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The Impact of Financial Reporting on Investment Decision of Small and Medium Scale Enterprises in Nigeria

[1]**Abalaka, J.N.,** [2]**Sulaiman T.H., &** [3]**Ajiteru, S.A.R.**
[1&2]*Crown University Intl Chartered Inc.*
Faculty of Social Science, USA,
[3]*Department of Political Science & International Relations,*
Achievers University, Owo, P.M.B.1030 Owo Ondo State Nigeria

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Abstract

This paper examined the *impact of financial reporting on the investment decisions of small and medium-scale enterprises in Nigeria*. The study was carried out to determine the challenges facing small and medium enterprises (SMEs) in adopting effective financial accounting reporting in Nigeria and to ascertain the contribution of poor credit facilities to inadequate accounting records in SMEs in Nigeria. Survey methods and time series data were used, and data were collected with questionnaires and the CBN statistical bulletin. The generated data were analyzed with a simple percentage table. The study found that the challenges facing SMEs in the preparation and presentation of financial reports are inadequate accounting books and records, manpower, the accounting system, and not running their transactions through the banking system. The study recommends, among others, that since keeping proper books of account and preparing financial records can only be done by professional accountants, the two main bodies in Nigeria, ICAN and ANAN, should encourage their members to offer free professional service to SMEs in Nigeria.

Keywords: *Financial reporting, Small and medium enterprises, Challenges and options*

Corresponding Author: **Abalaka, J.N.**

Background to the Study

Financial reporting can be seen as a summary of the performance or capacity of a business in raising, handling, and using money (Sacco, 1997). Financial reports (or financial statements) are formal records of a business's financial activities. They provide an overview of a business's financial condition in both the short and long term (Wikipedia, 2008). Financial reporting, however, goes beyond financial statements. It involves providing users with all information, quantitative or qualitative, on the enterprise to allow those users to make economic decisions, financial reporting for small and medium-scale enterprises (SMEs) has been the subject of much debate and concern by accounting bodies (institutes) in Canada, the United States, the United Kingdom, New Zealand, Australia, and other countries. The main issue is whether there should be one set of standards for all companies or two sets of standards (one for big companies and one for SMEs) in 2021.

Maingot and Zeghal (2006) observed that the problem of financial accounting and reporting for SMEs has generated much discussion in the accounting literature over the past few years in many countries. There seems to be broad support for differential reporting for disclosure and presentation. Small and medium-scale enterprises differ from public corporations. Public companies engage in complex transactions, like financial instruments, that are not reflected in the transactions of SMEs. The Generally Accepted Accounting Principles (GAAP) used to prepare the financial statements of public companies were designed for these larger corporations. SMEs, at present, have to use the same GAAP to prepare their accounts, notwithstanding the fact that public companies' financial reports are used by millions of external users, and therefore these public companies can bear the cost of preparing and presenting their reports. Ajiteru (2021). SME reports, on the other hand, have very few users (these include owners and managers, bankers, taxation authorities, and perhaps venture capitalists). Also, the cost of producing these accounts using existing GAAP designed primarily for large companies is very high and burdensome. The cost is sometimes the result of the SME using its own managers or internal accountants to prepare the financial reports. However, SMEs very often use practitioners to prepare their financial reports. There is consequently both a cost to the SME (fee charged) and a cost to the practitioners (constantly updating knowledge of GAAP), which causes a continual increment in overall costs.

In Nigeria, the only concession made for small and medium-scale enterprises (SMEs) or 'small companies are that they can deliver modified financial statements to the Corporate Affairs Commission (section 350 of the Companies and Allied Matters Act (CAMA) 1990, as amended to date). These modified financial statements will exclude the statement of cash flows, the statement of accounting policies, the value-added statement, and the five-year financial summary (Ilaboya, 2005). In view of this, the aim of this study is to obtain and evaluate accounting practitioners' views (opinions) about the adequacy and cost-effectiveness of the present financial reporting system for small and medium-scale enterprises (SMEs).

Statement of the Problem

It has obviously been seen in practice by Nigerian deposit money banks to adopt creative accounting in anticipation of sourcing equity capital from capital firms. Although this approach to the financial reporting process often leads to the overvaluation of assets and the bank's net worth in the eyes of prospective investors, it invariably affects the investment decisions of banks, (Abalaka, 2022). The problem with financial reporting disclosure is the non-compliance with industry corporate governance, ethics, and a regulatory standard that is prevalent in the Deposit Money Banks of Nigeria Act (2021). Also, financial statements do not reflect many factors that affect financial condition because they cannot be stated in monetary terms, such as the business model, competitive advantage, reputation, and prestige of banks with the public, the credit rating of the banking industry, and the efficiency, loyalty, and integrity of management and the board of directors. It was observed that the role of financial reporting in the investment decision-making of deposit money banks in Nigeria has some problems for the management of banks (Sulaiman, 2020).

The observed shortcomings of financial reporting have led to the enhancement and expansion of the scope of generally accepted accounting principles and now the international financial reporting standards.

Kariuki and Jagongo (2013), posited that these shortcomings have paved the way for the new reporting standards now released by the International Accounting Standards Board (IASB) to reflect the changes in either the reporting environment or business complexities, so there has to be uniformity in financial reporting. It can be deduced from the above assertions that the idea of the recent policies and standards is to minimize information asymmetry by providing adequate information on the value of the profitability and performance, growth, and stability of the banks, thereby reducing adverse selection at the issuance of securities (Bushman and Smith, 2001) and or minimizing the attendant moral hazard (Healy & Palepu, 2001; Santhosh *et al.*, 2013), as cited (Nwaobia et al., 2016). Several studies have been carried out in the past on this subject, but the review of previous empirical literature revealed a lack of established effects of financial reporting quality on investment decision-making by deposit money banks in Nigeria in the research findings of past researchers, which indicates the existence of a research gap. Nwaobia et al. (2016) studied the impact of financial reporting quality on investors' decisions using annual time series data for the period 2010–2014. Other research works focused directly or indirectly on related topics in Nigeria and/or in other countries include Anaja and Emmanuel (2015), Kapellas and Siougle (2017), Muhammed et al. (2016), Vestine, Kule and Mbabazi (2016), Muhamoud (2017), Muhammedi (2014), Verdi (2016), Afolabi (2013), Zayol, Agaregh, and Eneji (2017), Adebiyi (2017), Chan-jane, Tawei, and Chao-jung (2015). It is observed that none of the research works dealt with the effects of financial reporting quality on investment decision-making by deposit money banks in Nigeria for the period of 2009–2016. The omission of this in the literature, therefore, will form a major gap in this study.

Research Objective

The main objective of this study is to ascertain the effect of financial reporting quality on investment decisions.

Research Hypothesis

HO1: The costs of adopting a single set of GAAP without exclusions do not outweigh its benefits.

HO2: The costs of adopting a single set of GAAP with exclusions from certain standards for SMEs do not outweigh its benefits.

HO3: The costs of adopting two sets of GAAP (big GAAP and little GAAP) do not outweigh its benefits.

Ho4: Financial reporting quality has no significant effect on investment decisions

Significance of the Study

This study would be of benefit by improving the performance of deposit money banks because it intends to help the banks in their investment decisions. The study would help in widening knowledge of financial reporting quality in investment decisions; it will also make the banks appreciate the importance of financial reporting quality in the provision of information necessary for investment decisions. Additionally, this study helps banks prepare financial statements under similar accounting principles. It also creates awareness with respect to the great impact account reporting quality has on investment decisions. It shows how finance has been raised and deployed and how relationships between wealth generated and wealth invested can be important and helpful indicators of business effectiveness. Finally, it will serve as a reference document for future researchers who may be interested in embarking on studies of this nature (Sulaiman, 2020).

Literature Review

Several studies have investigated the effect of financial reporting quality or financial statements on investment or investors' decision-making in Nigeria and in different parts of the world with diverse opinions and techniques. The outcomes of the investigations, however, have shown that financial reporting quality has a significant relationship with investors' decision-making. For instance, Fariba and Mehran (2016) examined the effect of financial reporting quality, investment opportunities, and dividends on the decision-making of insurance companies in Iran. They found that investment opportunities and the quality of corporate financial reporting have a significant relationship with dividend policy and investment decisions. Nwaobia et al. (2016) explored the impact of financial reporting quality on investors' decisions using 10 selected manufacturing companies listed on the Nigerian Stock Exchange Market over the period of 2010–2014. The correlation matrix, vector auto-regressive estimation, and pooled OLS model were employed for the analysis. Data used is proxied as accrual quality, volume of investment, size, age, growth rate, and earnings per share. They found that there was a positive association between investors' decisions and financial reporting quality.

Chan-jane, Tawei, and Chao-jung (2015), investigated the association between investment decisions and financial reporting quality in the context of family firms versus non-family firms using a sample of listed firms in Taiwan from 1996 to 2011. Their findings suggested that family firms are more likely to underinvest than non-family firms in order to protect their socio-emotional wealth, and financial reporting quality is more negatively associated with family firms' underinvestment behavior (Sulaiman, 2020). The existence of internal financing channels attenuates this negative association, and the study does not find a significant role in such an association when a family member serves as the chief executive officer, (Ajiteru, 2021). They contributed to the literature on the relationship between financial reporting quality and investment decisions by highlighting the unique characteristics of family firms. Other studies use the expected investment model to estimate the magnitude of the deviation from the expected level of investment as a proxy for investment inefficiency. The deviation is captured by the positive or negative residuals from the expected investment model and is denoted as the level of over-investment or under-investment. For example, McNichols and Stubben (2018), used publicly traded firms alleged to have manipulated earnings and demonstrated that those firms over-invest substantially in capital expenditure during the misreporting period but no longer do so after the misreporting period. They used all publicly traded firms (except financial institutions) in the US. Biddle, Hilary, and Verdit (2019) showed a negative association between financial reporting quality (proxied by the standard deviations of discretionary accruals) and both underinvestment and overinvestment in R&D, capital expenditure, and acquisition, suggesting financial reporting quality can mitigate both underinvestment and overinvestment.

In a setting of private firms in emerging markets, Chen, Hope, and Wang (2011), observed a negative association between financial reporting quality (proxied by discretionary accrual) and investment inefficiency of capital expenditure and R&D expenditure. Such associations are affected by bank financing and the incentives to minimize earnings for tax purposes (Abalaka, 2022). In a related study, Anaja and Emmanuel (2015) analyzed the role of financial statements on investment decision-making in reference to the United Bank for Africa Plc in Nigeria over a 10-year period. They revealed that the transparency of the financial statements of the bank has a significant influence on the investment decision-making of the users of financial statements. All the parameter estimates employed in the regression equation were statistically significant via the test of hypotheses. They also agreed that profitability, assets, liabilities, and equities of banks are significant ways of evaluating the performance of a bank's report on investment decision-making.

Muhammadi (2014), investigated the relationship between financial reporting quality and investment efficiency and the factors affecting the firms listed on the Tehran Stock Exchange from 2009 to 2012. His results of statistical analyses on 93 firms on the Tehran Stock Exchange showed that financial reporting quality had a significant positive correlation with investment efficiency. He also found that there was a direct link between firm size, growth opportunities, cash holdings, and the tangibility of assets and investment efficiency. Kapellas et al. (2017) summarized evidence from the literature about the effect of financial reporting practices on investment decisions. They discussed existing literature regarding the effects of financial reporting practices on the cost of equity capital and the effect of financial reporting practices on investment decisions as documented in the literature in the areas of earnings management, information asymmetry effects, accounting quality, the effects of the information environment, investment efficiency, over-under investment, cash flow sensitivity, and stock market efficiency. Zayol et al. (2017) studied the effect of financial information on the investment decisions of shareholders of five selected banks in Nigeria from 2009 to 2015. They discovered that there was a positive relationship between dividends per share and the investment decisions of shareholders of banks in Nigeria. They recommended that both existing and prospective investors factor in financial information relating to dividends paid per share while making investment decisions in shares of Nigerian banks, as dividends per share are positively correlated with the investment decisions of shareholders. Adebiyi (2017) evaluated the board composition and financial reporting quality of 15 deposit money banks listed on the Nigeria Stock Exchange between 2005 and 2015. He explored the extent to which the board composition (measured with three variables: board size, board meeting, and board independence) influences the financial reporting quality of banks in Nigeria. He found that discretionary accrual as a proxy for financial reporting quality is positively related to board size and board independence but negatively related to board meetings. He established the fact that board composition is a key component of the quality of the financial reporting of the listed deposit money banks in Nigeria. Mahmoud (2017) investigated the relevance of financial reporting quality reported by oil-listed firms in Nigeria (2011–2016). He employed the Ohlson Model to establish the degree to which the accounting information of oil firms influences the share price valuation of the listed firms in Nigeria relative to share prices, market values, and earnings per share of the firms. He discovered that the financial reporting quality of listed oil firms in Nigeria has significant relevance to the users of the information. He also contributed to the theory by validating financial reporting quality and the Ohlson model of share valuation using Nigerian data (Abalaka, 2022).

Theoretical Review

Several economic theories have been proposed in order to rationalize investment decisions in an organization and are generally classified under different theories such as sequential decision-making theory, capital asset pricing theory, signaling theory, and dividend decision-Walter model. The study is, however, guided by these two: agency theory and capital needs theory (Sulaiman, 2020).

Agency theory: This suggests that the firm can be viewed as a nexus of contracts (loosely defined) between resource holders. An agency relationship arises whenever one or more individuals, called principals, hire one or more other individuals, called agents, to perform some services and then delegate decision-making authority to the agents. The primary agency relationships in business are those (1) between stockholders and managers and (2) between debtors and stockholders. These relationships are not necessarily harmonious; indeed, agency theory is concerned with so-called agency conflicts, or conflicts of interest between agents and principals. This has implications for, among other things, corporate governance and business ethics. When agency occurs, it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship (e.g., offering management performance bonuses to encourage managers to act in the shareholders' interests). Accordingly, agency theory has emerged as a dominant model in the financial economics literature and is widely discussed in business ethics texts. Sheikh, Kahn, Iqbal, and Ahmed (2017) affirmed that conflicts of interest may arise in firms when managers' personal interests override their obligations to comply with the principal-agent contract of maximizing shareholders' wealth. Due to the need to present a better result to the owners and potential owners of the firm, managers tend to engage in earnings management and subsequently reduce the overall quality of earnings reported. Also, the constant need for capital via investors' decisions is one reason why managers present a better picture of the financial position of the company (Abalaka, 2022).

Agency theory suggests that, in imperfect labor and capital markets, managers will seek to maximize their own utility at the expense of corporate shareholders. Agents have the ability to operate in their own self-interest rather than in the best interests of the firm because of asymmetric information (e.g., managers know better than shareholders whether they are capable of meeting the shareholders' objectives) and uncertainty (e.g., myriad factors contribute to final outcomes, and it may not be evident whether the agent directly caused a given outcome, positive or negative). Evidence of self-interested managerial behavior includes the consumption of some corporate resources in the form of perquisites and the avoidance of optimal risk positions, whereby risk-averse managers bypass profitable opportunities in which the firm's shareholders would prefer they invest. Outside investors recognize that the firm will make decisions contrary to their best interests. Accordingly, investors will discount the prices they are willing to pay for the firm's securities (Sulaiman, 2020).

A potential agency conflict arises whenever the manager of a firm owns less than 100 percent of the firm's common stock. If a firm is a sole proprietorship managed by the owner, the owner-manager will undertake actions to maximize his or her own welfare (2021). The owner-manager will probably measure utility by personal wealth but may trade off other considerations, such as leisure and perquisites, against personal wealth. If the owner-manager forgoes a portion of his or her ownership by selling some of the firm's stock to outside investors, a potential conflict of interest, called an agency conflict, arises.

Capital needs theory: This upholds that companies that have growth opportunities in the capital market strive to present qualitative financial reports with adequate disclosures that will enhance their opportunities for external financing. Thus, financial reporting is the appropriate tool to attract more capital from investors (Core, 2001), as cited in Nwaobia et al. (2016). Furthermore, the goal of shareholders is to maximize their wealth, which means maximizing the present value of future cash flows. Their economic decision is a proxy for quality financial information. Hence, investors require information that would enable them to predict the future cash flow from their investments and the associated volatility (Kariuki & Jagongo, 2013).

Empirical Review

Modugu and Eragbhe (2013), examined the implications of the adoption of the International Financial Reporting Standards for SMEs in Nigeria. By January 1, 2014, all SMEs in Nigeria that have met the criteria defined by the International Accounting Standards Board (IASB) will be required to prepare and present their financial statements in line with the global standards. The study chronicled the challenges imminent in the adoption and implementation decisions. These include people, systems and processes, business, and reporting. Obamuyi

(2007) states some standard criteria to assess the creditworthiness of borrowers as follows: financial strength, profitability, network, track record, management quality, relations and payment records with other banks, business prospects, business risks, and collateral securities. All the above criteria cannot be good assessments without adequate accounting. It is because of the deficiency in the record-keeping of SMEs that the banks insist on collateral as a "must" for SMEs.

Adetula *et al*. (2014) study the readiness of small and medium-scale enterprises (SME) in Lagos State, Nigeria, for the adoption of International Financial Reporting Standards (IFRS) and the likely challenges that may be encountered in the adoption process. The work employed a descriptive survey design, and data were collected from primary sources. Results show that a major reason why IFRSs would be adopted by Nigeria is that other countries have adopted them (Ajiteru, 2021). Again, results show that the IFRS for SMEs adoption process is currently confronted with diverse challenges that may prevent the effective adoption and implementation of IFRS for SMEs in Nigeria in 2014 if they are not addressed with promptness. Ojeka and Mukoro (2011), in the topic titled "International Financial Reporting Standard (IFRS) and SMEs in Nigeria: Perception of Academics," found that there is still a need to enlighten people, especially the SME operators, on the usefulness of the IFRS for SMEs. The accountant will really have a lot of work to do to implement IFRS for SMEs in Nigeria. The listed advantages of IFRS for SMEs include improving the comparability of information presented in financial statements; increasing confidence in global annual invoices; reducing the cost associated with maintaining accounting standards; the presence of a complete set of accounting principles simplified for each type of entity; and increasing satisfaction of the needs of users of financial statements (Sulaiman, 2020).

Methodology of Research

Survey and time series data research were used for the study. Primary and secondary data were used for the study. The population of the study centered on 2983 SMEs registered with the Anambra State Ministry of Commerce and Industry as of 2010, and as a backup, 491 professional accountants in Anambra State as of 2013 made up of 371 ANAN members and 120 ICAN members were also used for the study, while the secondary data was collected from the CBN Statistical Bulletin (1992 to 2012).

To determine the sample size, Yaro Yamane's formula was used to determine the actual sample size for SMEs and professional accountants. Thus, using the formula:

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

Where: n = Sample size; N = Population of the study; e = error margin or level of significance; 1 = Constant.

Applying the formula for SME:

$$n = \frac{2983}{1 + 2983\,(0.05)^2} = 300$$

n = app. 300

Twenty (20) of these professional accountants sampled are staff of commercial banks in Anambra State.

For the professional accountant ANAN:

$$n = \frac{371}{1 + 371\,(0.05)^2} = 192$$

n = 192 ICAN

$$n = \frac{120}{1 + 120\,(0.05)^2} = 92$$

n = 92

In collecting primary data, two sets of questionnaires were administered: one for SMEs and another for professional accountants. Five points Likert scale of Strongly Agreed (SA), Agreed (A), Disagreed (D), was used. Simple percentages were used to provide answers to the research questions.

Method of Data Analysis

Data collected for hypotheses one and two were analyzed by the researcher using five-point Likert scales. The two hypotheses formulated for the study were tested using simple regression analysis with aid of Statistical Package for Social Sciences (SPSS) version 20.0 software package.

Decision rule:

If f-value is equal or greater than "Sig" value, there is significant interaction effect or significant difference i.e., f-value value $\geq$ sig value we reject Null and accept alternate hypothesis.

Analysis

The collected data was analyzed using descriptive statistics like percentages to answer the research questions. A simple percentage was used to determine the direction of their perception and belief concerning the study.

Decision Parameter

Using a simple percentage, when the percentage of a particular response is greater, we accept it as the answer to the research question.

Research question 1: Do SME have a sound accounting system?

Table 1: SMEs responses on the soundness of the accounting system

Statement	Responses				
SMEs have sound accounting system	SA	A	U	SD	D
		10	30	20	240

Research question 2: Do SMEs employ qualified person to prepare their financial reports?
Table 2: Professional Accountants responses on soundness of SME accounting system

Statement	Responses				
SMEs have sound accounting system	SA	A	U	SD	D
			9	272	3

Table 3: MSMEs responses on SMEs employment of qualified personnel to prepare financial reports

Statement	Responses				
SMEs employ qualified persons to prepare its financial reports	SA	A	U	SD	D
			30	220	50

Table 4: Professional Accountants responses on whether SMEs employ qualified personnel to prepare financial reports

Statement	Responses				
SMEs employ qualified persons to prepare financial reports	SA	A	U	SD	D
			18	264	2

Research question 3*:* Do SMEs financial reports comply with the relevant accounting standards
Table 5: SMEs financial reports comply with the relevant accounting standards

Statement	Responses				
SMEs financial reports comply with accounting standards	SA	A	U	SD	D
		10	10	260	20

Table 6: Professional Accountants responses on whether SMEs financial reports comply with accounting standards

Statement	Responses				
SMEs comply with accounting standards in preparation of their financial reports	SA	A	U	SD	D
		5	6	271	2

Research question 4: What constraints do SMEs face in assessing commercial bank loans?

Table 7: SMEs responses on constraints in assessing commercial bank loans

Statements	Responses				
	SA	A	U	SD	D
Poor and inadequate record keeping	230		60		10
Non recruitment of qualified personnel	200		80		20
Low access to information	210	40	40		10
Improper bankable business plan	240	30	20	10	
Not running transactions through banking system	180	50	7	2	

Table 8: Professional Accountants responses on SMEs constraints in assessing commercial bank loans

Statements	Responses				
	SA	A	U	SD	D
Poor and inadequate record keeping	280	3	1		
Non recruitment of qualified personnel	250	30	4		
Low access to information	245	38	1		
Improper bankable business plan	267	15	2		
Not running transactions through banking system	220	55	7	2	

Research question 5: What challenges do SMEs face in preparation and presentation of financial reports?

Table 9: SMEs responses on challenges in preparation and presentation of financial reports

Statements	Responses				
	SA	A	U	SD	D
Unavailability or inadequate accounting books and records	240	40	20		
Unavailability of accounting system	250	20	30		
Inadequate manpower	230	45	20	5	
Not running transactions through the banking system	210	20	45	15	

Table 10: Professional Accountants responses on challenges of SMEs in preparation and presentation of financial reports

Statements	Responses				
	SA	A	U	SD	D
Unavailability or inadequate accounting books and records	270	10	4		
Unavailability of accounting system	270	08	6		
Inadequate manpower	278	04	02		
Not running transactions through the banking system	240	35	7	2	

Research question 6: How can financial reports of SMEs be improved upon?

Table 11: SMEs responses on how its financial reports can be improved

Statements	Responses				
	SA	A	U	SD	D
Maintenance of adequate books of account	290	8	2		
Recruitment of qualified staff	265	26	6	3	
Introduction of sound accounting system	270	20	4	6	
Running transaction through the banking system	230	40	20	10	

Table 12: Professional Accountants responses on improvement in financial reports of SMEs

Statements	Responses				
	SA	A	U	SD	D
Maintenance of adequate books of account	270	10	4		
Recruitment of qualified staff	270	08	06		
Introduction of sound accounting system	270	08	6		
Running transaction through the banking system	240	35	7	2	

Research question 7: Have SMEs in Nigeria migrates to IFRS?

Table 13: SMEs migration to IFRS

Statement	Responses		
SMES have migrated to IFRS	Yes	No	Unaware
	0	300	0

Table 14: Professional Accountants responses on SMEs migration to IFRS

Statement	Responses		
	Yes	No	Unaware
SMES have migrated to IFRS	0	272	12

Table 15: Commercial Banks' Loans to Small Scale Enterprises

Period	Commercial banks loans to small scale enterprises (M)	Commercial banks credit to private sector (M)	Commercial banks loans to SMEs as f total credit (%)
2002	20,400.0	75,456.3	27.04
2003	15,462.9	88,821.0	17.41
2004	20,552.5	143,516.8	14.32
2005	32,374.5	204,090.6	15.86
2006	42,302.1	254,853.1	16.60
2007	40,884.3	311,358.4	13.12
2008	42,260.7	366,544.1	11.53
2009	46,824.0	449,054.3	10.43
2010	44,542.3	587,999.9	7.58
2011	52,428.4	844,486.2	6.21
2012	82,368.4	948,464.1	8.68
2013	90,176.5	1,203,199.0	7.49
2014	54,981.2	1,519,242.7	3.62
2015	50,672.6	1,991,146.4	2.54
2016	25,713.7	2,609,289.4	0.99
2017	41,100.4	4,820,695.7	0.85
2018	13,512.2	7,799,400.1	0.17
2019	16,366.5	9,667,876.7	0.17
2020	12,550.3	9,198,173.1	0.14
2021	38,321.15	9,523,961.8	0.41
2022	11,240.79	40,284,010.2	0.40

Notes: This table contains revised figures.
Source: CBN statistical bulletin, 2023

The abolition of mandatory banks credit allocations of 20% of its total credit to small scale enterprises wholly owned by Nigerian took effect from October 1, 2006.

Test of hypotheses
Hypothesis one (null)
H_o: There are challenges facing by Small and Medium Enterprises (SMEs) in adopting effective financial accounting reporting in Nigeria.

ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.919	1	1.919	-2.295	.134[b]
	Residual	56.023	67	.836		
	Total	57.942	68			

a. Dependent Variable: challenges of SMEs
b. Predictors: (Constant), accounting reporting

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.357	.215		6.301	.000
	Accounting reporting	.146	.096	.182	-1.515	.134

a. Dependent Variable: Challenges of SMEs

Decision:

Since the F-Value is less than the Sig-value, -2.295>.134 at 5% level of significance, we reject the alternative hypothesis and accept null hypothesis which uphold that There are challenges facing Small and Medium Enterprises (SMEs) in adopting effective financial accounting reporting in Nigeria Sulaiman (2020).

Hypothesis two (null)

H_O: Poor credit facilities to SMEs in relation to other private sector do not contributes to inadequate accounting records of SMEs in Nigeria.

ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2674312398.816	1	2674312398.816	7.305	.014[b]
	Residual	6956052795.766	19	366108041.882		
	Total	9630365194.583	20			

a. Dependent Variable: Loan to SMEs

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	45944.855	5357.739		8.575	.000
	Loan to Private sector	.003	.001	-.527	-2.703	.014

a. Dependent Variable: Loan to SMEs

Decision Rule:
If f-value is equal to or greater than "sig" value, there is a significant interaction effect or significant difference, i.e., if f-value value $\geq$ sig value, we reject null and accept an alternate hypothesis.

Since the f-value value > sig-value (7.305>.014), we reject the null hypothesis and uphold the alternative hypothesis, which states that poor credit facilities to SMEs in relation to other private sectors contribute to inadequate accounting records of SMEs in Nigeria (Sulaiman, 2020).

Findings from the Study
The hypotheses tested revealed that there are challenges facing small and medium enterprises (SMEs) in adapting effective accounting reporting in Nigeria. Also, poor credit facilities for SMEs in relation to other private sectors contribute to inadequate accounting records for SMEs in Nigeria. The study found that the following are challenges facing SMEs in the preparation and presentation of financial reports: unavailability or inadequate accounting books and records, manpower, the accounting system, and not running their transactions through the banking system. The SMEs collaborative study 2013–2025 also highlighted these challenges, as confirmed in this study. The study identified the following measures as ways of improving the financial records of SMEs: maintenance of adequate books of accounts, recruitment of qualified staff, the introduction of a sound accounting system, running of transactions through the banks, and improved grant of credit facilities to SMEs (Sulaiman, 2020). The study further revealed that SMEs in Nigeria have not migrated to international financial reporting standards as required in the National Action Plan for the implementation of IFRS in Nigeria.

Conclusions
There is no doubt that SMEs are engines of growth in any economy. Growth in the economy through the contributions of SMEs can largely be achieved through the proper, effective, and efficient financial reporting of SMEs' transactions.

Recommendations
In line with the findings, the following recommendations are hereby made:

1. Since keeping proper books of account and preparing financial records can only be done by professional accountants, the two main professional bodies in Nigeria, ICAN and ANAN, should encourage their members to offer free professional services to MSMEs in Nigeria. The various Ministries of Commerce and Industry in Nigeria, including the Federal Ministry of Trade and Industry, should establish a probono unit where SMEs can approach publicly employed professional accountants to assist them in setting up a sound accounting system, giving financial management advice, and preparing financial reports.

2. Commercial banks should also have a unit manned by professional accountants to assist SMEs with documentation for easy access to loans. The newly formed National

Council on SMEs should be replicated up to the community level, and its creation should be given immediate legislative backing.

3. The migration of SME's financial reporting systems to IFRS in 2014 should be adjusted for the next five years to enable the SMEs to fashion a way to cope with the manpower requirements. Banks should increase the grant of credit to SMEs in Nigeria.

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