

THE IMPACT OF ETHICAL ACCOUNTING PRACTICES ON FINANCIAL REPORTING IN REGISTERED SMES: WITH SPECIAL REFERENCE TO WESTERN PROVINCE IN SRI LANKA

K.A. Ranaweera^{1,*}, W.P. Wijewardana² and P.R. Weerathunga³

^{1,2,3}*Department of Accountancy and Finance, Faculty of Management Studies, Rajarata University of Sri Lanka*

*Corresponding author (Email: kavinduanjana1969@gmail.com)

ABSTRACT

Small and medium-sized enterprises often need to help maintain transparency and accuracy in their financial reporting. Therefore, this study investigates the impact of ethical accounting practices on financial reporting in SMEs in the Western Province of Sri Lanka. In contrast, a lack of transparency in financial reporting may lead to future corporate failures. To obtain robust findings on how adherence to ethical accounting practices improves financial transparency, this study used objectivity, integrity, confidentiality, and professional competence as the independent variables and financial reporting as the dependent variable. By examining the relationship between these variables, this study sought to determine how adherence to ethical accounting standards can improve SMEs' financial transparency and accuracy. The sample size for this study was carefully chosen using the Morgan table, which recommends 361 registered SMEs to provide a statistically significant representation of the population. The study received 375 responses, which slightly exceeded the target, ensuring robust data for analysis. The data for this study were collected via a structured questionnaire that was meticulously designed to address previous studies. The gathered data were then analyzed using descriptive statistics, correlation analysis, and multiple regression using specialized statistical software. The findings reveal that Objectivity, Integrity, Confidentiality, and Professional Competence positively and significantly impact financial reporting within SMEs. Among these findings, professional competence has the most significant impact on financial reporting in SMEs, highlighting the professionalism of accountants toward compliance with applicable standards and the credibility of financial reports, which helps enhance the theoretical understanding of competence in accurate and transparent financial disclosure. The practical implications drawn from this research provide guidelines to be implemented by SMEs in the Western Province of Sri Lanka to develop their financial reporting practices. SMEs can foster greater transparency, mitigate risks, and secure sustainable growth in a competitive business environment by embedding ethical principles, such as objectivity, integrity, confidentiality, and professional competence in their operations. The study's findings could be more generalizable because it focuses on a specific geographic area.

Keywords – Confidentiality, integrity, objectivity, professional competence, small and medium-sized enterprises