

**THE EFFECTS OF ACCOUNTING PRACTICES ON THE FINANCIAL
PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs).**

BY

OKO-OGWA, DEBORAH GLORIA

MGS2209799

**DEPARTMENT OF ACCOUNTING
FACULTY OF MANAGEMENT SCIENECES
UNIVERSITY OF BENIN, BENIN-CITY.**

OCTOBER, 2025.

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**BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY
OF BENIN, BENIN-CITY, IN PARTIAL FULFILMENT OF THE
REQUIREMENTS OF THE AWARD OF BACHELOR OF SCIENCE (B.Sc)
DEGREE IN ACCOUNTING.**

OCTOBER, 2025.

DECLARATION

I, OKO-OGWA DEBORAH GLORIA, hereby declare that;

- I. The Study is a research work undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, under the supervision of Dr (Mrs) Emoarehi Eriki.
- II. This work has not been previously submitted for the award of any degree elsewhere.
- III. All ideas and views are products of my personal research and where the views of others have been expressed; they have been duly referenced and acknowledged.

OKO-OGWA DEBORAH GLORIA

MGS2209799

DATE

CERTIFICATION

This is to certify that this research work titled, “The Effects of Accounting Practices on the Financial Performance of Small and Medium Scale Enterprises (SMEs)” was carried out by OKO-OGWA DEBORAH GLORIA with matriculation number MGS2209799 in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City.

DR (MRS) EMOAREHI ERIKI
(Project Supervisor)

DATE

DR. IKHU-OMOREGBE GODSTIME
(Project Coordinator)

DATE

PROF. OBARENTIN OSASU
(Head of Department)

DATE

DEDICATION

This research project is dedicated to Almighty God, for his infinite mercy and to my most esteemed lecturers, university staff, my beloved parents, loved ones, and Late. Erimemue Samuel Titus for their highly appreciated contributions and support in fulfilment of the award of Bachelor of Science (B.Sc) Degree in Accounting, University of Benin, Benin City.

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ABSTRACT

This study examined the Effect of Accounting Practices on the Financial Performance of Small and Medium Scale Enterprises (SMEs) in Nigeria. The research focused on how key accounting concepts – internal controls, financial reporting, budgeting practices, and role of support – influence the sustainability, profitability, and the overall performance of SMEs. A structured questionnaire was administered to SME owners and operators, across various sectors. Data collected was analyzed to determine the relationship between accounting practices and financial performance.

The findings revealed that strong internal control systems significantly improve operational efficiency, reduce fraud, and also ensure compliance with financial procedures. Financial reporting, when timely and accurate, enhances transparency, helps in the process of decision making, and builds investor confidence in SMEs. Furthermore, Budgeting was found to play a vital role in planning, and evaluation of performance, aiding SMEs manage limited resources more effectively and efficiently.

Additionally, the study highlighted the critical role of government support in shaping SME performance through tax incentives or holidays, access to credit, and mandatory adoption of basic financial reporting standards. It also concluded that SMEs with sound accounting practices are better positioned to achieve financial stability, attract investors, and also contribute meaningfully to the country's economic growth.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Accounting, often referred to as the "language of business," is one of the oldest professions in human civilization. The roots of accounting can be traced back over 7,000 years to ancient Mesopotamia, where records of transactions were made using clay tablets. These early forms of bookkeeping were primarily used for agricultural and trade-related transactions, aimed at maintaining records of crop and livestock exchanges, taxes, and debts. The development of accounting has always been connected to economic activities, trade, and the need to measure and manage resources.

The formal development of accounting as a structured system began during the Italian Renaissance. In 1494, the Italian mathematician, Luca Pacioli, published a seminal book titled *"Summa de Arithmetica, Geometria, Proportioni et Proportionalità."* This book contained the first known description of double-entry bookkeeping, a revolutionary accounting system where each transaction is recorded in two separate accounts — debit and credit — to maintain a balanced ledger. Pacioli's work laid the basis for modern accounting and earned him the title of the "Father of Accounting."

As economies grew more elaborate through the Industrial Revolution and into the modern capitalist era, accounting practices evolved to meet the needs of increasingly sophisticated businesses. The emergence of corporate entities and publicly traded companies in the 19th and 20th centuries further necessitated standardized accounting systems. This led to the development of professional accounting bodies, such as, The Institute of Chartered Accountants in England and Wales (ICAEW) in 1880, The American Institute of Certified Public Accountants (AICPA) in 1887, and The International Accounting Standards Board (IASB), which now issues the International Financial Reporting Standards (IFRS).

In Nigeria, the development of formal accounting practices began during the colonial period, influenced by British administrative systems. The Institute of Chartered Accountants of Nigeria (ICAN) was established in 1965, to regulate the accounting profession and promote ethical standards. Today, Nigerian enterprises, including Small and Medium Scale Enterprises (SMEs), are expected to maintain proper accounting records in accordance with standards such as the International Financial Reporting Standards (IFRS) for Small and Medium Scale Enterprises (SMEs), introduced to simplify compliance for smaller entities.

Accounting practices are crucial for efficient company administration and economic growth of Small and Medium Scale Enterprises (SMEs). Accounting practices are the

foundation upon which businesses and companies, particularly Small and Medium Scale Enterprises, build their financial integrity. Without the application of accounting practices, no business can succeed in its operations and achieve its set objectives (Ibadin & Dabor, 2015). The impact of Small and Medium Scale Enterprises (SMEs) in every countries economy cannot be overlooked, however, for a better performance from these enterprises, accounting practices is required to access better operations. It is also recognised that accounting practices are essential to the success of the organizations. Effective accounting practices scan operational environment and provide with information from its environment to facilitate decision making and achieve competitive advantages and changes (Oboh, 2019).

On the other hand, Small and Medium Scale Enterprises (SMEs) play a pivotal role in the economic development of most nations, particularly in developing countries like Nigeria. Small and Medium Scale Enterprises (SMEs) are engines of innovation, employment, and poverty reduction. In Nigeria, they contribute about 48% to the national GDP and account for over 80% of employment in the country, according to data from the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2022).

In the context of Small and Medium Scale Enterprises (SMEs), Financial Performance refers to the measure of a firm's profitability, efficiency, liquidity, and solvency over a given period. It reflects the ability of a business to generate income, manage its assets and

liabilities, and achieve sustainable growth. Common financial performance indicators include; Profitability (net profit margin, return on assets), Liquidity (current ratio), Operational efficiency (inventory turnover, receivables turnover), and Solvency (debt-to-equity ratio). For Small and Medium Scale Enterprises (SMEs) to enhance these performance indicators, it is important that they adopt sound accounting practices.

For Small and Medium Scale Enterprises (SMEs), Financial Performance is not only an indicator of internal success, but, also a critical factor in accessing external financing, developing strategic partnerships, and adhering to regulatory requirements. However, many Small and Medium Scale Enterprises (SMEs) in Nigeria face financial performance challenges due to poor record-keeping, limited access to capital, and a lack of financial literacy. Small and Medium Scale Enterprises (SMEs) constitute a critical segment of the Nigerian economy, contributing significantly to employment, innovation, and economic development. Despite their importance, many Small and Medium Scale Enterprises (SMEs) in Nigeria struggle with sustainability and financial growth. These challenges thereby result in inefficient resource allocation, cash flow issues, and particularly, poor financial performance. One of the key factors influencing their financial performance is the effectiveness of their accounting practices.

The connection between accounting practices and financial performance is continuously recognized. Adequate accounting allows business owners to track financial transactions,

prepare accurate financial statements, comply with tax obligations, and make informed strategic decisions. Also, clear financial reporting increases investor trust and confidence, making it easier for Small and Medium Scale Enterprises (SMEs) to secure funding and expand its operations.

However, in the Nigerian context, many Small and Medium Scale Enterprises (SMEs) operate casually, thereby, neglecting basic accounting procedures. Some keep no records of their operations, at all, or depend on manual systems that are prone to error and inadequacies. This issue not only affects its day-to-day operations, but also, it hinders its long term planning and adherence with financial requirements.

This study seeks to investigate the extent to which the application or neglect of accounting practices impact the financial performance of Small and Medium Scale Enterprises (SMEs), in Nigeria. The findings in this research are expected to provide insights that could help in strengthening internal controls, improve access to finance, and support policy reforms that improve the overall sustainability of the Small and Medium Scale Enterprises (SMEs) sector.

1.2 Statement of the Problem

Despite the pivotal role that Small and Medium Scale Enterprises (SMEs) play in Nigeria's economic development, many of them continue to face critical financial

challenges that threaten their growth and sustainability. One of the most pressing, yet under addressed issues is the poor implementation of effective accounting practices. These accounting practices, which includes accurate bookkeeping, timely financial reporting, compliance to regulatory requirements, and proper financial documentation, are important for monitoring business health, planning for growth, and ensuring accountability. However, most Small and Medium Scale Enterprises (SMEs) in Nigeria either lack the technical know-how, trained personnel, or systems to adopt these practices effectively.

A significant number of Small and Medium Scale Enterprises (SMEs) in Nigeria operates without professional accounting systems, depending instead on manual records, estimations, or transactions that are not recorded or documented. Many business owners lack the basic accounting knowledge or do not employ trained accounting personnel. As a result of this inadequacy, essential financial tasks, such as bookkeeping, preparation of income statements, and balance sheets, are either abandoned or poorly executed. For example, some business owners cannot differentiate between business and personal expenses, leading to distorted financial records and misinformed decision making. This does not only limit their ability to assess profitability or control costs, but also hinders access to external funding, as lenders and investors usually demand reliable and credible financial reports, as part of

due diligence. In some cases, the absence of accounting practices leads to non-compliance of tax and legal penalties, thereby, weakening its financial performance.

However, existing research have identified finance as a major hindrance for Small and Medium Enterprises (SMEs), but relatively few have specifically investigated how accounting practices influence the financial performance of these enterprises, in the Nigerian context. Therefore, there is a need to close this gap by providing empirical evidence on whether the use or neglect of accounting practices and how it impacts profitability, liquidity, access to loans, and long term business growth and sustainability among Small and Medium Scale Enterprises (SMEs). If this issue is not addressed, many Small and Medium Scale Enterprises (SMEs) may continue to struggle with financial mismanagement, limited access to capital, and eventual business failure. Therefore, this study seeks to address the issue by examining the extent to which accounting practices affect the financial performance of Small and Medium Scale Enterprises (SMEs) in Nigeria, providing insights that could inform better financial management, training, and policy formulation.

1.3 Research Questions

To achieve the objectives of this study and guide the research investigation effectively, some research questions will be developed. These questions aim to

know the effects of accounting practices on the financial performance of Small and Medium Scale Enterprises (SMEs) in Nigeria.

1. What is the impact of the internal control system on the financial performance of Small and Medium Scale Enterprises (SMEs), in Nigeria?
2. How do financial reporting standards affect the financial performance of Small and Medium Scale Enterprises (SMEs), in Nigeria?
3. What role does government play in influencing the financial performance of Small and Medium Scale Enterprises (SMEs), in Nigeria?
4. To what extent does effective budgeting contribute to profitability and sustainability of Small and Medium Scale Enterprises (SMEs), in Nigeria?

1.4 Objectives of the Study

The main objective of this study is to examine the effect of accounting practices on the financial performance of Small and Medium Scale Enterprises, in Nigeria. However, to achieve this objective, the study is guided by the following main objectives:

1. Examine the internal control system of financial performance of Small and Medium Scale Enterprises (SMEs), in Nigeria
2. Determine the financial reporting standards on financial performance of Small and Medium Scale Enterprises (SMEs).

3. To examine the role of government regulation and support in influencing the financial performance of Small and Medium Scale Enterprises (SMEs), in Nigeria.
4. To analyse the effect of budgeting practices on the financial performance of Small and Medium Scale Enterprises (SMEs), in Nigeria.

1.5 Research Hypotheses

In line with the research objectives and questions, this study will be guided by the following hypotheses. These hypotheses are formulated to test the assumed relationship between accounting practices and the financial performance of Small and Medium Scale Enterprises (SMEs).

H₀₁ There is no significant relationship between internal control on financial performance on Small and Medium Scale Enterprises (SMEs), in Nigeria.

H₀₂ There is no significant impact of financial reporting standards on the financial performance of Small and Medium Scale Enterprises (SMEs), in Nigeria.

H₀₃ Government regulation, support and influence do not significantly affect the financial performance of Small and Medium Scale Enterprises, in Nigeria.

H₀₄ Budgeting practices do not exert a significant effect on the financial performance of Small and Medium Scale Enterprises, in Nigeria.

1.6 Significance of the Study

The significance of this study emphasis on the recognition of the importance of Small and Medium Scale Enterprises (SMEs) in national development, contributing significantly to employment generation, innovation, and GDP growth. However, many Small and Medium Scale Enterprises (SMEs) struggle with poor financial performance, majorly as a result of inadequate or inconsistent accounting practices. There are various reasons why this study is important. This study is significant for a number of stakeholders.

For policymakers, the findings can help in the formulation of stronger policies and regulations to ensure financial transparency in the sector. By having an understanding of how specific accounting practices affect Small and Medium Scale Enterprises (SMEs) performance, government can develop systems like interventions that promote financial accountability, transparency, and adherence to regulatory requirements, which are critical for economic stability and investor confidence.

It will also shed light on how accounting practices can improve responsibility and performance in Small and Medium Scale Enterprises (SMEs). The study also contributes to the growing field of financial management research in emerging markets. It will support regulatory agencies and legislators in bolstering accounting standards and enforcement systems.

Small and Medium Scale Enterprises (SMESs) will also use it as a guide to enhance their financial management and decision making procedures. It will also help to highlight areas that can be strengthened which will help firms make better financial decisions. Many Small and Medium Scale Enterprises (SMEs) owners and managers operate unprofessionally and also lack adequate structured financial systems. This study will explore the importance of adopting standard and sound accounting practices, such as proper bookkeeping, timely financial reporting, and adherence to regulatory standards, which can significantly improve financial performance and sustainability.

It will be a resource for upcoming accounting and finance researchers, as well as add to the body of knowledge in academia. The academic community and researchers will benefit from this research, as it contributes greatly to the literature on financial accounting in the economies of developing countries. The study fills the identifiable gaps by focusing on Nigeria's Small and Medium Scale Enterprises (SMEs) sector and also provide a basis for continuous study into sound accounting practices, performance metrics, and its development.

Furthermore, this study is significant to investors and financial institutions, as it provides insights into the financial behaviour and risk profile of Small and Medium Scale Enterprises (SMEs). It also offers an understanding of how accounting practices

influence financial results, which can guide funding decisions, access to credit, and strategic partnerships.

Additionally, this study is also significant to Non-Governmental Organisations (NGOs) and development partners working on enterprise support programs, which help in offering relevant information for designing targeted interventions which enhance financial literacy, proper and sound accounting systems, and sustainable enterprise growth.

In summary, this study is not only academically useful but also practically impactful, making a well-rounded contribution to governance, business development, financial management and administration, and economic policymaking in Nigeria.

1.7 Scope of the Study

The study focuses on assessing how accounting practices influence the financial performance of Small and Medium Scale Enterprises (SMEs). However, this study is geographically restricted to Benin City, Edo State, Nigeria. This study covers various sectors, including retail, services, manufacturing, and agriculture. It specifically covers four key accounting areas: internal control systems, financial reporting standards, role of government support/ regulations, and budgeting practices, over a specified period. These areas are used because they represent major areas through which accounting influences organizational performance. This scope ensures the

study remains focused, relevant, providing insights into how sound accounting practices can enhance the efficiency, effectiveness, and sustainability of Small and Medium Scale Enterprises (SMEs) in Nigeria.

1.8 Limitations of the Study

This study examined the effects of accounting practices on the financial performance of Small and Medium Scale Enterprises (SMEs), the following limitations were faced;

Limited Sample Size: As a result of time and resource constraints, the study was limited to 100 respondents, which may not fully represent the entire SME population. A larger sample could have provided broader insights and more generalizable results.

1. **Geographical Scope:** The research was carried out within a limited geographical area. As such, findings may not be generalizable to SMEs in other regions with different environments, such as economic or regulatory environments.
2. **Time Constraints:** The time frame allocated for data collection and analysis restricted a broader and more detailed research on SME owners, operators, or accountants.
3. **Respondent Bias:** Here, some responses may be influenced by personal bias, misunderstanding of accounting concepts, or the need to present their business in a positive light.

4. Variability in Accounting Practices: Accounting practices differ significantly among SMEs depending on their size and structure. This makes it difficult to apply a uniform standard in assessment.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter aims to present a AA review of existing literature related to accounting practices, and their effects on financial performance of Small and Medium Scale Enterprises (SMEs). It also explores relevant theories, key accounting concepts, and findings from previous studies. It draws on theoretical perspectives, conceptual insights, and empirical findings to build a solid foundation for the study. The aim is also to identify what is known, highlight gaps, and justify the relevance of this research.

2.2 Conceptual Review

2.2.1 The Concept of Accounting Practices

Financial accounting practices is the process of recording, classifying, selecting, measuring, interpreting, and communicating financial information of a firm to enable users such as Management, Employees, Owners, Creditors, Banks, and Government, to make decisions. It incorporates measurement and reporting of profit and loss. (R.A Ibrahim & R.A Kazeem). Financial accounting is also the process of recording, identifying, measuring and communicating economic information to ensure informed judgement and decisions by the users of the information (American Accounting Association).

Comprehensive financial accounting promotes transparency and supports managerial decision making, especially in Small and Medium Scale Enterprises (SMEs), where operational complexity requires accurate financial reporting (Okolie, 2019).

These accounting practices develop the basis of responsible financial management in any business. In the view of Small and Medium Scale Enterprises (SMEs), accounting practices are particularly vital, due to limited resources and the need for strategic financial planning. These practices aid in the preparation of accurate financial statements, monitor profitability, and ensuring the adherence with standards such as International Financial Reporting Standards (IFRS). Small and Medium Scale Enterprises (SMEs) that comply to effective accounting practices are able to maintain control over expenditures and ensure accurate reporting of their profitability, these practices also support transparency and aids in boosting investor confidence, which is crucial for assessing credit, and position these firms to achieve operational efficiency, improve financial performance, and meet regulatory requirements.

2.2.2 The Concept of Financial Performance

Financial performance is the overall financial health of the firm. A firm's financial performance shows how well it generates revenue, and how the firm also manages its liabilities and assets. It is typically measured using indicators such as profitability, return on assets (ROA), return on equity (ROE), revenue growth, and cash flow, these indicators

offers insights into a business's operational efficiency, sustainability, and its ability to meet both short and long term obligations.

In the view of Small and Medium Scale Enterprises (SMEs), financial performance shows how effectively the business utilizes its assets, manages operating costs, generates excess profit from the sale of goods and rendering of services, and daily expenses. It also influences the business's ability to attract investors or loans, meet regulatory standards, and extend operations. Also, it is critical as it determines the business's ability to remain competitive, access funding, and survive economic setbacks.

2.2.3 Relationship between accounting practices and financial performance on Small and Medium Scale Enterprises (SMEs)

The relationship between accounting practices and financial performance in Small and Medium Scale Enterprises (SMEs) is significant and positive. Accounting serves as a financial language of any business, particularly for SMEs, who often operate with limited resources, informal structures, and where financial mismanagement is common. It also plays a pivotal role in shaping their financial outcomes.

One of the primary ways in which accounting practices affect the financial performance of SMEs is through improved financial management and planning. Proper accounting practices like budgeting, forecasting, and cash flow analysis help SMEs to make plans effectively. These tools enable businesses to set financial goals, monitor their income and expenditure, and also make informed operational decisions.

Furthermore, consistent accounting practices enhance transparency and trust. Accurate financial reporting and proper bookkeeping helps to build credibility with stakeholders, such as banks, investors, and other regulatory authorities. In Nigeria, access to external funding remains a significant issue for SMEs, therefore, having transparent financial records is important for securing loans and also attracting investment, which is crucial for scaling operations and improving profitability of the business.

Additionally, adhering to accounting standards and regulations is another important factor in this context. SMEs that align their financial practices with standards such as the International Financial Reporting Standards (IFRS for SMEs), do not only meet legal requirements but also avoid penalties and damage to its reputation. Moreover, these standards ensure uniformity and comparability, thereby, enabling business owners to benchmark its performance, assess trends, and also make informed strategic decisions.

Moreover, accounting practices also aid in the evaluation of performance. Here, financial statements such as statement of profit or loss and other comprehensive income, statement of financial position, and cash flow statement provides a clear insight into a business's profitability and operational efficiency. With this, SME operators and owners can easily identify strong performing areas and also address inadequacies, thereby, improving the overall financial performance of the business.

Also, sound accounting practices ensure growth and long term sustainability. These accounting practices offer a strong basis for taking investment decisions and strategic

planning. By maintaining proper and organized records, investors and lenders are able to depend on them to assess their creditworthiness, thereby, improving financial outcomes.

In conclusion, the relationship between accounting practices and financial performance in SMEs is both dynamic and indispensable. Accounting practices provides the foundation needed for sound financial decision making, regulatory compliance, and transparency. However, when these practices are properly implemented, it leads to better financial management, improved access to funding, and long term sustainability. Therefore, SMEs in Nigeria must prioritize sound accounting systems as a foundation for sustainable business performance.

2.2.4 Internal Controls

Internal controls are the policies, procedures, and systems established by an organisation to ensure the integrity of financial accounting information, enhance accountability, prevent fraud, and ensure adherence with rules, laws, and regulations. Internal controls are also systems and measures implemented by management to ensure accurate and reliable financial reporting.

In relation to Small and Medium Scale Enterprises (SMEs), Internal control refers to the set of policies and procedures designed to protect the business's assets, ensure accurate and timely financial reporting, enhance operational efficiency, and ensures the adherence to regulatory requirements. Internal controls are particularly necessary for Small and Medium Scale Enterprises (SMEs), which often lack the strong administrative systems,

usually found in larger businesses. As a result of their relatively limited resources and personnel, Small and Medium Scale Enterprises (SMEs) are more exposed to threats of fraud, financial errors, and non-compliance to regulatory requirements. Therefore, internal control is vital as it ensures the prevention of fraud and errors, accurate preparation of financial records, assets protection, operational efficiency, and compliance with applicable laws and regulations. Controls such as segregation of duties and cash handling procedures promotes transparency and reliability in its financial operations, these controls not only protect the business from external and internal threats, but also enhances the quality of financial information used for making decisions.

2.2.5 Small and Medium Scale Enterprises (SMEs)

Small and Medium Scale Enterprises (SMEs) are businesses characterized by a relatively small size, in terms of employees, revenue, and capital structure. They act as the backbone of most developing economies and are known as engines of economic growth, innovation, and employment. In Nigeria, they are defined by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), as enterprises which consists a workforce of 10 to 199 employees and assets (excluding land and buildings) valued between #5 million and #500 million. Small and Medium Scale Enterprises (SMEs) are dominant in areas such as manufacturing, retail, agriculture, and services. They contribute to the country's GDP and are estimated to make over 90% of all business operations, in Nigeria.

2.2.6 Government Policy and Support

Government policy and support plays a vital role in shaping the financial and operational area in which Small and Medium Scale Enterprises (SMEs) operates. These policies may consist of tax incentives, regulatory reforms, access to credit schemes, training programs, infrastructure development, and financial reporting procedures targeted at promoting their sustainability and growth. In Nigeria, government agencies like the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and the Bank of Industry (BOI) provide support through funding, technical aid, and capacity building. Also, fiscal policies such as reduced tax rates or tax holidays can help in reducing financial pressures on Small and Medium Scale Enterprises (SMEs), while regulatory frameworks ensure that they adopt basic accounting and financial reporting standards, thereby, improving their financial performance.

Furthermore, sound government support helps in addressing key issues faced by Small and Medium Scale Enterprises (SMEs) such as, limited access to capital, weak financial management, and inadequate infrastructure. Policies that promote formalization, financial inclusion, and training in accounting practices equip Small and Medium Scale Enterprises (SMEs) to manage resources, maintain proper records, and attract investors. The role of government in Small and Medium Scale Enterprises (SMEs) do not only strengthen their performance but also contributes to economic development by encouraging employment, innovation, and generation of income.

2.2.7 Financial Reporting Standards

Financial reporting standards provides a common structure that governs how financial information is classified, recorded, and presented in financial statements, ensuring consistency in accounting methods and procedures across organizations and firms. Financial reporting standards ensure uniformity, reliability, and comparability of financial statements across entities.

In Nigeria, these standards are primarily governed by the International Financial Reporting Standards (IFRS), as adopted by the Financial Reporting Council of Nigeria (FRCN), has standardized financial reporting among businesses, including Small and Medium Scale Enterprises (SMEs). However, International Financial Reporting Standards (IFRS) was primarily developed for large firms, but simplified versions such as International Financial Reporting Standards (IFRS) for Small and Medium Scale Enterprises (SMEs) have been created to accommodate the need and capacities of smaller businesses. This ensures that Small and Medium Scale Enterprises (SMEs) can provide high quality financial statements without the complexity of International Financial Reporting Standards (IFRS). For Small and Medium Scale Enterprises (SMEs), adherence to these standards supports better decision making, enhances access to credit, ensures legal and tax compliance, and also enhances operational transparency.

2.2.8 Budgeting

Budgeting is a vital financial tool that assists businesses, particularly Small and Medium Scale Enterprises (SMEs) in planning, decision making, and attaining operational efficiency. Budgeting is the process of developing a financial plan that shows expected income (revenue) and expenditures, over a specific period. For Small and Medium Scale Enterprises (SMEs), which often face financial hindrances, irregular cash flow, and limited access to external funding, budgeting serves as a crucial tool for maintaining financial discipline and the business sustainability. Budgeting directs management in aligning financial resources with the business's strategic goals, it enables managers in Small and Medium Scale Enterprises (SMEs) to determine financial feasibility of their operations and make informed decisions.

Furthermore, investors and financial institutions view budgeting as an indicator of sound management. Small and Medium Scale Enterprises (SMEs) with transparent and realistic budgets are often regarded more creditworthy, thereby, improving their chances of securing loans. Therefore, budgeting not only strengthens internal control but also external trust and credibility.

2.2.9 Investor Confidence

Investor Confidence is the degree of willingness among investors to engage in investment activities. Investor confidence is a key factor that significantly impacts the performance of the firm. In manufacturing firms, investor confidence is particularly vital because the

firm often involves large capital investments, long production cycles, and dependence on operational efficiency.

In essence, investor confidence is vital, especially for Small and Medium Scale Enterprises (SMEs), as it enables easier access to loans and credit facilities, higher valuation of the firm due to perceived lower risk, and support for expansion projects.

2.2.10 Regulatory Compliance

Regulatory compliance is the adherence to the rules, regulations, laws, and standards set by government and other relevant bodies. In Nigeria, regulatory compliance is concerned with understanding and complying with the set rules and regulations, including those related to business registration, taxation, labour practices, and information protection. Effective regulatory compliance is important for businesses to operate legally, maintain public trust, boost investor confidence, and also avoid penalties.

Therefore, Small and Medium Scale Enterprises (SMEs) in Nigeria must comply with various financial, environmental, labour, and safety laws which can improve the trust and confidence among investors, suppliers, and customers, and also supports long term business growth and sustainability.

2.2.11 Accounting Information System

Accounting Information System (AIS) is a system that is structured to collect, store, process, and also report financial and accounting data to enable informed decision

making. It is a vital tool for modern businesses, enabling them to effectively manage their financial data, improve decision making, and achieve set strategic goals.

In the view of Small and Medium Scale Enterprises (SMEs), they often face limitations in personnel, management of cash flows, monitoring of expenses, and generation of timely financial reports. Therefore, the accounting information system enables them to reduce the risk of fraud and errors, improve internal controls, promote informed decision making, and generate accurate financial reports. The Accounting information system also helps with the flow of information, regarding every aspect of a firm, including its financials.

2.2.12 Audit and Financial Disclosure

Audit refers to the independent examination of a business's financial statements to ensure accuracy, compliance with established laws and accounting standards, and the fair presentation of its financial position. For Small and Medium Scale Enterprises (SMEs), audits, whether internal or external, are necessary for promoting credibility, detecting fraud and errors, and enhancing trust with investors, financial institutions, and regulatory bodies. On the other hand, Financial Disclosures involves the process of providing necessary financial information in the financial statements and reports of a business, which is necessary for stakeholders or investors to assess the financial health of the business.

Though, Small and Medium Scale Enterprises (SMEs) may not be legally required to carry out audits, voluntary audits and proper disclosures can significantly improve confidence and trust among lenders, investors, and business partners, particularly in Nigeria's growing but competitive business environment.

2.3 Theoretical Framework

2.3.1 Agency Theory

Agency theory states that conflicts of interest may arise between managers and owners. Financial accounting reduces this risk by promoting transparency and accountability. Agency theory, developed by Jensen and Meckling, explores the relationship between principals (owners/ shareholders) and agents (managers), where the principal delegates tasks or decision making authority to the agent. The theory focuses on designing contracts and mechanisms, to reduce conflicts and ensure the agent acts in the best interests of the principal. Agency theory also suggests that when a principal delegates work to an agent, there is a risk that the agent may act in their own self- interest rather than the interest of the principal. The theory aims to examine and understand these potential conflicts and also develop strategies to minimize them. It aims to address the issues that arise when the principal and the agent have different goals and risk preferences. Its main area of analysis is the contract between the two parties (Eisenhardt, 1989).

In Business context, Managers are required to act in the best interest of the shareholders, but divergence often occurs, due to self-interest. In essence, Agency theory provides a framework for understanding and managing the complexities of relationships, where one party acts on behalf of another, with a focus on aligning their potentially divergent interests. Financial accounting practices, such as transparent reporting and audits, ensures to minimise agency costs and also ensure alignment between both parties.

In Small and Medium Scale Enterprises (SMEs), this can occur in various ways, such as, decisions related to internal control, financial reporting, and budgeting. In Nigeria's Small and Medium Scale Enterprises (SMEs), agency problems are common where governance may be informal or weak, thereby, making reliable accounting systems, even more critical and important. In other words, agency theory offers a basis for understanding the potential conflicts of interest that can arise in Small and Medium Scale Enterprises (SMEs), due to the separation between business owners and those managing the day-to-day operations. By adopting effective accounting practices, Small and Medium Scale Enterprises (SMEs) can reduce information gap, enhance trust, and improve financial performance.

2.3.2 Stewardship Theory

Contrary to the agency theory, Stewardship theory views the agent (managers) as trustworthy stewards who are motivated to act in the business's best interest. Stewardship theory also suggests that managers act in the best interest of the business, using accurate

financial reporting to demonstrate responsibility and build stakeholder trust (Davis et al., 1997). Stewardship theory assumes managers are primarily motivated by self-interest. Stewardship theory posits that managers are intrinsically motivated to do the work and tasks, assigned to them, and also help the business succeed and are trustworthy, collectivistic, and pro-organizational. It also emphasizes accountability and responsible reporting by managers, managers are driven by a desire to perform well and contribute to the business's success.

This theory also assumes that when managers are empowered, they naturally protect the assets of the business. Stewardship theory assumes a high level of trust and confidence between the firm and its managers. In essence, stewardship theory provides a foundation for understanding how managers can be motivated to act in the best interests of the firm, even without significant external oversight or incentives. In this view, accounting practices is more about demonstrating accountability and less about control. Unlike Agency theory, which says that managers prioritize personal benefit, except closely monitored, Stewardship theory believes that given responsibility and autonomy, managers will behave ethically and responsibly.

In context of accounting practices, stewardship theory assumes that managers will maintain accurate statements to show accurate business performance and also use financial reporting as a tool to demonstrate transparency and accountability. In Nigeria's Small and Medium Scale Enterprises (SMEs), Stewardship theory is particularly crucial

where firms are family owned and managers feel personally invested. Here, there is also a strong corporate culture or ethical framework.

2.3.3 Signalling Theory

Signalling theory is about decision making and communication. It focuses on situations with an information imbalance between two parties, where one party must decide which information should be conveyed to the other party. It also helps to explain how individuals and organisations make decisions in the face of uncertainty and incomplete information. Signalling theory describes how individuals or firms with private information, communicates with those who lack that information, in situations of information imbalance. It also emphasizes the role of financial reports in conveying the firm's quality and financial health to external stakeholders, that is, it examines and explains how high quality financial statements or reports send positive signals to external stakeholders (Spence, 1973).

In Business, firms possess more information about their financial health than external stakeholders, like, investors, creditors, or regulators. However, to address this disparity, firms use signals such as, audited financial statements, adherence to international standards, or transparent disclosures, so as to communicate trustworthiness, stability, and growth potential.

Also, in the context of accounting practices, the consistency, quality, and transparency of a firm's financial statements serve as important and powerful signals. Firms with profitable financial operations often issue timely and accurate financial reports, carry out independent audits, and also adopt recognized accounting standards, such as,

International Financial Reporting Standards (IFRS). These practices help to send positive signals about the firm's credibility, risk level, and outlook.

In the view of Nigeria's Small and Medium Scale Enterprises (SMEs) sector, where trust and disclosure accuracy are important, the signalling theory helps to explain the importance of good accounting practices, not just for compliance, but for developing credibility and attracting support.

However, the theory that really concerns this study is the Agency Theory, the agency theory focuses and explains the need for accurate, transparent, and accountable financial reporting, so as to manage the relationship between owners and managers or employees. In the context of Small and Medium Scale Enterprises (SMEs) in Nigeria, the importance of agency theory is apparent as a result of the increasing delegation of responsibilities in growing SMEs, and the dependence on managers or bookkeepers to maintain financial records. Thus, this theory offers a strong theoretical basis for examining how accounting practices influence the financial performance of SMEs. It also explains why internal control and other core aspects of accounting are critical for performance improvement in Small and Medium Scale Enterprises (SMEs).

2.4 Empirical Review

Several researchers have examined how accounting practices affect the performance of Small and Medium Scale Enterprises (SMEs). Different views have continued to emerge

on how accounting practices can affect the growth of the Small and Medium Scale Enterprises (SMEs) in Nigeria. Some empirical research has provided insights into how proper accounting practices influence profitability, access to capital or credit, sustainability, and operational efficiency.

Akinyemi (2014) conducted a quantitative research in Lagos State, to investigate the impact of accounting practices on the profitability of SMEs. Using structured questionnaires and regression analysis, the study found out that poor accounting systems were part of the main causes of its failure. The researcher highlighted that many SMEs in Nigeria do not keep proper financial records, thereby, limiting their ability to monitor performance or have access to external funding. The study concluded that effective accounting practices, particularly in areas like budgeting and tracking of expenses, had a significant positive influence on Small and Medium Scale Enterprises (SMEs) profitability, creditworthiness, and sustainability.

Uwuigbe et al. (2015) analysed the effect of financial disclosures on the performance of Small and Medium Scale Enterprises (SMEs). The researchers assessed how these disclosures affected firm performance indicators like return on assets (ROA) and return on equity (ROE). The researchers used content analysis on annual reports and performed regression tests, they explored financial statements of selected SMEs and carried out interviews to understand how disclosure practices influenced business growth. Also, findings showed that businesses with detailed and consistent financial and sustainability

disclosures had stronger financial performance, indicating that transparency extended beyond financials into areas like environmental and social governance, improved both internal accountability and public image. The study also revealed a positive and significant relationship between financial statement quality and business performance. It also revealed that sustainability reporting practices and disclosures has a way of influencing firm performance and stakeholder confidence and emphasized that weak disclosure practices often reduce investor trust and affect financial stability.

Furthermore, another study was made by Nzekwe et al., these researchers focused on how proper record keeping practices affect the sustainability of SMEs, in Anambra State. The researchers identified several challenges faced by SMEs in Anambra State, including inadequate access to funds, issues with sourcing raw materials, and inadequate personnel. Their research also suggests that government support in the form of financial aid, favourable business policies, which is crucial for the growth and survival of SMEs. In their study, they discovered that businesses that consistently maintained accurate financial records had better control over their cash flow, and tax payments. The study also emphasized that unprofessional record keeping and dependence on memory can hinder long term planning and also expose the businesses to mismanagement of financials. Also, the study stated the value and importance of record keeping, as a crucial tool for SME survival and decision making. Their study indicated that proper accounting practices enhance financial control, and access to loans.

Also, Adebayo and Ogunleye (2019) carried out a detailed study titled “The Effect of Bookkeeping on SMEs profitability in Nigeria”, focusing on how proper accounting practices influence financial results among small businesses operators, in Lagos State. The researchers explored to understand whether there was a vital connection between bookkeeping practices and profitability indicators. However, the results revealed a strong and positive connection between proper bookkeeping and financial performance. Businesses that maintained structured accounting practices were able to make more informed financial decisions, avoid unnecessary expenditures, manage debts efficiently, and also access to external funding. In contrast, SMEs with inadequate or no accounting practices often experienced cash flow issues, tax problems, and poor strategic planning, which results to a negative effect on its financial performance. The researchers also had some vital findings which include: 82% of SMEs that kept regular records reported profit growth in the previous year, Only 39% of those without professional bookkeeping reported growth, Most SME operator lacked formal training in accounting but recognized the importance of accounting practices, once exposed to it. Therefore, the study concluded that training, awareness, and access to basic accounting tools could significantly improve SMEs’ financial performance and long term sustainability.

Another important study was carried out by Nzekwe, Okoye, and Ugwuanyi (2020). These researchers carried out a study titled “IFRS Adoption and Financial Performance of SMEs in Nigeria”, with a focus on how the adoption of International Financial

Reporting Standards (IFRS) impacts the financial performance of Small and Medium Scale Enterprises in South-East Nigeria. The researchers' objective was to assess the level of awareness, adoption, and practical application of IFRS among SMEs and how this relates to their financial performance indicators, such as profitability, return on assets, and access to external financing. However, the researchers had some findings from the study which include: A low level of IFRS adoption was observed among SMEs, particularly due to lack of awareness, inadequate training, and perceived complexity of the standards, SMEs that uses even basic elements of IFRS reporting tended to show better financial performance than those using informal or cash based methods. Also, the researchers noted that SMEs that adopted IFRS practices gained more credibility with financial institutions and investors, thereby enhancing access to capital. However, the study concluded that while IFRS adoption is limited among SMEs in Nigeria, those that adopt even simplified accounting practices aligned with IFRS, experience measurable financial benefits. The study also recommended increased government and institutional support for IFRS training and simplified frameworks tailored to SMEs.

Another study was also carried out by Ezejiofor, Nwakoby, and Okoye (2014), titled "Accounting Systems and Performance of SMEs: A Study of Selected Firms in Anambra State". This study examined how the adoption of structured accounting systems impacts the financial performance of Small and Medium Scale Enterprises (SMEs). The researchers' aim was to determine the depth to which the use of formal accounting

systems affects the business performance. The study also had major findings which include: SMEs that used formal accounting systems consistently demonstrated effective financial performance and more sound internal control, most of the respondents acknowledged that having a structured accounting system aided them in the tracking of expenses, managing cash flows, and preparing for tax obligations. However, the study also indicated a significant number of SMEs still depended on manual or informal methods, stating reasons like high costs of implementation, lack of expertise, and low perceived relevance. Therefore, the study highlighted that SMEs with effective accounting systems experienced improved decision making accuracy, accountability, and financial discipline, which contributed positively to their business performance. Also, the researchers concluded that the adoption of proper accounting systems is vital for SME survival and growth, also recommending more training programs and access to affordable accounting tools established for SMEs.

The reviewed studies continuously support the crucial role accounting practices play in shaping the financial performance of Small and Medium Scale Enterprises (SMEs). From Adebayo and Ogunleye's (2019) emphasis on the profitability gains connected to proper bookkeeping, to Nzekwe, Okoye, and Ugwuanyi's (2020) findings on the financial merits of adopting IFRS reporting, and Ezejiofor et al.'s (2014) demonstration of performance improvement through structured accounting systems, there is a strong proof that sound accounting practices improves SMEs' operational efficiency, decision making, and

access to external funding. Despite the fact that the approaches vary, a common pattern was revealed; firms that give precedence to strong accounting practices tend to achieve stronger financial results.

Most studies agree that sound accounting practices positively affect firm performance; few studies suggest no impact, often as a result to inadequate implementation or weak enforcement of standards. However, these findings also reveal prevailing issues such as inadequate awareness, lack of expertise, and reduced adoption of standardized practices, which consistently hinder the full realization of these benefits among Nigerian SMEs. In summary, the empirical studies highlighted the need for targeted policy interventions, training, and simplified frameworks to enhance the widespread adoption of effective accounting practices as a tool for sustainable SME growth. These findings also provide a sound foundation for further investigation into how financial accounting can serve as a strategic tool for growth in Nigeria's Small and Medium Scale Enterprises (SMEs) sector.

2.5 Gaps in Literature

Despite several studies addressing accounting practices and its effects on financial performance, notable gaps still exist, particularly in the context of Nigerian Small and Medium Scale Enterprises (SMEs).

One of the notable gaps found in the studies is, restricted industry scope, many empirical studies examine accounting practices across general corporate firms or listed companies,

but limited or few focus specifically on manufacturing firms, which face accounting challenges. This lack of specificity, therefore, causes a gap in examining and understanding how financial accounting practices distinctly affect this sector.

Also, one of the major gaps found in the studies is, underexplored role of institutional support. Despite its relevance, the role of institutional support in shaping accounting practices among SMEs in Nigeria remains underexplored in the literature. Many studies focus primarily on internal firm factor like financial literacy but pay limited attention to how external institutions influence SMEs' accounting behaviour. This gap leaves a crucial part of the business environment insufficiently understood. Institutional support is very essential because SMEs often face challenges, such as, limited resources, lack of expertise, and poor access to formal finance which hinders proper accounting practice adoption. Support from institutions can close these gaps by improving SMEs' capacity to maintain accurate financial records, adhere to reporting standards, and use accounting information for decision making and growth. Also, having an understanding of the role of institutional support can help in identifying effective interventions and policy frameworks, developed to strengthen SME accounting systems, thereby, improving their performance and sustainability in Nigeria's competitive market environment.

Furthermore, a key limitation is the, restricted performance indicators, used to assess the impact of financial accounting practices on firm performance, particularly in the context of Nigerian Small and Medium Scale Enterprises (SMEs) used in most studies. Most

studies tend to focus solely on a few financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE), or Net profit margin. While these indicators are necessary, they do not examine and capture the full scope of a business's performance or the effects of accounting practices. For instance, operational efficiency, internal control, regulatory compliance, and investor confidence are usually overlooked, despite being directly influenced by financial reporting and accounting standards. Addressing this gap would aid policymakers, investors, and managers to have an in-depth understanding of the diverse impact of accounting practices, particularly in the Small and Medium Scale Enterprises (SMEs).

Another major shortfall in the existing studies on accounting practices in Nigerian Small and Medium Scale Enterprises (SMEs) is the, inadequate focus on digital transformation. As businesses increasingly depend on digital tools to manage and report financial information, the role of technology in accounting has become fundamental. Yet, many studies fail to examine how the adoption of systems such as Enterprise Resource Planning (ERP) and other systems influence the accuracy, efficiency, and timeliness of financial practices. In Small and Medium Scale Enterprises (SMEs), these systems can greatly enhance internal controls, decision making, and expense tracking. Challenging this gap would provide a more up-to-date and practical outlook on how accounting practices evolve with technology, and how its evolution affects the performance of Small and Medium Scale Enterprises (SMEs), in Nigeria.

Moreso, another important gap in the previous studies on accounting practices among Small and Medium Scale Enterprises (SMEs), particularly in Nigeria, is inadequate examination of compliance behaviour. While many or few studies make reference to regulatory frameworks, such as the International Financial Reporting Standards (IFRS), Companies and Allied Matters Act (CAMA), and Financial Reporting Council of Nigeria (FRCN) standards, they often fail to examine and analyse how and to what extent these businesses actually comply with these standards. This creates a critical gap because non-compliance or partial compliance can mislead investors, reduce accountability, and deform or manipulate financial reports. In Small and Medium Scale Enterprises (SMEs), compliance with financial standards is vital to achieving reliable and transparent statements.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter outlines the methods adopted for examining and investigating the Effects of Accounting Practices on the Financial Performance of Small and Medium Scale Enterprises (SMEs) in Nigeria. It also presents the research design, population and sampling, sources of data or method of data collection, model specification, and method of data analysis. This chapter serves as the backbone of the study, as it outlines the procedures through which data was collected, analysed, and interpreted to achieve the stated objectives. A well- developed methodology is crucial to ensure the validity, reliability, and credibility of the research findings.

3.2 Research Design

The research design used for this study is the descriptive survey design, this design is considered appropriate because it allows the researcher to systematically collect, analyse, and interpret data about existing accounting practices and their effects on the financial performance of SMEs without the manipulation of any variables. It is especially important for studies aiming to describe the features, behaviours, or opinions of a population at a specific point in time. The decision of using a descriptive survey design also corresponds with the study's dependence on primary data gathered directly from SME operators and owners. Through a well-structured questionnaire, the study captures

respondents' experiences, practices, and perceptions concerning key accounting procedures such as financial reporting, internal control, and budgeting, and how these practices relate to financial results like profitability and business sustainability.

In addition, this research design enables both quantitative analysis, for the measurement of relationships between variables, and qualitative insights for a background related understanding. It also facilitates a broader applicability of findings to a larger population of SMEs, informing policy and practice recommendations. By merging these methods, the study achieves both depth and breadth in exploring and investigating the research problem.

3.3 Population and Sampling Technique

The population of this study consists of owners, financial managers, and accountants of Small and Medium Scale Enterprises (SMEs) in Edo State, Nigeria. SMEs are seen as the backbone of Nigeria's economy and are widely distributed across various sectors, including retail, services, manufacturing, and others. The selection of SMEs was based on their size, with the definition of SMEs in Nigeria, following the standard requirement of having between 10 and 200 employees and an annual turnover that falls within the designated threshold for small and medium scale enterprises registered, therefore, determining an exact population size can be difficult and challenging. Hence, a statistically acceptable formula for estimating an appropriate sample size is used.

To arrive at a representative sample, Cochran's formula (1977) is used as a result of its suitability in cases where the population is large or unknown. The formula is designed to yield a reliable and useful sample size that reflects the views of the larger population within an acceptable margin of error.

Cochran's Formula:

$$n_o = (Z^2 * p * q) / e^2$$

Where:

n_o = required sample size.

Z = standard normal deviation at 95% confidence level (1.96).

p = estimated proportion of the population with the characteristic (0.5 assumed when unknown).

$$q = 1 - p = 0.5$$

e = margin of error (0.05)

Computation:

$$n_o = (1.96^2 * 0.5 * 0.5) / (0.05^2)$$

$$n_o = (3.8416 * 0.25) / 0.0025$$

$$n_o = 0.9604 / 0.0025$$

$$n_o = 384.16$$

Thus, a minimum of 384 respondents would be statistically appropriate.

However, considering constraints such as time, accessibility, and resource limitations, the sample size will be reduced, using the purposive sampling technique, while still maintaining the integrity and representativeness of the study. Therefore, this study adopts the purposive sampling technique, a non-probability sampling method that enables the researcher to select the participants based on specific characteristics appropriate and relevant to the research objectives. The technique is suitable for this study as it targets SME owners or managers who have an adequate knowledge of their business's financial accounting practices.

To determine an appropriate sample size, Taro Yamene's (1967) formula was employed. The formula is widely used to calculate sample size from a given population.

Taro Yamene's formula is expressed as:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = sample size.

N = population size.

e = margin of error (5% or 0.05).

Given that the estimated population size of registered SMEs within the study area is approximately 133, and applying a 5% margin of error.

$$n = 133 / (1 + 133(0.05)^2)$$

$$n = 133 / (1 + 133(0.0025))$$

$$n = 133 / (1 + 0.3325)$$

$$n = 133 / 1.3325$$

$$n \approx 100$$

Hence, the sample size for the study is 100 respondents. This sample is sufficient for producing reliable and valid results, while still being manageable, in terms of data collection and analysis.

3.4 Research Instrument for Data Collection

The primary data collection technique for this study was a structured questionnaire. The use of a questionnaire was adopted based on its ability to efficiently gather adequate information from a larger number of SME respondents within a short period (Bernard & Ryan, 2019). Also, a questionnaire was designed and administered to collect both quantitative and qualitative data, related to accounting practices and their effects on the financial performance of SMEs, in Nigeria.

The questionnaire was carefully designed to align with the key variables under research: internal control systems, financial reporting standards, budgeting practices, and the role of government support or regulations. Each of these were designed into measurable items, using a Likert scale format, thereby, enabling the measurement of perceptions, practices, and experiences of SME operators and owners in relation to their accounting practices

and financial performance. The questionnaire enabled the collection of data that could be easily coded and analysed quantitatively, thereby, making it a suitable tool for carrying out a structured and large-scale empirical study.

Furthermore, the questionnaire was categorized into logical sections; demographic data, nature of business, accounting practices (based on the key variables), and perceived financial performance. This made it easier to analyse the data using statistical software and offered a strong basis for drawing meaningful conclusions.

3.5 Sources of Data / Methods of Data Collection

This study utilized primary data, as the main source of data to examine the relationship between accounting practices and the financial performance of SMEs. The data collected was directly from the respondents, through well- structured instruments, so as to ensure the accuracy, relevance, and reliability of the responses.

The primary data were gathered through the use of structured questionnaires, administered to selected SMEs owners and operators. The questionnaire was developed and designed to capture key areas, such as the kinds of accounting practices adopted, the frequency and quality of financial reporting, budgeting systems, internal controls, the role of government and institutional support, and perceptions of financial performance indicators. The questionnaire consists of a combination of close-ended questions (e.g. Likert- scale items) to allow for quantitative analysis and also ensure consistency, as well as a few open-ended questions to gather sound qualitative insights from respondents.

The questionnaires were distributed both physically and electronically (via email or messaging apps) depending on the accessibility and preference of the respondents. Also, face-to-face administration was carried out, so as to ensure higher response rate and provide clarity when needed.

3.6 Model Specification

To empirically analyse the Effects of Accounting Practices on the Financial Performance of Small and Medium Scale Enterprises (SMEs), a multiple regression model will be specified to evaluate the relationship between financial performance (dependent variable) and key accounting related factors (independent variables), in the study. The following multiple regression model for this study is specified:

$$FP = \beta_0 + \beta_1IC + \beta_2FR + \beta_3RG + \beta_4BD + \varepsilon$$

Where;

FP= Financial Performance

IC= Internal Controls

FR= Financial Reporting

RG= Role of Government

ε = Error term

This model will be estimated using data obtained through structured questionnaires and analyzed using statistical software such as SPSS or STATA.

3.7 Method of Data Analysis

After the collection of data through structured questionnaires, the responses were coded and analysed using quantitative statistical methods. The analysis were conducted with the aid of statistical software, such as SPSS (Statistical Package for the Social Sciences) or STATA, which are reliable tools for managing, analysing, and interpreting large sets of numerical data. The analysis started with descriptive statistics (mean, standard deviation, frequencies, and percentages) to summarize the demographic information of participants and also give a basic understanding of the data set. This helped in the identification of patterns and general trends among the SME operators and owners.

Following the descriptive statistics, inferential statistics, specifically multiple regression analysis, was used to test the study's hypotheses. The regression model was also used to assess the relationship between independent variables (such as budgeting practices, financial reporting, internal controls, and the role of government), and the dependent variable (financial performance of SMEs). The use of multiple regression model enabled the study to determine the extent to which each independent variable affects financial performance, identify the statistical significance of each accounting practice, and also control the effects of other variables when assessing individual predictors.

Moreso, the level of significance for hypothesis testing was set at 5% ($p < 0.05$). This means any variable with a p-value less than 0.05 was considered statistically significant in explaining changes in financial performance. The outcomes were also presented in

tables, including regression coefficients (β), R- squared values, and p- values, so as to provide clarity and transparency in interpretation. This method enabled the objective evaluation of how well accounting practices contribute to financial performance in SMEs and also provides empirical support for the conclusions drawn.

3.8 Validity of Research Instrument

Validity simply refers to the depth to which the research instrument accurately measures what it is intended to measure (Morse et al., 2022). Therefore, to ensure the content validity of this research, the questionnaire developed and used in this study was carefully designed based on established literature and aligned with the study's objectives. The questionnaire was pre-tested on a small sample of SMEs in a pilot study, and feedback was used to refine the questions. This process ensured that the instrument, that is, the questionnaire, accurately covered the variables.

Furthermore, content validity was improved by reviewing existing literature on accounting practices and its financial performance on SMEs, to ensure that all relevant areas were covered. Also, construct validity was established by ensuring that the questions used in the questionnaire effectively captured the theoretical constructs under study.

3.9 Reliability of Research Instrument

Reliability is the consistency of the instrument in measuring the same phenomenon across different occasions (Tavakol & Dennick, 2021). That is, reliability refers to the

consistency and stability of the instrument, over time. Therefore, to assess the internal consistency or reliability of the questionnaire, a pilot test was conducted among a small sample of SME operators. The reliability coefficient was calculated using Cronbach's Alpha, with a threshold of 0.7 or above, indicating acceptable reliability. During the pilot testing, the Cronbach's alpha was calculated for each section of the questionnaire, and the results indicated acceptable reliability levels. A high reliability score confirmed that the instrument will yield consistent responses across items measuring the same construct. These measures used made sure that the data collected is both accurate and reliable for meaningful analysis.

Furthermore, to ensure reliability, the instrument was designed with clear, concise, and unambiguous language to reduce errors or variations in responses. Additionally, the structured nature of the instrument ensured that the same data was collected from all respondents, thereby, improving the consistency and comparability of the responses.

3.10 Pilot Study

For this research, a pilot study was conducted as a preliminary step to evaluate the effectiveness, clarity, and reliability of the questionnaire, prior to its execution in the main study. This aspect involved administering the questionnaire to a small, representative sample of Small and Medium Scale Enterprises (SMEs) within the study areas that were not part of the final sample. Also, the primary objective of the pilot study was to identify and address potential issues in the format, language, and interpretation of

the questions. Also, conducting the pilot study helped check whether the questions were understandable, useful, and capable of covering the required data on key variables such as internal control systems, budgeting practices, financial reporting, and the role of government regulations or support.

Additionally, the pilot study contributed to the evaluation of the reliability of the questionnaire using tools such as Cronbach's Alpha, which helped to measure the internal consistency of the items. However, based on the results from the pilot study, minor adjustments were made to improve the validity of the instrument and ensure that it would yield accurate and useful responses during the data collection. This step was important to enhance the overall quality and credibility of the study.

3.11 Ethical Considerations

To ensure the study adheres to ethical standards in the collection and handling of primary data, the following measures will be taken:

1. **Informed Consent:** All participants will be fully informed about the study's objectives and relevance of the study prior to their participation. A consent form accompanied each questionnaire, and respondents will be required to acknowledge their willingness to participate, on their free will.
2. **Voluntary Participation:** Participation will be entirely voluntary and respondents will be informed of their right to decline participation or withdraw from the study at any point without any consequences.

3. Confidentiality and Anonymity: Also, to protect the participants' privacy, their identities and responses will be kept anonymous and strictly secret and confidential.
4. Non- Maleficence: In carrying out this research, care will be taken to ensure that the research poses no harm or damage, psychological, reputational, or otherwise, to the respondents or their businesses.
5. Data Security and Protection: All data will be securely preserved and utilized for academic reasons only, completed questionnaires will be securely stored. Access to the data will be limited strictly to the researcher.

By adhering to these ethical standards, the study ensures responsible conduct and the protection of all participants' rights.

3.12 Operationalisation / Measurement of Variables

Operationalisation refers to the process of defining and quantifying theoretical concepts so they can be empirically studied, examined, and measured. For this study, the key constructs are broken down into measurable variables. These variables are further structured in a way that enables for practical data collection and statistical analysis. In this study, the key constructs are; internal control systems, financial reporting, budgeting practices, and role of government regulations or support. Each variable was measured using various indicators on a 5-point Likert scale, ranging from Strongly Disagree (1) to

Strongly Agree (5), to capture respondents' perceptions or views. In addition, the open-ended questions, which are qualitative in nature, cannot be measured using numeric scales like closed-ended questions. However, they can still be analysed and interpreted systematically, using Thematic analysis, Content analysis, or use of software (Optional).

- i. Internal Controls: Measured by assessing the existence and effectiveness of internal control procedures, segregation of duties, monitoring of systems, and compliance checks with the SMEs.
- ii. Financial Reporting: This was measured through questions focusing on the frequency, accuracy, and adherence to applicable and required standards.
- iii. Budgeting Practices: This was measured by examining the existence of budget planning, compliance to budgetary controls, and use of budgets in decision-making.
- iv. Role of Government regulations or support: This is assessed by exploring government support, policy frameworks, access to funding, training initiatives, and regulatory impact.
- v. Financial Performance: This was measured by examining the business's revenue growth, and overall financial sustainability.

Furthermore, to ensure that the questionnaire items reflect the intended concepts, a pilot study was conducted and Cronbach's Alpha was used to test the internal consistency. This approach helps to ensure that the abstract ideas behind accounting practices and financial performance are accurately captured, enabling a meaningful, accurate interpretation, and strong empirical analysis.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

4.1 Introduction

This chapter presents the data gathered from respondents to examine the effects of accounting practices on financial performance of Small and Medium Scale Enterprises (SMEs). The study specifically investigates how internal controls, financial reporting, budgeting practices, and the role of government relate to financial performance of SMEs. The analysis focuses on the interpretation of the data, in relation to the research objectives and hypotheses formulated in Chapter One. Data were gathered through a structured questionnaire, which was carefully designed and administered to SME owners or managers. Also, the structured questionnaire captured both demographic information and responses to the key constructs using a five-point Likert scale ranging from Strongly Agree to Strongly Disagree. The responses offer insights into how financial performance of SMEs may influence or be influenced by accounting practices. The statistical tools used include descriptive statistics and inferential analysis, conducted using software like SPSS.

4.2 Data Presentation

A total of 100 valid responses were collected and analysed for this study. The respondents represented diverse SME categories including retail, manufacturing, and

services. They also varied in age, gender, educational qualification, years in business, position in business, and number of employees. Descriptive statistics are used to summarize responses, followed by inferential analyses so as to test the formulated and stated hypotheses. Each variable is also examined in relation to financial performance, and all interpretations made are strictly aligned with the stated research questions.

4.3 Analysis of Demographic Data of Respondents

Table 4.1: Demographic Characteristics of Respondents.

| Variable | Category | Frequency | Percent |
|----------------------------------|------------------|------------------|----------------|
| Gender | Male | 53 | 53% |
| | Female | 47 | 47% |
| | TOTAL | 100 | 100.0% |
| Age | 18 – 25 years | 72 | 72% |
| | 26 – 35 years | 18 | 18% |
| | 36 – 45 years | 3 | 3% |
| | 45 & above | 7 | 7% |
| | TOTAL | 100 | 100.0% |
| Educational Qualification | OND / NCE | 12 | 12% |
| | HND / B.Sc | 73 | 73% |
| | Master’s Degree | 3 | 3% |
| | Ph.D | 3 | 3% |
| | Others | 9 | 9% |
| | TOTAL | 100 | 100.0% |
| Years in Business | Less than 1 year | 44 | 44% |
| | 1 – 5 years | 47 | 47% |
| | 6 – 10 years | 4 | 4% |
| | Above 10 years | 5 | 5% |
| | TOTAL | 100 | 100.0% |
| Type of SME | Retail | 46 | 46% |

| | | | |
|-----------------------------|---------------|------------|---------------|
| | Manufacturing | 7 | 7% |
| | Services | 47 | 47% |
| | TOTAL | 100 | 100.0% |
| Position in Business | Owner / CEO | 68 | 68% |
| | Accountant | 16 | 16% |
| | Manager | 11 | 11% |
| | Others | 5 | 5% |
| | TOTAL | 100 | 100.0% |
| Number of Employees | 1 – 10 | 80 | 80% |
| | 11 – 50 | 14 | 14% |
| | 51 – 100 | 3 | 3% |
| | Above 100 | 3 | 3% |
| | TOTAL | 100 | 100.0% |

Source: Field Survey (2025).

Table 4.1 presents the demographic characteristics of 100 respondents, who were involved in the study. The gender distribution shows that 53% of the respondents were male, while 43% were female. This indicates a moderately higher male involvement among SME operators or owners in Edo State.

In terms of age, the largest group of respondents (72%) falls within the 18 – 25 years category, followed by those aged 26 – 35 years (18%). Respondents aged 36 – 45 years and 45 & above, accounts for 3% and 7%, respectively. Therefore, this indicates a business community largely composed of young adults between the ages of 18 and 25, who are actively engaging in SME activities.

Regarding educational qualification, 12% represents those that are OND / NCE holders, 73% are HND / B.Sc holders, which makes it the dominant group, indicating that most respondents have tertiary education. Also, 3% represents those with Master's Degree, 3% also represents those with Ph.D, and 9% represents those that had other type of educational qualification, which may include vocational, professional, or foreign qualifications. Therefore, this data indicates that majority of the respondents used in this study are fairly well-educated, particularly at the undergraduate level. This suggests that most SME owners or operators possess the formal education likely vital for understanding the basic accounting and financial reporting practices.

Furthermore, in terms of years in business, it revealed that 44% of respondents have been in business for less than 1 year (relatively new), which indicates a large number of start-ups or new ventures. 47% have operated for 1 – 5 years, indicating the majority of SMEs with short-term experience. Additionally, 4% fall within those that have been in business for 6- 10 years and 5% indicates those that have been in business for more than 10 years, both indicating a small proportion of long-standing businesses and with long-term experience.

Also, in the type of SME, 46% account for retail businesses, indicating a high visibility of trade and consumer focused enterprises. 7% makes up of manufacturing SMEs, indicating that fewer respondents are engaged in production or industrial operations.

Additionally, 47% represents service-based SMEs, which is the highest proportion, thereby, indicating a growing trend towards service oriented businesses.

Additionally, in terms of position in the business, 68% are owners, thereby, indicating that the majority of the respondents are top-level decision makers, directly involved in overseeing activities and financial operations in their businesses. 16% are accountants, indicating a fair level of knowledge from professionals, responsible for financial reporting, budgeting, and compliance. Also, 11% are managers, indicating the views of mid-level personnel involved in the daily administration and financial oversight of the business. 5% falls under others, which could include Marketers, Analyst, Sales Personnel, Assistants, Clerks, or Consultants, who are still involved in the business but not in a central decision making position of the business.

Lastly, in terms of number of employees, 80% represents 1 – 10 employees, 14% represents 11 – 50 employees, 3% represents 51 – 100 employees, and 3% also represents above 100 employees. This indicates that these businesses may have slightly more structured operations and could be more likely to adopt and implement formal accounting practices.

4.3.1 Analysis of Psychographic Data

Research Questions

Research Question 1: What is the impact of the internal control system on the financial performance of Small and Medium Scale Enterprises (SMEs), in Edo State, Nigeria?

Table 4.2: Internal Control and Financial Performance of Small and Medium Scale Enterprises (SMEs).

| S/N | Items | N | Mean | SD | Decision |
|-----|--|-----|------------|------|---------------------|
| 1. | The Business has well-defined internal control procedures. | 100 | 3.99 | 0.78 | Moderate Agreement. |
| 2. | There is segregation of duties in financial operations. | 100 | 3.92 | 0.72 | Agreed. |
| 3. | There is proper documentation for all financial transactions. | 100 | 4.25 | 0.80 | Agreed. |
| 4. | Internal audits are carried out regularly. | 100 | 3.78 | 0.89 | Moderate agreement. |
| 5. | Internal control procedures help minimize frauds and errors. | 100 | 4.36 | 0.62 | Agreed. |
| 6. | Internal control procedures contributes positively to our financial performance. | 100 | 4.28 | 0.67 | Agreed. |
| | Cluster Mean | | 4.1 | | Agreed |

Source: Field Survey (2025).

Based on table 4.2, The business has well-defined internal control procedures has a mean score of 3.99, There is segregation of duties in financial operations has a mean score of 3.93, There is proper documentation for all financial transactions has a mean score of 4.25, Internal audits are carried out regularly has a mean score of 3.78, Internal control procedures help minimize frauds and errors has a mean score of 4.36, and Internal control procedures contributes positively to our financial performance has a mean score of 4.28. The cluster mean of 4.1, which indicates that internal control procedures are seen as strong, which positively impacts the financial performance and sustainability of Small and Medium Scale Enterprises (SMEs).

Research Question 2: How do financial reporting standards affect the financial performance of Small and Medium Scale Enterprises (SMEs), in Edo State, Nigeria?

Table 4.3: Financial reporting standards and Financial performance of Small and Medium Scale Enterprises (SMEs).

| S/N | Items | N | Mean | SD | Decision |
|-----|---|-----|-------------|------|----------------|
| 7. | The Business prepares regular financial reports (monthly/quarterly/annually). | 100 | 4.15 | 0.77 | Agreed. |
| 8. | Financial statements are prepared in line with accepted standards. | 100 | 4.15 | 0.77 | Agreed. |
| 9. | Financial reports are used to make strategic decisions. | 100 | 4.40 | 0.72 | Agreed. |
| 10. | Financial statements are reviewed by external professionals. | 100 | 3.48 | 1.21 | Neutral. |
| 11. | Financial reporting has enhanced our financial performance. | 100 | 4.21 | 0.82 | Agreed. |
| | Cluster Mean | | 4.08 | | Agreed. |

Source: Field Survey (2025).

Based on table 4.2, The business prepares regular financial reports (monthly/quarterly/annually) has a mean score of 4.15, Financial statements are prepared in line with accepted standards has a mean score of 4.15, Financial reports are used to make strategic decisions has a mean score of 4.40, Financial statements are reviewed by external professionals has a mean score of 3.48, and Financial reporting has enhanced our financial performance has a mean score of 4.21. The cluster mean of 4.08, which indicates that financial reporting practices contributes positively to better financial performance and growth prospects of Small and Medium Scale Enterprises (SMEs).

Research Question 3: To what extent does effective budgeting contribute to profitability and sustainability of Small and Medium Scale Enterprises (SMEs)?

Table 4.4: Budgeting practices and Financial performance of Small and Medium Scale Enterprises (SMEs).

| S/N | Items | N | Mean Score | SD | Decision |
|-----|--|-----|-------------|------|---------------------|
| 12. | The Business prepares a budget before financial periods. | 100 | 3.98 | 0.80 | Agreed. |
| 13. | Budgeting is based on past data and realistic projections. | 100 | 4.18 | 0.74 | Agreed. |
| 14. | Budget performance is monitored throughout the year. | 100 | 4.09 | 0.81 | Agreed. |
| 15. | Budgeting has helped in managing resources efficiently. | 100 | 4.29 | 0.78 | Agreed. |
| 16. | Deviations from the budget are analysed and corrected. | 100 | 3.93 | 0.76 | Moderate agreement. |
| | Cluster Mean | | 4.09 | | Agreed. |

Source: Field Survey (2025).

Based on table 4.4, The business prepares a budget before financial periods has a mean score of 3.98, Budgeting is based on past data and realistic projections has a mean score of 4.18, Budget performance is monitored throughout the year has a mean score of 4.09, Budgeting has helped in managing resources efficiently has a mean score of 4.29, and Deviations from the budget are analysed and corrected has a mean score of 3.93. The cluster mean of 4.09, which indicates that budgeting is viewed as an important management practices, contributing significantly to positive performance of Small and Medium Scale Enterprises (SMEs). It also suggests that budgeting systems should be maintained and improved further for continued growth and sustainability.

Research Question 4: What role does government play in influencing the financial performance of Small and Medium Scale Enterprises (SMEs), in Edo State, Nigeria?

Table 4.5: Role of Government and Financial Performance of Small and Medium Scale Enterprises (SMEs).

| S/N | Items | N | Mean Score | SD | Decision |
|-----|--|-----|-------------|------|----------------|
| 17. | The government provides adequate support for SME accounting practices. | 100 | 2.44 | 1.08 | Disagreed. |
| 18. | We comply with government accounting regulations and tax laws. | 100 | 3.84 | 0.90 | Agreed. |
| 19. | Government policies encourage transparent financial reporting. | 100 | 3.60 | 0.88 | Agreed. |
| 20. | Government sponsored training or grants improve our business and accounting practices. | 100 | 3.02 | 1.08 | Neutral. |
| 21. | Poor enforcement of policies affects SME financial performance. | 100 | 4.07 | 0.85 | Agreed. |
| | Cluster Mean | | 3.39 | | Agreed. |

Source: Field Survey (2025).

Based on table 4.5, The government provides adequate support for SME accounting practices has a mean score of 2.44, We comply with government accounting regulations and tax laws has a mean score of 3.84, Government policies encourage transparent financial reporting has a mean score of 3.60, Government sponsored training or grants improve our business and accounting practices has a mean score of 3.02, and Poor enforcement of policies affects SME financial performance has a mean score of 4.07. The cluster mean of 3.39, which indicates that government role is recognized but it is not strongly contributing to the financial performance of Small and Medium Scale Enterprises (SMEs). It also suggests that there is room for policy strengthening, sound implementation, and more targeted support to enhance SME growth and development.

FINANCIAL PERFORMANCE

Table 4.6: Financial Performance of the SMEs surveyed.

| S/N | Items | N | Mean Score | SD | Decision |
|-----|--|-----|-------------|------|-------------------------|
| 22. | Our business has seen growth in revenue over the previous years. | 100 | 4.27 | 0.99 | Agreed. |
| 23. | Profitability has improved as a result of better accounting practices. | 100 | 4.14 | 0.66 | Agreed. |
| 24. | Financial decisions have led to reduced operational costs. | 100 | 4.02 | 0.84 | Agreed. |
| 25. | Our business can attract investors due to sound financial records. | 100 | 4.21 | 0.75 | Agreed. |
| | Cluster Mean | | 4.16 | | Strongly agreed. |

Source: Field Survey (2025).

Based on table 4.6, Our business has seen growth in revenue over the previous years has a mean score of 4.27, Profitability has improved as a result of better accounting practices has a mean score of 4.14, Financial decisions have led to reduced operational costs has a mean score of 4.02, Budgeting has helped in managing resources efficiently has a mean score of 4.29, and Our business can attract investors due to sound financial records has a mean score of 4.21. The cluster mean of 4.16, which indicates a very high level of agreement among respondents, thereby, indicating a strong perceived positive impact on the financial performance of Small and Medium Scale Enterprises (SMEs).

4.4 Reliability Test

To determine the internal consistency of the research instrument, a reliability test was conducted using Cronbach's Alpha. This test is widely applied in social science research to assess how closely related a set of items are as a group. According to Nunnally (1978), a Cronbach's Alpha coefficient of 0.70 and above is considered acceptable, indicating good reliability.

Reliability Statistics

| Variable/construct | N of items | Cronbach's alpha | Decision |
|----------------------------|------------|------------------|----------|
| Internal controls (IC) | 6 | 0.82 | Reliable |
| Financial Reporting (FR) | 5 | 0.85 | Reliable |
| Budgeting practices (BD) | 5 | 0.79 | Reliable |
| Role of Government (RG) | 5 | 0.76 | Reliable |
| Financial Performance (FP) | 4 | 0.81 | Reliable |
| Overall Instrument | 25 | 0.88 | Reliable |

Interpretation: The results indicate that all the constructs recorded Cronbach's Alpha coefficients above the minimum acceptable threshold of 0.70. This implies that the items in the questionnaire are internally consistent and reliable for measuring the effects of accounting practices on the financial performance of SMEs in Edo State. The overall reliability coefficient of 0.88 further confirms the robustness and consistency of the instrument.

4.5 Test of Hypotheses

To establish the relationship between accounting practices and financial performance of SMEs, the four hypotheses formulated in Chapter One were tested using multiple regression analysis. The significance level was set at 5% ($p < 0.05$). The decision rule is to reject the null hypothesis (H_0) if the p-value is less than 0.05, otherwise fail to reject.

Hypothesis I

H_{01} : There is no significant relationship between internal control and financial performance of SMEs in Nigeria.

Table shows the Regression result for internal control and financial performance

| Model | Beta (β) | t-value | P- value (sig.) | Decision |
|--|------------------|---------|-----------------|-----------------|
| Internal control - financial performance | 0.412 | 4.921 | 0.000 | Reject H_{01} |

Interpretation: The results show that internal control has a positive and significant effect on financial performance ($\beta = 0.412$, $p < 0.05$). This means that stronger internal control systems are associated with better SME financial outcomes. Therefore, H_{01} is rejected.

Hypothesis II

H₀₂: There is no significant impact of financial reporting standards on the financial performance of SMEs in Nigeria.

Table shows the Regression result for financial reporting and financial performance

| Model | Beta (β) | t-value | P- value (sig.) | Decision |
|---|------------------|---------|-----------------|------------------------|
| Financial reporting- Financial performance | 0.458 | 5.284 | 0.000 | Reject H ₀₂ |

Interpretation: Financial reporting significantly influences financial performance ($\beta = 0.458, p < 0.05$). This implies that SMEs adhering to proper financial reporting practices are more likely to achieve improved financial outcomes. Thus, H₀₂ is rejected.

Hypothesis III

H₀₃: Government regulation, support, and influence do not significantly affect the financial performance of SMEs in Nigeria.

Table shows the regression result for government role and financial performance

| Model | Beta (β) | t-value | P- value (sig.) | Decision |
|--|------------------|---------|-----------------|------------------------|
| Government role– financial performance | 0.267 | 2.892 | 0.005 | Reject H ₀₃ |

Interpretation: The results indicate a significant but weaker positive effect of government regulation and support on financial performance ($\beta = 0.267$, $p < 0.05$). This suggests that although government support influences SMEs, its role is less pronounced compared to other accounting practices. Therefore, H₀₃ is rejected.

Hypothesis IV

H₀₄: Budgeting practices do not exert a significant effect on the financial performance of SMEs in Nigeria.

Table shows the regression result for budgeting practices and financial performance

| Model | Beta (β) | t-value | P- value (sig.) | Decision |
|--|------------------|---------|-----------------|------------------------|
| Budgeting practices– financial performance | 0.396 | 4.672 | 0.000 | Reject H ₀₄ |

Interpretation: Budgeting practices significantly affect financial performance ($\beta = 0.396$, $p < 0.05$). This means that SMEs that prepare, monitor, and adjust budgets effectively tend to perform better financially. Hence, H₀₄ is rejected.

4.5 Regression Results

To examine the joint effect of accounting practices on the financial performance of SMEs, a multiple regression analysis was conducted. The dependent variable was Financial Performance (FP), while the independent variables were Internal Controls (IC), Financial Reporting (FR), Budgeting Practices (BD), and Role of Government (RG).

The specified model was:

$$FP = \beta_0 + \beta_1IC + \beta_2FR + \beta_3BD + \beta_4RG + \varepsilon$$

Model Summary

| Model | R | R square | Adjusted R square | Std. Error of the estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1 | 0.783 | 0.613 | 0.597 | 0.421 |

Source: Field Survey (SPSS Output)

Interpretation: The R² value of 0.613 indicates that about 61.3% of the variation in financial performance of SMEs is jointly explained by internal control, financial reporting, budgeting practices, and the role of government. This suggests a strong explanatory power of the model.

Coefficients Results

| Independent variables | beta (β) | Std. Error | T value | Sing. (P) | Decision |
|--------------------------|------------------|------------|---------|-----------|-------------|
| (Constant) | 0.842 | 0.191 | 4.41 | 0.000 | - |
| Internal controls (IC) | 0.284 | 0.073 | 3.89 | 0.000 | Significant |
| Financial reporting (FR) | 0.321 | 0.069 | 4.65 | 0.000 | Significant |
| Budgeting practices (BD) | 0.267 | 0.072 | 3.71 | 0.000 | Significant |
| Role of government (RG) | 0.198 | 0.080 | 2.48 | 0.015 | Significant |

Source: Field Survey (SPSS Output)

Dependent variable: Financial Performance (FP)

Interpretation:

All four predictors are statistically significant at $p < 0.05$.

Financial Reporting ($\beta = 0.321$) contributes the most to financial performance, followed by Internal Controls ($\beta = 0.284$) and Budgeting Practices ($\beta = 0.267$).

The Role of Government ($\beta = 0.198$), while weaker, still exerts a positive and significant effect on SME financial performance.

These results imply that sound accounting practices are critical for enhancing the financial performance of SMEs in Nigeria, with financial reporting emerging as the strongest determinant.

4.6 Discussion of Research Findings

The aim of this study was to examine the Effects of Accounting practices on the Financial Performance of Small and Medium Scale Enterprises (SMEs) in Nigeria. Specifically, the study assessed the influence of internal controls, financial reporting, budgeting practices, and the role of government on the financial outcomes of SMEs. The findings are discussed below in relation to the research hypotheses and prior literature.

1. Internal Controls and Financial Performance

The regression results revealed that internal controls have a significant and positive impact on financial performance ($\beta = 0.284, p < 0.05$). This supports the rejection of the null hypothesis (H01), confirming that SMEs with effective internal control systems tend to perform better financially. This finding aligns with the work of Oboh (2019), who emphasized that effective internal controls reduce fraud, improve accountability, and enhance efficiency. It also corroborates Ibadin & Dabor (2015), who argued that SMEs that implement structured internal processes are more likely to achieve long-term sustainability.

2. Financial Reporting and Financial Performance

Financial reporting was found to have the strongest influence on SME performance ($\beta = 0.321, p < 0.05$). This result confirms the rejection of the null hypothesis (H02), highlighting that adherence to financial reporting standards significantly improves financial outcomes. This is consistent with the assertion in Chapter One that transparent and reliable financial statements increase investor confidence, facilitate access to funding, and improve decision-making. The finding echoes earlier studies which argued that quality reporting is critical for business growth and survival.

3. Budgeting Practices and Financial Performance

Budgeting practices also showed a significant positive effect on financial performance ($\beta = 0.267$, $p < 0.05$), leading to the rejection of H04. This finding underscores the importance of budget preparation, monitoring, and adjustment in enhancing profitability and resource management. It supports the assertion of Bernard & Ryan (2019), who emphasized budgeting as a tool for planning and effective allocation of scarce resources. SMEs that engage in systematic budgeting are therefore better positioned to manage risks, reduce costs, and sustain profitability.

4. Role of Government and Financial Performance

The role of government was also significant but comparatively weaker ($\beta = 0.198$, $p < 0.05$), resulting in the rejection of H03. This suggests that government regulation, policies, and support contribute positively to SME performance, though the effect is not as strong as that of internal business practices. This reflects the mixed perceptions reported in the descriptive analysis (Table 4.24–4.28), where many respondents expressed dissatisfaction with government support. Nevertheless, the result indicates that policies fostering transparency and compliance can still positively influence SME sustainability, consistent with the position of SMEDAN (2022) on the role of policy frameworks in strengthening SMEs.

5. Overall Effect of Accounting Practices

The combined regression analysis showed that accounting practices jointly explained 61.3% of the variance in financial performance ($R^2 = 0.613$). This confirms that accounting practices are critical determinants of SME growth and sustainability in Nigeria. Among the four variables, financial reporting emerged as the strongest predictor, followed by internal controls, budgeting practices, and government support.

This finding is consistent with the research problem identified in Chapter One, which emphasized that poor accounting practices are a major cause of weak performance among SMEs. It also validates the research objective of demonstrating the direct contribution of accounting practices to profitability, efficiency, and sustainability.

4.7 Summary of Findings

This chapter presented and analysed the data obtained from 100 SMEs in Edo State, Nigeria, focusing on the relationship between accounting practices and financial performance. Both descriptive and inferential analyses were employed, including reliability testing, regression analysis, and hypothesis testing. The key outcomes are summarized below:

4.7.1 Reliability Test

The internal consistency of the questionnaire items was evaluated using Cronbach's Alpha. All constructs (internal controls, financial reporting, budgeting practices, government role, and financial performance) recorded alpha values above the 0.70 threshold, with an overall reliability coefficient of 0.88. This demonstrates that the instrument was highly reliable and suitable for measuring the research constructs.

4.7.2 Regression Analysis

The multiple regression analysis examined the combined effect of accounting practices on financial performance. Results showed that:

The model had strong explanatory power ($R^2 = 0.613$), indicating that about 61.3% of the variation in SME financial performance is explained by accounting practices.

All four independent variables—internal controls, financial reporting, budgeting practices, and role of government—had significant positive effects on financial performance ($p < 0.05$). Among them, financial reporting ($\beta = 0.321$) was the strongest predictor, followed by internal controls ($\beta = 0.284$), budgeting practices ($\beta = 0.267$), and role of government ($\beta = 0.198$).

4.8 Discussion of Findings

The findings revealed that effective accounting practices are crucial for the sustainability and profitability of SMEs. Internal controls reduce fraud and enhance accountability, while financial reporting strengthens transparency and facilitates access to external financing. Budgeting practices support efficient resource management and cost reduction, and government policies play a complementary role in shaping financial performance.

Overall, the results confirmed that accounting practices have a significant impact on SME financial performance in Nigeria, aligning with existing literature and the research objectives. The study therefore underscores the importance of adopting sound accounting systems, while also calling for more effective government support to strengthen SME performance and competitiveness.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter outlines the concluding sections of the research. It also takes a view at the Summary, Conclusion, and Recommendations of the study based on the findings derived from the analysis in Chapter Four. It also provides suggestions for future research and outlines the contribution of the study to knowledge. The study examined the relationship between accounting practices and the performance of Small and Medium Scale Enterprises (SMEs), measured by internal controls, financial reporting standards, budgeting, and role of government among SMEs in Edo State, Nigeria.

5.2 Summary of Findings

The study examined The Effects of Accounting Practices on Financial Performance of Small and Medium Scale Enterprises (SMEs). The population of this study consists of owners, financial managers, and accountants of Small and Medium Scale Enterprises (SMEs) in Edo State, Nigeria. The study adopted the purposive sampling technique, a non-probability sampling method that enables the researcher to select the 100 participants based on specific characteristics appropriate and relevant, using the Taro Yamene Sample

size calculator. A structured questionnaire was also used to collect data from the respondents, the number of questionnaire collected was 100, therefore the analyses was done based on the total number of collected questionnaire and used to test the formulated hypotheses. However, the findings of the study are as follows;

Firstly, the study found a significant and positive effect between internal control and financial performance ($\beta = 0.412$, $p < 0.05$). Majority of the SMEs surveyed agreed that internal controls helped reduce fraud, improved accountability, and positively contributed to financial outcomes. Therefore, this implies that stronger internal control systems are better SME financial outcomes. Secondly, the analysis also revealed that financial reporting significantly influences financial performance ($\beta = 0.458$, $p < 0.05$). The SMEs surveyed confirmed that regular financial reports were prepared, consistent with accepted standards, and used for strategic decision making. Therefore, this implies that SMEs adhering to proper financial reporting practices are more likely to achieve improved financial results, and firms that adhered to quality financial reporting standards experience improved investor confidence and access to external financing.

Furthermore, the results indicated a significant but weaker positive effect of government support on financial performance ($\beta = 0.267$, $p < 0.05$). While SMEs adhered to established tax laws and accounting regulations, many expressed dissatisfaction with government support, reflecting poor enforcement and inadequate training and grant schemes from government. This also suggests that although government support

influences SMEs, its role is less pronounced, compared to other accounting practices. Lastly, the study established a significant and positive effect of budgeting practices on Financial Performance ($\beta = 0.396$, $p < 0.05$). This indicates that SMEs whose budgets were prepared in advance, based on realistic data, monitored throughout the year, and adjusted effectively tend to perform better financially. Budgeting was also strongly associated with efficient resource management and reduced operational costs. Additionally, the regression model explained 61.3% ($R^2 = 0.613$) of the variation in SME financial performance. This confirms that accounting practices are strong determinants or indicators of financial performance, with financial reporting having the greatest effect.

5.3 Conclusion

In conclusion, the study explored the relationship between SME performance and Accounting Practices, using Edo State as the main focus. The research centred on four key performance indicators: internal control, financial reporting standards, government support, and budgeting practices. Also, through the administration of a well-structured questionnaire to 100 SMEs owners and operators and adopting statistical techniques, the study also revealed significant relationships between each performance indicator and SME performance. The findings established that a thorough understanding and implementation of these Accounting Practices can have a positive and substantial effect

on the financial performance of Small and Medium Scale Enterprise (SMEs) in Nigeria, as a whole.

Based on the findings, the study concludes that sound accounting practices are crucial for the survival, growth, and sustainability of SMEs in Nigeria. Internal controls improve transparency and accountability, Financial reporting enhances decision making, enable access to credit and boosts investor confidence, Budgeting practices ensures effective allocation of resources and controlling costs, and Government policies, though weaker in influence, still provide a basis for compliance and SME performance. The results present that SMEs that adopt structured and strong accounting systems experience improved growth in revenue, profitability, cost management, and sustainability. Contrarily, weak accounting practices contribute to poor performance, limited access to finance, and open to risks.

The research also contributes significantly to the academic and practical disclosure on small and medium businesses development in Nigeria. It also offers evidence-based insights that are essential and relevant for policymakers, regulatory authorities, SME development agencies, and scholars.

Furthermore, in theoretical terms, the findings also support the stewardship and signalling theories; good and sound accounting practices act as signals of competence and stewardship to shareholders, and these practices are rewarded in financial performance.

5.4 Recommendations

Based on the findings of the study, the following recommendations were made:

1. SMEs owners, operators, or managers should strengthen internal control procedures, such as segregation of duties, conducting regular internal audits, and applying checks and balances, so as to prevent fraud and errors. Also, they should adopt and maintain high-quality financial reporting, in line with international accounting standards, and also engage in external review when possible. Additionally, SMEs operators or owners should institutionalize budgeting; adopt data driven budgeting practices and consistently monitor budgets performance to ensure efficient use of resources. Prepare annual and monthly variances and revise forecasts. They should also use clear financial statements to boost investor trust or confidence.
2. Government and Policy makers should offer consistent and accessible training schemes on accounting practices for SMEs, subsidized accounting tools, and workshops in local areas, that is, expand capacity building programs. They should also work towards improving the enforcement of financial reporting and tax compliance policies to enhance transparency and accountability; this also suggests that regulatory bodies should monitor adherence and ensure that standards are enforced fairly. Furthermore, government and policy makers should refine

processes and procedures for SMEs to benefit from government support, especially in rural or underserved areas, and also collaborate with professional bodies like ICAN and ACCA, banks, and universities to deliver support. Additionally, they should draft and design SME-friendly grants and tax incentives that encourage adherence with proper accounting practices.

3. Financial Institutions and Investors should be an integral part of overall sustainability of SMEs. Establishment of tailored loans products for SMEs that represent sound accounting practices and collaboration with SME associations to offer financial literacy and training on accounting practices can lead to significant effect on the performance of SMEs.
4. Professional Accounting bodies are not left out; they should provide mentorship, auditing support, and pro bono services to SMEs in need, at subsidized costs. Also, packaged and affordable accounting tools made for SMEs should be developed, and they should collaborate with universities to offer outreaches and training, that is, increase awareness programs on the benefits of accounting practices.

5.5 Contributions to Knowledge

This study contributes significantly by improving our understanding of the financial performance of Small and Medium Scale Enterprises (SMEs), by examining the effects of accounting practices. Also, it provides empirical evidence that accounting practices, such as internal controls, financial reporting standards, budgeting practices, and government support, positively and significantly affect SME financial performance in Nigeria. Furthermore, the study established that financial reporting standards is the strong determinant of SME financial performance, followed by internal controls, budgeting practices, and government support. Moreso, this study emphasized the gap between government support schemes and SMEs, thereby, providing insights for policymakers on the need for more accessible and clear interventions. The study also highlighted that SMEs with well-structured accounting systems are better positioned to attract investors, reduce operational costs, and achieve overall sustainability, thereby, contributing to the body of knowledge.

5.6 Suggestions for Further Studies

Upon the findings of this study, the following areas are suggested for further inquiry:

Firstly, compare the performance of SMEs and larger enterprises to determine whether the effects of accounting practices vary by firm size. Secondly, there should be exploration of sector-specific differences, especially between service, retail, and manufacturing SMEs. Also, a broader study should be carried out across various states in Nigeria, to capture regional differences in accounting practices. That is, expand the scope to incorporate SMEs across states or different industries.

Furthermore, introduce additional variables such as ICT adoption, institutional support, or compliance behaviour and longitudinal studies should be carried out to evaluate the effect of accounting practices on SME performance and how it evolves overtime.

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APPENDIX
QUESTIONNAIRE
THE EFFECTS OF ACCOUNTING PRACTICES ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs).

Dear Sir/Madam,

REQUESTING FOR YOUR COOPERATION IN COMPLETING THIS QUESTIONNAIRE.

I, OKO-OGWA Deborah Gloria, a final year student of the Department of Accounting, University of Benin. I am conducting a study on the topic above. The essence of this research is to explore the effects of accounting practices on the financial performance of Small and Medium Scale Enterprises (SMEs) in the selected areas. Therefore, I solicit for your responses; your honest and unbiased responses are important for the success of this research. All responses will be treated with confidentiality and will be used solely for academic purposes.

Please, answer the following questions honestly and to the best of your knowledge, experience or expertise. However, your participation is voluntary and you may choose to withdraw at any stage without any negative consequences.

Thank you for your time, effort, cooperation, and valuable contribution to this academic work.

Yours

Faithfully,

GLORIA.

OKO-OGWA DEBORAH

SECTION A: DEMOGRAPHIC INFORMATION

Please, provide the following information. These questions are for research purposes and will be kept strictly confidential. Select the option that best describes you for each item.

1. Name of SME (optional):

2. Age Range

18 – 25

26 – 35

36 - 45

45 & above.

3. Gender:

Male

Female

Prefer not to say.

4. Highest Educational Qualification:

OND/NCE

HND/B.Sc

Master's Degree

Ph.D

Others:

5. Years in Business:

Less than 1 year

1 – 5 years

6 – 10 years

Above 10 years

6. Type of SME

Retail

Manufacturing

Services

Others:

7. Position in the Business:

Owner/CEO

Accountant

Manager

Others:

8. Number of Employees:

1 - 10

11 - 50

51 – 100

Above 100

SECTION B: INTERNAL CONTROLS

Instructions: Please, indicate your answer your answer to each statement by ticking the appropriate box. Rate each item using the following scale: SA= Strongly Agree, A= Agree, N= Neutral, D= Disagree, SD= Strongly Disagree.

1. The business has well-defined internal control procedures.

Strongly Agree

Agree

Neutral

Disagree

Strongly Disagree

2. There is segregation of duties in financial operations.

Strongly Agree

Agree

Neutral

- Disagree
- Strongly Disagree

3. There is proper documentation for all financial transactions.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

4. Internal audits are carried out regularly.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

5. Internal control procedures help minimize fraud and errors.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

6. Internal control contributes positively to our financial performance.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

SECTION C: FINANCIAL REPORTING

Instructions: Please, indicate your answer your answer to each statement by ticking the appropriate box. Rate each item using the following scale: SA= Strongly Agree, A= Agree, N= Neutral, D= Disagree, SD= Strongly Disagree.

1. The business prepares regular financial reports (monthly/quarterly/annually).

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

2. Financial statements are prepared in line with accepted standards.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

3. Financial reports are used to make strategic decisions.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

4. Financial statements are audited or reviewed by external professionals.

- Strongly Agree
- Agree
- Neutral

- Disagree
- Strongly Disagree

5. Financial reporting has enhanced our financial performance.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

SECTION D: BUDGETING PRACTICES

Instructions: Please, indicate your answer your answer to each statement by ticking the appropriate box. Rate each item using the following scale: SA= Strongly Agree, A= Agree, N= Neutral, D= Disagree, SD= Strongly Disagree.

1. The business prepares a budget before financial periods.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

2. Budgeting is based on past data and realistic projections.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

3. Budget performance is monitored throughout the year.

- Strongly Agree

- Agree
- Neutral
- Disagree
- Strongly Disagree

4. Budgeting has helped in managing resources efficiently.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

5. Deviations from the budget are analyzed and corrected.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

SECTION E: ROLE OF GOVERNMENT

Instructions: Please, indicate your answer your answer to each statement by ticking the appropriate box. Rate each item using the following scale: SA= Strongly Agree, A= Agree, N= Neutral, D= Disagree, SD= Strongly Disagree.

1.The government provides adequate support for SME accounting practices.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

2. We comply with government accounting regulations and tax laws.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

3. Government policies encourage transparent financial reporting.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

4. Government-sponsored training or grants help improve our accounting practices.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

5. Poor enforcement of policies affects SME financial performance.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

SECTION F: FINANCIAL PERFORMANCE

Instructions: Please, indicate your answer your answer to each statement by ticking the appropriate box. Rate each item using the following scale: SA= Strongly Agree, A= Agree, N= Neutral, D= Disagree, SD= Strongly Disagree.

1. Our business has seen growth in revenue over the last 3 years.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

2. Profitability has improved due to better accounting practices.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

3. Financial decisions have led to reduced operational costs.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

4. Our business can attract investors due to sound financial records.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

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