lanka Accounting Standards (SLFRSs), an equivalent of the International Financial Reporting Standards (IFRSs). Companies with non-public accountability produce general purpose financial statements and are required to comply with the Sri Lanka Accounting Standards for Small and Medium-Sized Entities (SLFRS for SMEs), an equivalent of the International Financial Reporting Standards for Small and Medium sized Entities (Institute of Chartered Accountants of Sri Lanka, 2012).

3. Users and uses of SME financial information

Reporting the stewardship of management and providing decision useful information for users are the two main objectives of financial reporting found in the conceptual frameworks (International Accounting Standards Board, 2009). The primary objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity (International Accounting Standards Board, 2010, p. 9). The rationale for the identification of users and uses of financial information is therefore, based on decision usefulness objective (Bandara and Falta, 2021; Perera et al., 2022; Son, Marriott, and Marriott, 2006; Wijekoon et al., 2022). The IASB argued that the information needs of users of SME financial statements were similar in most ways to those of users of publicly accountable entities' financial statements (International Accounting Standards Board, 2004). Financial statement users identified by the IASB in the *IFRS for SMEs* include: banks; vendors; credit rating agencies; customers; and shareholders that are not also managers of SMEs (International Accounting Standards Board, 2009). Users such as owner managers, and tax authorities are excluded from its scope as they have access to inside information (International Accounting Standards Board, 2009).

Earlier research carried out with auditors (see for example: Barker and Noonan, 1996; Carsberg et al., 1985; Page, 1984) and directors of SMEs in Ireland and the UK (see for example: Carsberg et al., 1985; Collis and Jarvis, 2000; Page, 1984; Sian and Roberts,

2009) showed that the most important users of SME financial information were entity directors, followed by tax authorities and banks or lenders. Trade creditors and customers were perceived to be less important users of financial information.

Carsberg et al. (1985) and Collis and Jarvis (2000) found that small company directors used financial statements to make decisions about directors' pay, bonuses and dividends. Collis and Jarvis (2000), Hellman et al., (2022) and Sian and Roberts (2009) further found that financial statements were useful for comparing performance across prior periods. Handley, Wright, & Evans (2018) find that SME users prefer less complex reports that provide information regarding an entity's liquidity, profitability and solvency. However, it appeared that financial statements were less useful for management purposes when compared to management information (Collis and Jarvis, 2000; Page, 1984; Sian and Roberts, 2009; Sassi and Danak-Ayadi, 2022). Hansye et al. (2021) summarise the feedback from the user survey and user interviews on the second comprehensive review of the IFRS for SMEs Standard and find that users of the financial statements of SMEs are particularly interested on information about short-term cash flows, obligations, commitments or contingencies, liquidity, and solvency.

The findings from the non-UK based studies (Canada and Germany) did not differ significantly from those of UK-based research in terms of user groups (see, for example:

Haller and Eierle, 2007; Maingot and Zeghal, 2006; Rennie and Senkow, 2009). Tax authorities and government agencies were found to be the main users of SME financial information in the study undertaken in a developing country, Vietnam by Dan-Duc, Marriott, and Marriott (2006). Banks were also considered as an important user of financial information (Dan-Duc et al., 2006; Perera et al., 2022). However, SMEs were reluctant to use banks as a source of finance due to the limitation in scope of business activities and complexity of bank lending procedures (Dan-Duc et al., 2006; Wijekoon et al., 2022).

In the IASB's accounting standard *IFRS for SMEs*, the stewardship role of financial statements is designed to show the results of the stewardship of management for the resources entrusted to it (International Accounting Standards Board, 2009). It is claimed that Stewardship plays an important role in information dissemination where the owners are not the managers of the entity (Mala and Chand, 2015).

However, research studies suggested that small companies are owner managed and have a small number of owners (Collis and Jarvis, 2002; Eierle and Haller, 2009). Page (1984) found the vast majority of directors of 413 UK small companies owned 50 per cent or more of the share capital. More studies conducted with UK small companies i.e., Collis (2008) and Collis and Jarvis (2000), provided similar results. The owner manager characteristic implied that the owners or shareholders could observe the behaviour of an

employed manager on a daily basis (McMahon and Stanger, 1995). Collis and Jarvis (2000) also asserted that the majority of owners or shareholders certainly had access to financial information for controlling and monitoring purposes, a situation which made the stewardship role of financial reporting to owners or shareholders “redundant”.

There are a number of important limitations in the literature on SME users and their financial information needs. Only a few studies examine the users and uses of SME financial information. Notably, research on SME financial reporting in the context of developing countries is rare. Further, much of the data used in the literature is now dated and even the more recent literature analyses data collected prior to 2010. Since 2009, SME financial reporting frameworks have undergone substantial reform. For example, the IASB introduced the *IFRS for SMEs* in 2009 and many countries including Sri Lanka subsequently adopted that standard. Therefore, up-to-date empirical data obtained on users and their financial information from this research is useful in evaluating accounting standards for SMEs. Further, scholars such as Deaconu, Popa, Buiga and Fulop (2009), Wijekoon et al., (2022) do not recommend unique standard for SMEs for all accounting systems (e.g. IASB) because of the cultural diversity that has stronger impact within the SMEs that usually have no international links and no strong need for a common language.

Additionally, much of the extant literature focuses on SMEs in general and does not distinguish between large SMEs, that may have external shareholders, and the small, and medium-sized SMEs. Evans et al. (2005), Sava et al., (2013), Barker and Noonan (1996), Demartini (2005) and Hellman et al., (2022) assert that differences in users and their needs exist within SMEs, especially between the very small entities and the large SMEs. How the information of financial statements is used by different user groups and how SME users and their financial information needs differ according to the size of SME are important issues to be understood. More importantly, this understanding is needed for developing a relevant financial reporting framework for SMEs.

For this study, we employ a managerial branch of stakeholder theory in order to identify users and their information needs of the SME financial reporting. Stakeholder theory asserts that an organisation is not only accountable to shareholders only but to other stakeholders as well (Al-Hazaima et al., 2021). The next section outlines the managerial branch of stakeholder theory used for the study.

4. Managerial branch of stakeholder theory

The management branch of stakeholder theory is used for the study which asserts that company management is expected to meet the expectations of those stakeholders who are more powerful than others (Deegan, 2006). The stakeholder theory is considered an ideal framework to apply in this study to identify users and their information needs of the SME

financial reporting. The stakeholder theory has been predominantly used in the corporation setting and less in other forms of organisation, such as, SMEs, which is the focus of this study. SMEs operate in an environment with multiple stakeholders. Stakeholder theory provides the theoretical basis for identifying users and their financial information needs of SME financial reporting.

An organisation should be accountable to not only the shareholders, but to other stakeholders as well (An et al., 2011; Horisch et al., 2020). According to Freeman (1984), a stakeholder is any group or individual who can affect or is affected by the achievement of an organisation's objectives. Stakeholders are those who have a stake in an organisation and perhaps have something at risk. Stakeholders usually include shareholders, creditors, employees, customers, suppliers, public interest groups, governmental bodies and the community. However, to which parties an organisation owes accountability is a question that needs to be answered. There are two branches of stakeholder theory: the ethical (normative) branch and the managerial (positive) branch, as for how to discharge accountability to various stakeholders. The ethical branch of stakeholder theory argues that organisations should treat all stakeholders fairly irrespective of their power. In accordance with Deegan and Samkin (2013), within the ethical branch of stakeholder theory, the organisation should provide all stakeholders information regarding how its activities affect them, even though they may choose not to use the information or even though they may not be able to impact the fate of the

organisation directly. This branch seems to be idealistic because the demands, needs and expectations from various stakeholders are different, sometimes even conflicting with one another, and as a consequence it is unlikely for the organisation to satisfy all stakeholders simultaneously. According to Gray, Owen, and Adams (2009), the ethical perspective of stakeholder theory or normative approach to accountability has limited descriptive or explanatory power in a social accounting context.

On the other hand, the managerial branch of stakeholder theory asserts that company management is expected to meet the expectations of those stakeholders who are more powerful than others (Deegan, 2006). The managerial branch states that the specific stakeholder group who has greater power differs between organisations. Such power may be related to the control of limited resources, including: finance and labour, access to the media, the ability to take legislative action against the company, or the ability to influence the goods and services consumed by the company (Deegan, 2006). The managerial branch advocates that the greater the importance (or power) of particular stakeholders, the greater the expectations of the stakeholders will be addressed by the management of the organisation (Deegan and Samkin, 2013; Guthrie, Petty, and Ricceri, 2006). The managerial branch seems to provide a more practical view than the moral branch for organisations to deal with the relationships with various stakeholders. Given these circumstances, organisations should selectively create and maintain the relationship with

different stakeholder groups. According to Deegan (2009), a successful organisation is the one that can meet the demands and expectations of the various significant stakeholders that it depends upon.

The stakeholder theory is considered an ideal framework to apply in this study to identify users and their information needs of the SME financial reporting. Phillips, Freeman, and Wicks (2003) consider that limiting the application of stakeholder theory to corporations only is a friendly misrepresentation. Phillips et al. (2003) are of the opinion that this happened because stakeholder scholars have paid almost exclusive attention to corporations and paid relatively much less attention to other forms of organisations, such as SMEs which are the focus of this investigation. SMEs operate in an environment with multiple stakeholders. These stakeholders directly and indirectly involve in the SME financial reporting. Thus, SMEs should attend to the expectations of particular stakeholders of financial reporting in order to provide information for their decision making. Further, Stakeholders of SME financial reporting will influence on SMEs' decision to adopt particular reporting practices. Stakeholders need informative and truthful financial reporting information for making appropriate decisions.

Therefore, stakeholder theory provides the theoretical basis for identifying users and their financial information needs of SME financial reporting. Since various stakeholder groups often have varying and conflicting expectations of the organisation, responding to

multiple stakeholders may be problematic (Balsler and McClusky, 2005). Unlike larger listed entities, SMEs have a few stakeholders who are interested of their financial reporting. As financial statements of these SMEs are not publicly available, their stakeholders of financial reporting is also limited. With the limited resources in hand, SMEs cannot satisfy the information needs of every stakeholder equally. It is therefore imperative to identify those stakeholders who could have the greatest influence on SMEs, in particular, on their financial reporting. Against this background, managerial branch of stakeholder theory provides the rationale for identification of the key stakeholders of SME financial reporting.

5. Research Method

A quantitative research method is used for the study. The purpose of quantitative research is to generate knowledge and create understanding about the social world (Burrell and Gross, 2017). Quantitative research relies on data which are measured or observed to examine the research questions about the sample population.

Postal questionnaire surveys with owners and accountants of SMEs were used to identify users and their financial information needs. As detailed in the literature, the majority of SME financial reporting research has been conducted mainly through surveys by using questionnaires (see for example: Collis, 2008; Collis and Jarvis, 2000, 2002; Dan-Duc et

al., 2006; Dang-Duc, Marriott and Marriott, 2008; Deakins and Hussain, 1994; Maingot and Zeghal, 2006; Page, 1984; Rennie and Senkow, 2009; Sian and Roberts, 2009). The next sub-section outlines the research design for the study.

5.1 Research Design

The questionnaire for the study was developed based on the questionnaires used in previous research (such as: Collis and Jarvis, 2000; Conseil National de la Comptabilité, 2008; Dang-Duc et al., 2008; Eierle and Haller, 2009; Maingot and Zeghal, 2006; Ploybut, 2012). The questionnaire used in the study is attached in appendix 1. The draft questionnaire was originally constructed in English and then translated into Sinhala as it was felt that owners of SMEs will be more comfortable in answering questionnaire in their own language. The questionnaire was pilot tested before it was used for the survey.

Identifying the sampling frame was a difficult because of the lack of a comprehensive database of SMEs in Sri Lanka. The most appropriate choice was the database available from the Department of Census and Statistics in Sri Lanka (Department of Census and Statistics, 2013). The profiles of SMEs in this database include the number of employees, industry classifications, mailing addresses (both e-mail and postal), and contact phone numbers. This database was used to select SMEs for the questionnaire survey. SMEs in the Western and Southern provinces in Sri Lanka were considered as the population of

the study. More than 50 per cent of Sri Lankan SMEs are located in these two provinces and contribute more than 50 per cent of the total employment for the region. (Department of Census and Statistics, 2013). There were 9,456 SMEs representing the Western and Southern provinces (Department of Census and Statistics, 2013).

Only small businesses with 5 to 99 employees were included. Public companies, state owned enterprises, and financial institutions were excluded from the sample. The sample of the study selected as approximately 15 per cent of the SME population of 9456. The Department of Census and Statistics of Sri Lanka uses 15 economic sections to categorise SMEs in their database. To select a sample that is representative of each economic section, categorical variable “economic section” was used for stratification. This divided the SMEs into subgroups or strata. The sample for the study was selected from each stratum using a simple random sampling technique. Appendix 2 indicates the sample based on the economic sections. In total, 1498 questionnaires were sent to SME owner managers and accountants. Owners were surveyed since they were making business decisions based on financial information. Internal accountants of the SMEs were also surveyed because they were directly involved in preparing the financial information and supporting the owners.

A total of 358 questionnaires were returned, generating 323 usable questionnaires. The questionnaires included 231 questionnaires from SME owners and 92 questionnaires from SME accountants, accounting for an overall response rate of 13 per cent. A review of

literature has shown that similar studies in developed countries have experienced low response rates (Barron, Hultén and Hudson, 2012; Eierle and Haller, 2009; Litjens, Bissessur, Langendijk and Vergoossen, 2012; Sian and Roberts, 2009). For example, Eierle and Haller (2009, p. 201) experienced a low response rate of 10.3 per cent, Litjens et al. (2012, p. 235) also experienced a response rate of 11.3 per cent. In their survey with owner-managers of SMEs, Sian and Roberts (2009) achieved a very low response rate of 5.5 per cent.

For the current study, non-response bias was assessed by comparing early and late responses, which Morgan (1974) and Wallace and Mellor (1988) suggested that late respondents are likely to answer in the similar manner of non-respondents. A chi-square test was conducted for each characteristics including number of employees, business ages for both surveys. The test produced no significant difference between early and late responses. Therefore, all the 323 questionnaires were considered appropriate for further data analysis.

5.2 Data analysis

Since most variables obtained from the questionnaire survey were categorical (nominal and ordinal) in nature, non-parametric tests for association and/or difference between two or more independent samples, such as the Chi-square test, the Mann-Whitney U test, Kruskal-Wallis test, were employed for the analysis (Pallant, 2010). The non-parametric

Mann-Whitney U test was used to test the difference between two groups (between SME accountants and SME owners). This test is suggested when the data are ordinal, the sample size is small, and when there is no requirement of equal numbers in the two conditions (Laeven & Woodruff, 2007). Analysis was undertaken based on, three size clusters: small SMEs (between 5 to 15 employees); medium SMEs (between 16-39 employees); and large SMEs (between 40-99 employees) (Department of Census and Statistics, 2013) to answer the research questions. The Kruskal-Wallis test was used to compare two or more independent populations, when the data were either ordinal or interval (Bertrand & Kramarz, 2002; Pallant, 2010). Since some respondents did not provide answers to certain questions in the questionnaire, the pairwise deletion method was used for treating missing data. Pairwise deletion is better and adequate since with fewer than five per cent missing values as observed in the study, (see Brown, 1994; Davidov, Schmidt, and Schwartz, 2008; Schafer and Graham, 2002). In pairwise deletion, instead of discarding all cases with any missing values, the researcher use only the cases or respondents with complete responses for each calculation (Malhotra, Hall, Shaw and Oppenheim, 2006).

6. Results

This section describes the characteristics of responding entities by analysing the legal form, industry, age, and size of the entities. This type of exploration is important as it

enhances understanding of the responses provided in the subsequent sections of this paper. As shown in Table 1, 44% of the sample entities which participated in the survey took the form of sole proprietors. Firms in the manufacturing sector made up the largest group of respondents. Fewer than 2% of the sample entities were in the agricultural sector. Over half of sample firms have been in business for more than 6 years. In terms of size, 39.30% of the respondents had 5 to 15 employees; 28.8% of the respondents had 16 to 39 employees; and, 31.90% of respondents had 40 to 99 employees.

Insert Table 1 here

An examination of the ownership and management of the responding entities is an important part of the analysis because the conceptual framework for SMEs is based on the stewardship and the needs of external investors. Table 2 summarises the number of owners each responding entity has in terms of the number of employees it has.

Three size clusters represent entities with between 5 to 15; 16-39; and, 40-99 employees respectively. Results of the analysis revealed that most of the responding entities have a small number of owners. Only 7% of the SMEs in the sample have more than 5 owners. These findings support the assumption that most SMEs are owner managed and have small number of owners (Collis and Jarvis, 2002; Eierle and Haller, 2009). More than 60%

of the entities in the 5 to 15 employee category have only one owner, while more than 56% of the entities in the 40 to 99 employee category have three or more owners.

Insert Table 2 here

As is shown in Table 3, the majority of the responding entities were owner-managed, with almost 75% of the respondents reporting that they employed no non-manager owners. A higher proportion of non-manager owners was to be found in larger SMEs. This finding is consistent with the finding in Eierle and Haller (2009) study of German SMEs. They suggest that larger entities are more likely than small entities to have non-participating owners.

Insert Table 3 here

6.1 Users of SME financial information

In the study, respondents were requested to indicate whom they viewed as main users of their financial information from a list of potential users. More than one answer was permitted. As shown in Figure 1, owner-managers, bank and financial institutions, and Department of Inland Revenue were in the top three ranked main users, identified by over 60% of the respondents. It comes as no surprise that a large majority of respondents

identified the bank as one of the main users of SME financial information, since it has already been noted that the bank is the major source of finance to SMEs in Sri Lanka.

Insert Figure 1 here

While 41.80% of respondents state that government is an important user of their financial information, this appears not to be so in the UK (Sian and Roberts, 2009), with only 2.8% recognising them as a user. A relatively low proportion of respondents indicated that customers, non-manager owners, other managers, suppliers/creditors, and employees were important users.

In the SME financial reporting literature, and also in this study, owner-managers were identified as a main user group of SME financial information. Therefore, it is important to identify the purposes for which owner-managers⁴ of SMEs use their businesses' financial information. Owner managers were, therefore, asked to identify these purposes. Eight probable purposes were listed in the questionnaire, along with the 'other' category which was added to help owner managers to identify any other uses they made of financial information. Figure 2 summarises the purposes for which the owner-managers of SMEs use financial information.

Insert Figure 2 here

⁴ Owner managers refer to owner of SME who also manages the SMEs.

More than 65% of all owner-managers indicated that they used financial information for planning purposes. More than 64% used financial information for estimating income tax liabilities and making marketing and pricing decisions. Over half of the respondents employed financial information when deciding employees' pay and bonuses, when comparing performances with previous periods, and making capital investment decisions.

Owner managers were asked about the usefulness of financial reports in the financial statements when it came to making managerial decisions. A summary of the responses received from owner-managers is presented in Table 4. As seen in the table 4, the profit and loss, the balance sheet, and cash flow statement were perceived to be the useful financial reports.

Insert Table 4 here

The most likely reason for the profit and loss statement's popularity with many respondents lies in its usefulness for estimating tax liabilities. This finding was in line with the responses given to the question which asked about the purposes for which owner managers use SME financial information, because the majority of owner-managers used them for estimating income tax liabilities. The cash flow statement was also perceived to be an important financial report.

Table 5 summarises the responses received from the owner-managers with regard to the usefulness of management information for their decision making. Apart from financial information, the majority of owner-managers used budgets, management accounts, and bank reconciliation when making business decisions. Confirming the usefulness of cash flow information that was highlighted in table 4, it can be seen that 52% use bank reconciliation statements for their decision making. The probable reason for this finding is that both cash flow statement and bank reconciliation statements are useful indicators of the cash flow position of the organisation. Variance and financial ratio analysis were perceived to be less useful management information for owner managers. This implies that anything of a technical nature is considered difficult and hard to interpret.

Insert Table 5 here

6.2 Users and financial information needs in relation to the size of SMEs

Table 6 shows users of SME financial information in relation to entity size. The majority of the responding entities (more than 50%) from the 5-15 employee category identified owner-managers and banks as main users of financial information whereas the majority of respondents from the 16-39 employee category identified owner-managers, banks, and the Department of Inland Revenue as main users of financial information. Larger SMEs

(category 40-99) identified owner-managers, banks, the Department of Inland Revenue, and government institutions as main user of financial information.

Therefore, it is reasonable to believe that perceived main users of Sri Lankan SME financial information vary according to entity size. A chi-square test indicated that the perceptions of non-manager owners, other managers, employees, bank/financial institutions, Department of Inland Revenue, government institutions, and suppliers/creditors as main users of SME financial information changed in relation to the entities' size.

Insert Table 6 here

Table 7 shows the different purposes for which SME financial information is used by owners in relation to the three different firm size categories. More than 50% of owners in the 5-15 employee category indicated that they used SME financial information to take marketing and pricing decisions, capital investment decisions, and, planning decisions. Deciding income tax liabilities was not identified as a purpose of using financial information. This finding was in line with the responses given to the question which asked about the main financial information users, because the majority of owners in the category of 5-15 employees did not identify the Department of Inland Revenue as one of the main users of SME financial information. The probable reason for this finding is that financial

statements of these entities are prepared by external accountants and they directly send these financial statements to the Department of Inland Revenue.

Insert Table 7 here

More than 50% of owners from medium sized SMEs (category of 16-39) used financial information for the purposes of: estimating income tax liabilities; taking marketing and pricing decisions; deciding employees' pay and bonuses; comparing performances with previous periods; deciding managers'/directors' pay/bonuses/dividends; and, when taking short-/long-term planning decisions. The majority of owners from larger SMEs (the employee category of 40 -99) indicated that they used financial information for estimating income tax liabilities; comparing performances with previous periods; comparing performances with targets; taking short-/long-term planning decisions; and, when deciding directors' pay/bonuses/dividends. The chi-square test results revealed a statistically significant difference among entities in terms of their use of all the forms of the listed purposes, with the exception of using it for capital investment and planning decisions. It appeared that financial information are useful for making capital investment and planning decisions for owners regardless of the size of the SME.

Insert Table 8 here

Table 8 summarises responses on the usefulness of financial reports received from owners in relation to the three different firm size categories. The three most useful financial

reports for both smaller and medium size entities are: the profit and loss; balance sheet; and, the cash flow statement. However, their order of importance differs for larger SMEs. Owners from larger SMEs perceived the cash flow statement as the most useful financial report, followed by the profit and loss statement, and the balance sheet. Notes to the financial statements were also found more useful by the owners of larger SMEs than by respondents from the other two categories. Further analysis using a Kruskal - Wallis test was performed to determine whether there was a significant difference between the entities in terms of their size with respect of the usefulness of financial reports. There was a significant difference between entity size and the usefulness of the balance sheet ($\chi^2=18.95$, $df=2$, $p=.000$); the profit and loss statement ($\chi^2=15.17$, $df=2$, $p=.001$); the cash flow statement ($\chi^2=13.69$, $df=2$, $p=.001$); the changes in equity statement ($\chi^2=31.76$, $df=2$, $p=.000$); and, the notes to the financial statements ($\chi^2=68.50$, $df=2$, $p=.000$) for business decisions.

A Mann - Whitney U test revealed that there was a statistically significant difference between SME owners and accountants with regard to the usefulness of the balance sheet (Mann-Whitney $U = 7110.50$, $Z = -4.39$, $p = .000$); the cash flow statement (Mann-Whitney $U = 7731.50$, $Z = -3.24$, $p = .001$); the changes in equity statement (Mann-Whitney $U = 4940.00$, $Z = -6.22$, $p = .000$); and, the notes to the financial statements (Mann-Whitney $U = 4593.50$, $Z = -6.43$, $p = .000$). A higher proportion of accountants perceived these reports

to be more useful than SME owners did. The perceived usefulness of the profit and loss account was the most similar across both groups of respondents.

Table 9 summarises responses received from owners for all three size categories on the usefulness of management information. The owners of smaller and medium sized entities perceived budgets as the most useful management information, whereas owners of larger SMEs perceived management accounts as the most useful management information.

Insert Table 9 here

Further analysis using a Kruskal-Wallis test was performed to determine whether there was a significant difference between the size of an entity and the usefulness of management information. This analysis revealed a significant difference between entity size and the usefulness of management accounts ($\chi^2=31.84$, $df=2$, $p=.000$); bank reconciliation ($\chi^2=48.25$, $df=2$, $p=.000$); budgets ($\chi^2=17.21$, $df=2$, $p=.000$); variance analysis ($\chi^2=36.08$, $df=2$, $p=.000$); aging reports of debtor balances ($\chi^2=27.19$, $df=2$, $p=.000$); and, financial ratio analysis ($\chi^2=62.39$, $df=2$, $p=.000$). Owners from larger SMEs perceived management accounts, bank reconciliation, budgets, variance analysis, aging reports of debtor balances, and financial ratio analysis as more useful management information than owners from smaller and medium sized entities.

In addition, a Mann-Whitney U test suggested that there was a statistically significant difference among SME owners and accountants with regard to the usefulness of the following for business decisions: management accounts (Mann-Whitney $U = 8611$, $Z = -2.27$, $p = .023$); Bank reconciliation (Mann-Whitney $U = 6666$, $Z = -5.02$, $p = .000$); variance analysis (Mann-Whitney $U = 5599$, $Z = -5.84$, $p = .000$); aging reports of debtor balance (Mann-Whitney $U = 6897.50$, $Z = -3.93$, $p = .000$); and, financial ratio analysis (Mann-Whitney $U = 4398.50$, $Z = -5.41$, $p = .000$). A higher proportion of accountants than of SME owners perceived these reports to be useful. The perceived usefulness of budgets had the greatest similarity across both groups of respondents.

7. Discussion

The IASB's rationale for the identification of users and uses of SME financial information is based on decision-usefulness objective of financial reporting. Accordingly, various stakeholders such as shareholders, creditors, employees, and the public were identified as main users of SME financial information (International Accounting Standards Board, 2009, p. 7). The IASB claimed that the financial statements produce for the use of owner-managers or tax authorities are not necessarily general purpose financial statements (International Accounting Standards Board, 2009) and excluded the specific needs of

these two key users. However, results of the study revealed that the stakeholders of Sri Lankan SME financial information is not the same as that highlighted by the IASB. The perceived main stakeholders of Sri Lankan SME financial information were owner-managers, bank and financial institutions, and tax authorities. Identification of owner-managers and bank and financial institutions as main stakeholders of SME financial information is a reflection of managerial branch of stakeholder theory which emphasises that certain stakeholders have powers in terms of controlling the supply of necessary resources (An et al., 2011; Al-Hazaima et al., 2021). Another influential stakeholder group was regulators such as tax authority of the country. Other stakeholders such as creditors, and employees are not considered as powerful stakeholders of SME financial reporting. By sharing information with outside parties, disclosures can diminish information asymmetries between the firm and its stakeholders (Chiu and Wang, 2015). This finding is supported by previous research into stakeholders of SME financial information (see for example: Barker and Noonan, 1996; Carsberg et al., 1985; Collis and Jarvis, 2000; Maingot and Zeghal, 2006; Page, 1984). However, the study conducted in a developing country did not identify owners as a user of SME financial information. While majority of owners and accountants of this study state that banks are an important user of their financial information, this appears to be inconsistent with the findings in Vietnam (Dan-Duc et al., 2006).

A majority of respondents in the category of 40-99 employees indicated that government institutions as one of the main users of their financial information. Finding with regard to the government institutions contradict earlier findings in developed countries (Collis and Jarvis, 2000; Sian and Roberts, 2009) and consistent with the developing country study, which suggest that government institutions are also a user of SME financial information (Dan-Duc et al., 2006). Government institutions of Sri Lanka governs and implements the SME loan schemes that received from the donor agencies such as Asian Development Bank (ADB), and World Bank (Ministry of Enterprise Development, 2012). As a result, donor agencies require certain standards of financial accountability from their aid recipients (Mir and Rahaman, 2005; Singh and Newberry, 2009). This is a reason why government institutions can be considered a user of SME financial information in Sri Lanka. Apparently, the government agencies as a user of SME financial information confirms that the context does have an impact on users of SME financial information.

The results revealed that a majority of Sri Lankan SMEs were owner-managed, and thus, non-manager owners were not identified as an important user of SME financial information. This finding confirms that the role of financial statements in stewardship reporting is less relevant to SMEs as there is no separation between ownership and control (Collis, 2008; Collis and Jarvis, 2000; McMahon and Stanger, 1995). Overall, the findings with regard to users of SME financial information contradicts the IASB's list of

users identified in the *IFRS for SMEs*. This raises an important question in connection with the relevance of the *IFRS for SMEs* in meeting financial reporting needs of Sri Lankan SME users' since it was developed to a different audience.

Contrary to the findings of previous research in the UK (Collis and Jarvis, 2000; Sian and Roberts, 2009), the top three purposes for which owner managers use SME financial information as found in the study are for planning purposes; estimating income tax liabilities; and, taking marketing and pricing decisions. The profit and loss statement was perceived to be the most useful report. In contrast, Sian and Roberts (2009) found the cash flow statement to be most useful financial report. The most likely reason for the profit and loss statement's popularity with many respondents lies in its usefulness for estimating tax liabilities. Given this view, it appears that the balance sheet focused conceptual framework is not appropriate for Sri Lankan SMEs. The majority of owners used management information such as budgets, management accounts, and bank reconciliation for their business decisions. This probably is due to the lack of detail and the complexity of financial information provided in the financial statements. It appeared that cash flow position of the entity was a major concern among the majority of owners. This demonstrates the importance placed on managing liquidity, as it is critical to the success and survival of a small business (Collis and Jarvis, 2002; McMahon and Stanger, 1995).

Results of the study further show that the perceived main users and uses of SME financial information varied according to entity size. None of the previous research have investigated users and their information needs of SME financial information in relation to entity size. It is claimed that smaller firms have fewer financial statement users and different information needs than larger ones (Di Pietra et al., 2008; Evans et al., 2005). Consistent with this notion, the results show that the smaller SMEs have very limited number of users than medium and larger SMEs. As a result, it is difficult to design a single standard useful for the heterogeneous group of entities (Di Pietra et al., 2008; Eierle and Haller, 2009; Eierle et al., 2007; Evans et al., 2005). This implies that financial reporting requirements need to be differentiated based on entity size. It was found that the profit and loss statement was the most useful financial report for making business decisions for owners of smaller and medium SMEs. By contrast, the cash flow statement was the most useful financial report for making business decisions of owners of larger SMEs. Thus, it appears that owners of small and medium SMEs are more concerned about the profitability of the business while owners of larger SMEs more concerned about the survival of the business.

8. Conclusion

Although SME financial reporting has attracted enormous attention in the recent accounting literature, academic research into SME financial reporting is scant. Inspired

by calls for research on users and uses of SME financial information, this study set out to investigate the perception of SME owners and accountants of Sri Lankan SMEs on users and uses of their financial information.

Non-manager owners were not identified as an important users of Sri Lankan SME financial information, an observation which supports the findings of others' research (Collis and Jarvis, 2000; Dang-Duc et al., 2006; Di Pietra et al., 2008; Evans et al., 2005). This is not unexpected because most SMEs are owner managed and the management and ownership in SMEs is rarely separated (Collis and Jarvis, 2002; Eierle and Haller, 2009). This finding confirms that in Sri Lanka the role of financial statements in stewardship reporting is less relevant to SMEs.

The finding with regard to users of SME financial information supports the critique of the adoption of a conceptual framework for financial reporting designed for large and listed companies for SME reporting. An important finding of the study is that the perceived main users and owners' needs of SME financial information varied according to entity size. The findings of the study conclude that the general purpose financial reporting model and the accounting standard IFRS for SMEs in particular would not be applicable to Sri Lankan SMEs unless it modifies to reflect the financial information needs of users of Sri Lankan SME financial information.

The paper's findings in terms of what users require from small and medium enterprise financial information will contribute to the development of a users' need financial reporting framework for small and medium enterprises. This paper extends existing knowledge on users and their financial information needs of SMEs in developing countries. The results of the current study are expected to be of particular relevance to national and international standard setters who are currently grappling with the development/ modification of financial reporting framework for SMEs. The current study provides empirical evidence that could be used to inform the international debate on SME financial reporting. The findings of this study have implications to the work of practitioners such as local and international standard setters and regulators who may be considering developing/ revising financial reporting framework for SMEs either worldwide or in developing countries. The top three purposes for which owners' use SME financial information as found in the study are for planning purposes; estimating income tax liabilities and, taking marketing and pricing decisions. An important finding of the study is that the perceived main users and owners' needs of SME financial information varied according to entity size. Based on this finding, it is argued that there is a need to distinguish between small, medium, and large SMEs for financial reporting purposes.

The study is limited to a focus only on the views of owners and accountants of SMEs. Thus, the study ignores the ethical branch of stakeholder theory and concentrates only on managers and accountants. This limitations provide a basis for future research, especially quantitative and/or qualitative studies can be undertaken to identify financial information needs of other user groups of SME financial information such as banks, tax authorities, and government agencies focusing on other developing countries. Future research could also investigate how users and uses of SME financial information needs differ in relation to SME size.

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Appendix 1

Questionnaire

Research Title: Users' perceptions of financial information in small and medium sized entities:
A Sri Lanka Case Study.

Your participation in this research is greatly appreciated. Your responses are anonymous and no attempt is made to identify you.

Part I: General information about the organisation (please tick where relevant)

*This section asks for some general information about you and your organisation.
Any information given will be only used for the purposes of this research.
Anonymity will be preserved at all times. The information about you and your
organisation will not be published under any circumstances.*

1. How would you describe your business?

- Sole proprietor
- Registered partnership
- Non registered partnership
- Limited company
- Other (please specify)

.....

2. How many owners/shareholders does your organisation have?

.....

3. How many of above owners/shareholders are managers/directors of the organisation?

.....

4. What is the main activity of your organisation?

- Manufacturing
- Agriculture
- Service
- Retail

- Wholesale/distribution
- Other (please state)

5. How many years has the organisation been trading?

- Less than 1 year
- 1-3 years
- 4-6 years
- 7-10 years
- More than 10 years

6. Number of employees (current year)

- 5-15
- 16-39
- 40-99

7. What was the organisation's turnover for the last financial year (2014)?

- Less than Rs.1,000,000
- Rs.1,000,000 to Rs.10,000,000
- Rs. 10,000,001 to Rs. 25,000,000
- Rs. 25,000,001 to Rs. 50,000,000
- Rs. 50,000,001 to Rs. 100,000,000
- More than Rs. 100,000,000

8. How would you describe your position in the organisation?

- Owner GOTO Q8A
- Shareholder GOTO Q8A
- Accountant GOTO Q9
- Other (please state)

8A. What is your involvement with the company?

- Director

- Manager
- No position but involved in day to day operations

Part II: Preparation of financial information (please tick where relevant)

Good financial management requires business to keep records of their transactions and use this financial information for making business decisions.

9. Which types of financial information do you prepare? (tick all that apply)

- Balance sheet
- Profit and loss account/income statement
- Cash flow statement
- Changes in equity statement
- Notes to the financial statements
- Other (please specify)

.....

10. How often are the above financial information prepared?

	Monthly	Quarterly	Annually
Balance sheet			
Profit and loss account/ income statement			
Cash flow statement			
Changes in equity statement			
Notes to the financial statements			
Other reports (please mark and specify below)			
Name of report			
.....			

11. How does your organisation keep records of business transactions?

- Manual record keeping
- Computerised accounting system
- Combination of manual and computerised system
- Other (please specify)

.....

12. Who normally prepares your organisation's financial information?

- A qualified accountant
- A non-qualified accountant
- An external accountant from a local accounting firm
- An external accountant from an international accounting firm
- Other (please specify)
-

13. Which of the following services are supplied by external professional accountants to your organisation? (tick all that apply)

- Bookkeeping
- Preparation of financial statements
- Taxation service
- Audit service
- Other (please specify)

Part III: Users and uses of financial information (please tick where relevant)

Financial statement information is potentially read by a wide range of people (users) to help them make decisions.

14. Who do you view as the main users of your organisation's financial information? (tick all that apply)

- Owners/shareholders who are managers/directors
- Owners/shareholders who are NOT managers/directors
- Other managers/directors of the organisation
- Employees
- Bank/financial institutions
- Department of Inland Revenue
- Government institutions
- Major suppliers/ creditors
- Major customers

- Anyone else? (please state)

.....

15. Who normally receives a copy of the financial information? (tick all that that apply)

- Owners/shareholders who are managers/directors
- Owners/shareholders who are NOT managers/directors
- Other managers/directors of the organisation
- Employees
- Bank/financial institutions
- Department of Inland Revenue
- Government institutions
- Major suppliers/creditors
- Major customers
- Anyone else? (please state)

.....

16. Have you ever used the financial information of your organisation for the following purposes?

	Never	Seldom	Sometimes	Usually	Always
Applying for capital from banks					
Obtaining credit from suppliers or trade creditors					
Supporting bidding on contracts or obtaining a licence					
Showing compliance with loan covenants in borrowing agreement					

17. For what purposes do you use your organisation's financial information? (tick all that apply)

- Deciding managers'/directors' pay/bonuses/dividends
- Marketing and pricing decisions
- Capital investment decisions
- Estimating income tax liabilities
- Planning (short/long-term)
- Deciding employees' pay and bonuses

- Comparing performance with targets
- Comparing performances with previous periods
- Other (please specify)

.....

18. How useful are the following financial information of your organisation to you, personally, as sources for business decisions?

	Not useful	Less useful	Somewhat useful	Useful	Very useful
Balance sheet					
Profit and loss statement					
Cash flow statement					
Changes in equity statement					
Notes to the financial statements					
Other reports (please rate and specify in box)					
Name of report					
.....					

19. In addition to the statements in Q18, what additional financial information do you find useful for business decisions?

	Not useful	Less useful	Somewhat useful	Useful	Very useful
Management accounts (monthly or quarterly)					
Bank reconciliation statement					
Budgets					
Variance analysis					
Aging reports of debtor balance					
Financial ratio analysis					
Other reports (please specify below)					
Name of reports (indicate the usefulness)					
.....					
.....					

Appendix 2 : Distribution of the sample by Economic section

Section	Sample
Mining and quarrying	34
Manufacturing	620
Construction	62
Wholesale and retail trade; repair of motor vehicles and motorcycles	191
Transportation and storage	58
Accommodation and food service activities	46
Information and communication	68
Financial and insurance activities	52
Real estate activities	9
Professional, scientific and technical activities	67
Administrative and support service activities	88
Education	82
Human health and social work activities	45
Arts, entertainment and recreation	21
Other service activities	55
Total	1498

10.. Tables and Figures

Table 1. Business characteristics of the sample entities

	Number of entities	%
<i>Business form (N=323)</i>		
Sole proprietor	142	44.00
Registered partnership	57	17.60
Non-registered partnership	29	9.00
Limited company	95	29.40
<i>Type of main business (N=321)</i>		
Manufacturing	124	38.63
Agriculture	5	1.56
Service	98	30.53
Retail etc	56	17.44
Wholesale/Distribution	38	11.84
<i>Years in business (N=321)</i>		
Less than 1 year	14	4.36
1-3 years	57	17.75
4-6 years	70	21.81
7-10	37	11.53
More than 10	143	44.55
<i>Number of employees (N=323)</i>		
5-15	127	39.30
16-39	93	28.80
40-99	103	31.90

Note: Differences in total number of samples were caused by missing data.

Table 2. Number of owners

Number of owners	Number of employees			All (N=315)
	5-15 (n=126)	16-39 (n=93)	40-99 (n=96)	
	%	%	%	%
1	61.10	54.80	12.50	44.40
2	15.90	19.40	31.30	21.60
3-5	21.40	23.70	37.50	27.00
More than 5	1.60	2.20	18.80	7.00
	100.00	100.00	100.00	100.00

Table 3. Existence of non-manager owners

Existence of non-manager owner	Number of employees			All (N=311)
	5-15 (n=125)	16-39 (n=93)	40-99 (n=93)	
	%	%	%	%
Yes	21.60	16.10	35.50	24.10
No	78.40	83.90	64.50	75.90
	100.00	100.00	100.00	100.00

Figure 1: Users of SME financial information

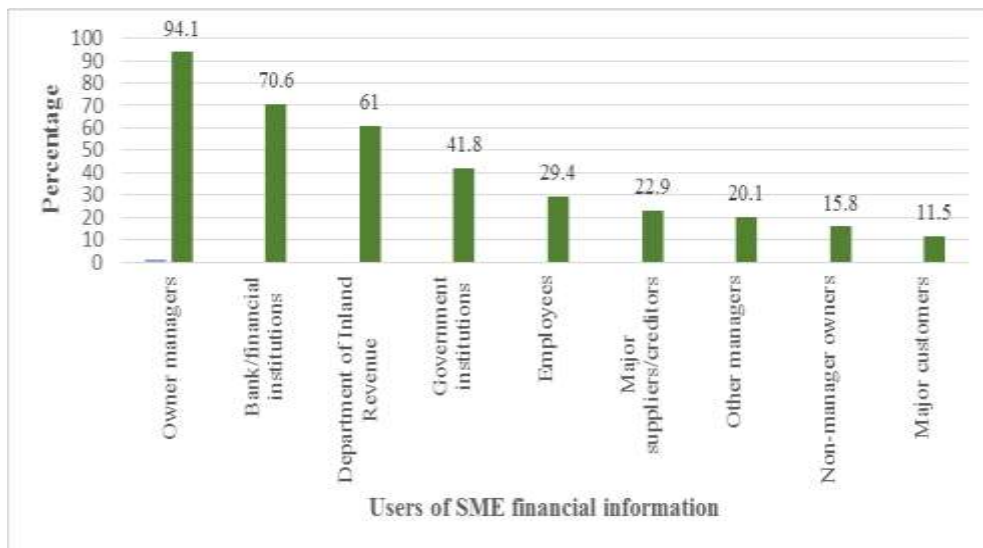


Figure 2. Purposes for which owner-managers of SMEs use SME financial information

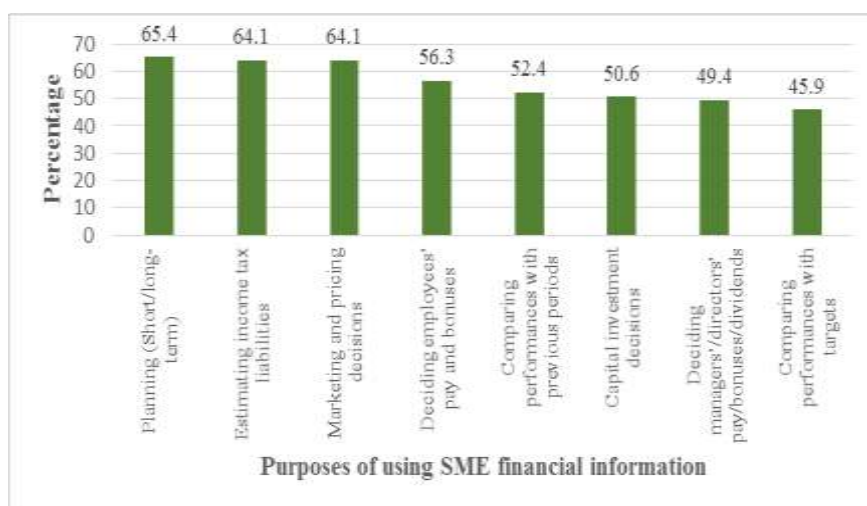


Table 4. Usefulness of financial reports

Financial report	N	Responses (% of total respondents)					Mean
		Not useful			Very useful		
		1	2	3	4	5	
Balance sheet	226	6.20	11.90	16.40	36.70	28.80	3.70
Profit and loss statement	227	0.90	0.90	4.80	26.40	67.00	4.58
Cash flow statement	221	17.20	10.40	10.40	24.00	38.00	3.55
Changes in equity statement	204	47.10	15.70	15.70	10.30	11.30	2.23
Notes to the financial statements	203	38.40	19.70	14.30	16.30	11.30	2.42

Table 5. Usefulness of management information

Type of management information	N	Responses (% of total respondents)					Mean
		Not useful			Very useful		
		1	2	3	4	5	
Management accounts	229	9.20	12.70	9.20	40.20	28.80	3.67
Bank reconciliation	227	8.40	13.20	26.40	37.90	14.10	3.36
Budgets	221	5.00	5.00	19.90	38.50	31.70	3.87
Variance analysis	224	28.60	26.80	21.90	13.80	8.90	2.48
Aging reports of debtor balance	223	13.90	20.20	19.70	30.90	15.20	3.13
Financial ratio analysis	197	29.90	32.00	17.30	14.20	6.60	2.36

Table 6. Main users of SME financial information in relation to entity size

Users of SME financial information		Number of employees			All (N=323)	χ^2	df	p
		5-15 (n=127)	16-39 (n=93)	40-99 (n=103)				
		%	%	%				
Owner managers	Yes	91.30	93.50	98.10	94.10	4.715	2	.095
	No	8.70	6.50	1.90	5.90			
Non-manager owners	Yes	11.80	7.50	28.20	15.80	18.132	2	.000*
	No	88.20	92.50	71.80	84.20			
Other managers/directors of the organisation	Yes	8.70	11.80	41.70	20.10	44.325	2	.000*
	No	91.30	88.20	58.30	79.90			
Employees	Yes	48.80	19.40	14.6	29.40	38.509	2	.000*
	No	51.20	80.60	85.40	70.60			
Bank/financial institutions	Yes	63.80	66.70	82.50	70.60	10.593	2	.005*
	No	36.20	33.30	17.50	29.40			
Department of Inland Revenue	Yes	42.50	64.50	80.60	61.00	35.315	2	.000*
	No	57.50	35.50	19.40	39.00			
Government institutions	Yes	46.50	23.70	52.40	41.80	18.499	2	.000*
	No	53.50	76.30	47.60	58.20			
Major suppliers/creditors	Yes	30.70	20.40	15.50	22.90	7.870	2	.020**
	No	69.30	79.60	84.50	77.10			
Major customers	Yes	16.50	9.70	6.80	11.50	5.726	2	.057
	No	83.50	90.30	93.20	88.50			

*The difference is significant at the 0.01 level ($p < 0.01$).

** The difference is significant at the 0.05 level ($p < 0.05$).

Table 7. Analysis of the purposes for which SME owner-managers use SME financial information in relation to entity size

Purpose of using SME financial information		Number of employees			All (N=231)	χ^2	df	p
		5-15	16-39	40-99				
		(n=111)	(n=78)	(n=42)				
		%	%	%	%			
Deciding managers'/directors' pay/bonuses/dividends	Yes	36.00	61.50	61.90	49.40	15.16	2	.001*
	No	64.00	38.50	38.10	50.60			
Marketing and pricing decisions	Yes	69.40	71.80	35.70	64.10	18.05	2	.000*
	No	30.60	28.20	64.30	35.90			
Capital investment decisions	Yes	58.60	42.30	45.20	50.60	5.44	2	.066
	No	41.40	57.70	54.80	49.40			
Estimating income tax liabilities	Yes	44.10	80.80	85.70	64.10	37.14	2	.000*
	No	55.90	19.20	14.30	35.90			
Planning (Short/long-term)	Yes	68.50	60.30	66.70	65.40	1.40	2	.496
	No	31.50	39.70	33.30	34.60			
Deciding employees' pay and bonuses	Yes	49.50	70.50	47.60	56.30	9.745	2	.008*
	No	50.50	29.50	52.40	43.70			
Comparing performances with targets	Yes	32.40	47.40	78.60	45.90	26.24	2	.000*
	No	67.60	52.60	21.40	54.10			
Comparing performances with previous periods	Yes	34.20	62.80	81.00	52.40	31.81	2	.000*
	No	65.80	37.20	19.00	47.60			

*The difference is significant at the 0.01 level (p < 0.01).

Table 8. Analysis of the usefulness of financial reports in relation to entity size

Financial report	Number of employees								
	5-15			16-39			40-99		
	n	Mean	SD	n	Mean	SD	n	Mean	SD
Balance sheet	107	3.36	1.33	78	4.19	0.78	41	3.63	1.14
Profit and loss statement	107	4.68	0.74	78	4.59	0.60	42	4.29	0.77
Cash flow statement	104	3.32	1.57	76	3.45	1.51	41	4.34	1.02
Changes in equity statement	101	1.68	1.10	72	2.63	1.47	31	3.10	1.54
Notes to the financial statements	100	1.59	0.93	72	3.15	1.34	31	3.42	1.39

Table 9. Analysis of usefulness of management information in relation to entity size

Type of management information	Number of employees								
	5-15			16-39			40-99		
	<i>N</i>	Mean	<i>SD</i>	<i>N</i>	Mean	<i>SD</i>	<i>N</i>	Mean	<i>SD</i>
Management accounts	110	3.25	1.37	77	3.84	1.00	42	4.43	0.99
Bank reconciliation	110	2.85	1.04	76	3.83	0.99	41	3.88	1.03
Budgets	106	3.58	1.10	73	4.12	0.99	42	4.14	1.00
Variance analysis	109	1.97	1.04	74	2.76	1.26	41	3.32	1.33
Aging reports of debtor balance	107	2.66	1.34	75	3.65	1.02	41	3.41	1.18
Financial ratio analysis	95	1.65	0.70	66	2.79	1.25	36	3.42	1.20