

# FACTORS AFFECTING THE ADOPTION OF FORMAL ACCOUNTING SYSTEM BY SMES IN JAFFNA AND VALI-EAST DIVISIONAL SECRETARIAT AREA

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Small and Medium Enterprises are important for a country to Producing employment chances, Assembling national savings, Scarcity improvement, Revenue circulation, County expansion, Training of labours and businesspersons, Creating an situation in which large firms flourish, Donating to spread earnings. SMEs generates considerable amount of income to the nation. The government has allocated high importance to the SME area to strengthen the SME as the backbone of the economy. In today's changing and complicated business world proper accounting reporting system is important to make better decisions however most of the SMEs are not saves proper accounting records Therefore, this study intends to examine the factors affecting the Adoption of Formal Accounting System by SMEs in Jaffna and Vali-East divisional secretariat area. Financial Accounting Practices, Qualification and Skills relevant to Accountant, Business life Cycle, External Pressure, Volume of Business and Fund Financing Method are used as dependent variables and adoption of Formal Accounting System is used as dependent variable. This study considers 120 selected SMEs in Jaffna and Vali-East divisional secretariat area and uses primary data gathered from questionnaire survey. The data is analysed by means of descriptive statistics, correlation analysis and regression analysis. The results of the multiple regression analysis show that Financial Accounting Practices, Qualification and Skills relevant to Accountant, Business life Cycle, External Pressure and Fund Financing Method have significant impact on Adoption of Formal Accounting System. Based on the correlation analysis, the results show that all determinant factors have significant relationship with Adoption of Formal Accounting System. The findings of the study have an implication for the owner-managers of the SMEs and other interested parties. Further researches can be extended by choosing SMEs from various sectors of operation.

**Keywords:** *Accounting System; Book Keeping; Financing; Sri Lankan SMEs*

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