VOL. 13 NO. 7,
AUGUST, 2026
E-ISSN 3026-9679
P-ISSN 3026-9423

African Scholar Publications & Research International
www.africanscholarpub.com

Journal of Business Dev. and Management Res. (JBDMR)

Accounting Practices as a Catalyst for SME Growth in Nigeria: A Study of Selected SMEs in Akwa Ibom State

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DOI: https://doi.org/10.70382/ajbdmr.v13i7.0113

Abstract

This study examines the influence of accounting practices on the growth of Small and Medium Enterprises (SMEs) in Akwa Ibom State, Nigeria. The specific objectives are to evaluate the effects of book-keeping, financial management practices, and accounting knowledge on SME growth. The study adopted a survey research design, with a population of 143 and a determined sample size of 105 using the Taro Yamane formula. Data were collected via structured questionnaires and analyzed using simple linear regression. Findings from the study reveal that book-keeping (R^2=0.058, β=0.937, $p<0.05$), financial management practices (R^2=0.488, β=2.771, $p<0.01$), and accounting knowledge (R^2=0.488, β=0.427, $p<0.01$) have significant positive influences on SME growth in Akwa Ibom State. The study concludes that proper accounting practices are critical catalysts of SME growth and recommends targeted training interventions for SME operators in Akwa Ibom State.

Keywords: Accounting Practices; Accounting Knowledge Book-keeping; Financial Management SME Growth; Nigeria

Introduction

Small and Medium Enterprises (SMEs) constitute a strong backbone of the Nigerian economy, accounting for approximately 96% of businesses and contributing about 49% to the nation's GDP while employing over 84% of the workforce (Okonkwo & Okafor, 2020; Nsoke et al., 2021). According to SMEDAN, SMEs are recognized as engines of economic development in emerging economies due to their pivotal roles in employment generation, poverty reduction, industrialization, and sustainable economic growth (Adebayo & Ogunleye, 2022).

Despite this important roles, SMEs still face persistent challenges including inadequate accounting knowledge, poor financial management practices, and insufficient book-keeping skills, which together contribute to high failure rates—over 50% in the first year and 95%

within five years of operation (Oredein & Stowe, 2020). According to Olawale & Adebayo (2021), the Central Bank of Nigeria (CBN), in collaboration with federal and state governments through the Bank of Industry, Microfinance banks, and entrepreneurship development centers, has established training centers for both existing and new business operators covering record keeping, financial management, book-keeping, accounting skills, financial reporting, and feasibility studies. All these measures are put together boost the effectiveness of SMEs' role in boosting the economic growth of Nigeria.

Accounting practices encompass the methods by which financial activities are recorded, classified, analyzed, and interpreted to achieve organizational objectives (Nsoke et al., 2021). According to Kwarbai et al., (2020), "effective accounting practices enable business owners to track performance, make informed decisions, and ensure sustainability. Financial management encompasses working capital management, investment decisions, finance, accounting information systems, financial reporting, and analysis". While Adebayo & Ogunleye, (2022) opined that "poor financial management can lead to financial losses and business failure. According to PwC Nigeria, studies show that 80% of SMEs in Nigeria fail due to cash flow problems arising from poor financial management practices".

Statement of the Problem

Despite the verifiable importance of SMEs in Nigeria's economy, these enterprises face significant challenges to growth, such as: lack of accounting knowledge, inadequate managerial accounting skills, insufficient technical skills, improper decision-making, and poor financial management practices. Nwachukwu & Eze (2020) has described accounting "as the language and basic tool of business, essential for determining business performance and sustainability". Hence, this language and basic tools must be understood and used by SMEs in order to grow the economy of Nigeria.

A determinant of the growth of SMEs is through proper maintenance of accounting records, which provides the basis for safeguarding and controlling business properties. However, inadequate accounting practices remain among the top causes of small business failure. According to SMEDAN, over 50% of small businesses fail in their first year and 95% fail within the first five years, with lack of bookkeeping knowledge among owners being the most common reason (Oredein & Stowe, 2020). One persistent challenge is the inability of SME operators to separate business from personal properties, indicating a lack of knowledge regarding the business entity concept.

Nsoke et al. (2021) observed that despite numerous financing sources, SMEs have difficulty obtaining credit due to fund providers' poor-risk perceptions. Even when loans are accessible, providers may be reluctant to lend without adequate financial information demonstrating firm performance. Given the competitive environment in which SMEs operate in Nigeria, they must constantly be aware of their internal financial situation and the broader financial components of their business environment. Furthermore, Osim et al. (2020) noted that many SME operators in Akwa Ibom State lack adequate management accounting practices, resulting in poor decision-making and business performance. Ogbonna (2021) found that financial and management accounting practices among SMEs in Port Harcourt are deplorable. This study was motivated by the need to examine how accounting practices influence SME growth in Akwa Ibom State.

Objectives of the Study

The primary objective of this study is to examine the influence of accounting practices on the growth of SMEs in Nigeria.

Specifically the study aims to:

i. Examine the influence of book-keeping on SME growth in Akwa Ibom State.

ii. Investigate the effect of financial management practices on SME growth in Akwa Ibom State.
iii. Evaluate the influence of accounting knowledge on SME growth in Akwa Ibom State.

Research Questions

i. To what extent does book-keeping influence SME growth in Akwa Ibom State?
ii. To what extent do financial management practices influence SME growth?
iii. How does accounting knowledge influence SME growth?

Research Hypotheses

Ho1: Book-keeping has no significant influence on SME growth.
Ho2: Financial management practices have no significant influence on SME growth.
Ho3: Accounting knowledge has no significant influence on SME growth.

Scope and Limitations

The study covered literature on accounting practices and SME growth, with its geographical scope limited just to Akwa Ibom State alone. Among the limitations, there is restricted generalizability, non-availability of financial documents, and difficulty on the part of some respondents to understand the questionnaire, which the researcher addressed through interpretation.

Accounting Practices

Accounting practices refer to the adoption of financial and non-financial methods for gathering and recording a business entity's day-to-day financial activities (Nsoke et al., 2021). SME accounting practices encompass methods by which all financial activities are recorded and regulations observed. Good accounting practices include maintenance of revenue and expenditure records, sales and purchases daybooks, asset records, consistent depreciation methods, and financial statement preparation. Accounting practices involve methods established by management to record, classify, analyze, and interpret financial transactions to achieve firm objectives (Olawale & Adebayo, 2021).

Book-keeping

Bookkeeping is the day-to-day process of recording business activities, summarizing, categorizing financial transactions, and reconciling bank statements (Oredein & Stowe, 2020). Despite accessible financing sources, SMEs face difficulty obtaining credit due to poor-risk perceptions. Properly managed SME capital through effective book-keeping can lead to higher profits, market share growth, and expansion (Nwachukwu & Eze, 2020).

Accounting Knowledge

It is an established fact that SMEs play vital roles in employment generation and economic growth. Achieving these objectives requires proper book-keeping, accounting knowledge, and controls (Adebayo & Ogunleye, 2022). Some benefits of accounting knowledge include ability to keep proper transaction records, determining business growth, managing cash and inventory, preparing financial reports, and facilitating proper decision-making. Oredein and Stowe (2020) found that 46% of small business owners do not keep transaction records, with only 8% having daily purchase books.

Financial Management Practices

According to Kwarbai et al., (2020), financial management practices refer to strategic planning, organizing, directing, and controlling financial activities including working capital management,

budgeting, financial analysis, investment decisions, and risk management. Effective financial management helps SMEs to improve resource utilization, minimize costs, maximize profits, and ensure sustainability. Such practices as noted in Olowookere et al. (2021) encompass costing systems, budgeting systems, performance evaluation systems, and decision support systems.

Growth of SMEs

SME growth is defined as increases in revenue, capital, market share, staff count, expansion, and exports (Okonkwo & Okafor, 2020). Some of the determinants of SME growth include firm location, financial management practices, initial investment, sector engagement, access to loans, business experience, market availability, proper record keeping, and ICT adoption.

Theoretical Framework

The study is anchored on the Efficiency Theory, proposed by Frederick Winslow Taylor (1909), as its theoretical foundation. Efficiency theory posits that business growth is achieved when managers optimize operations to maximize output from minimal inputs (Osim et al., 2020). This framework emphasizes that SME operators adopting efficient accounting practices are better positioned to achieve sustainable growth.

Empirical Review

Nsoke et al. (2021) examined accounting practices and SME growth in South-East and South-South Nigeria, finding significant positive relationships between book-keeping, financial management, accounting knowledge, and enterprise growth. Oredein and Stowe (2020) demonstrated a significant correlation between effective book-keeping and small-scale business development in Oyo State. Osim et al. (2020) found strong positive correlations between management accounting practices and SME performance in Akwa Ibom State.

Kwarbai et al. (2020) concluded in their study that financial management practices positively affect SME financial performance in Lagos State. In their work, Olowookere et al. (2021) affirmed that management accounting practices enhance SME performance. On his part, Aligbe (2026) demonstrated that accounting expertise positively affects SME financial performance, while auditing procedures enhance transparency and sustainability. While Ogbonna (2021) found deplorable financial and management accounting practices among SMEs in Port Harcourt. Adebayo and Ogunleye (2022) revealed that accounting knowledge significantly influences business growth, while Okonkwo and Okafor (2020) discovered that financial record keeping and reporting significantly influence SME performance. Again, Nwachukwu and Eze (2020) found that proper book-keeping significantly contributes to SME survival.

Despite these contributions, a comprehensive examination of accounting practices across multiple dimensions within the South-South geopolitical zone, specifically Akwa Ibom State, remains underexplored. This study addresses this gap by simultaneously examining the influence of book-keeping, financial management practices, and accounting knowledge on SME growth in Akwa Ibom State.

Methodology

A survey research design was adopted to collect primary data from SME operators in Akwa Ibom State, enabling the researcher to gain insights on their accounting practices.

The population comprised 143 employees from 8 selected SMEs in Akwa Ibom State: Abak Oil Palm (18), Etina Oil Palm (21), Etim Ekpo Oil Palm (17), Uyo Cassava (18), Ika Oil Palm (14), Esten Obolo Oil Palm (15), Nsit Atai Oil Palm (18), and Itu Oil Palm (22).
The Taro Yamane formula was used to determine sample size:

$n = N/(1+N(e^2))$

Where: n = Sample Size; N = Population (143); e = Sampling error (0.05)

$n = 143/(1+143(0.05)^2) = 143/(1+0.3575) = 143/1.3575 = 105.34 \approx 105$

Stratified random sampling was employed, followed by simple random sampling to administer questionnaires from each SME. Proportional representation was used to determine respondents per SME, giving all respondents equal selection chances and addressing bias.
Primary data were collected through a structured questionnaire administered to 105 respondents. The questionnaire had two parts: demographic information and 5-point Likert scale questions on research variables. Secondary data came from existing materials including reports, textbooks, journal articles, and internet sources.
The instrument was validated through presentation to supervisors and senior lecturers. Reliability was tested using Cronbach's Alpha, yielding an overall result of 0.728, indicating reliability as scores above 0.70 are considered suitable for research.
Data were presented using descriptive statistics including frequency distributions and percentages. Hypotheses were tested using simple linear regression analysis at 95% significance level.
The simple regression model was specified as:

$Y = b_0 + b_1X + e$

Where: Y = Dependent variable (SME Growth); b_0 = Intercept; X = Independent variable (Book-keeping, Financial Management, or Accounting Knowledge); b_1 = Slope coefficient; e = Error term.

Questionnaire Administration

SMEs	Distributed	Returned
Abak Oil Palm	13	12
Etina Oil Palm	16	15
Etim Ekpo Oil Palm	13	12
Uyo Cassava	13	12
Ika Oil Palm	10	9
Esten Obolo Oil Palm	11	10
Nsit Atai Oil Palm	13	12
Itu Oil Palm	16	16
Total	**105**	**98**

Table shows 105 questionnaires distributed, 98 filled and returned, yielding a 93.3% response rate.

Test of Hypotheses

Hypothesis 1: Influence of Book-keeping on SME Growth

Model Summary

R	R^2	Adj. R^2	Std. Error	Durbin-Watson	R
.241	.058	.048	6.15681	2.195	.241

ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	225.000	1	225.000	5.936	.017
Residual	3639.000	96	37.906		
	Sum of Squares	Df	Mean Square	F	Sig.

Coefficients

	B	Std. Error	Beta	t	Sig.
(Constant)	7.089	1.360		5.213	.000
Book-keeping	.937	.385	.241	2.436	.017

Interpretation: R^2=0.058 indicates book-keeping accounts for 5.8% of SME growth variation. Beta coefficient (β=0.937) suggests a one-unit increase in book-keeping leads to 93.7% growth increase. Durbin-Watson (2.195) indicates no auto-correlation. F-value (5.936) with p=0.017 confirms model significance. Since p<0.05, **Ho1 is rejected**.

Hypothesis 2: Influence of Financial Management Practices on SME Growth

Model Summary

R	R^2	Adj. R^2	Std. Error	Durbin-Watson
.699	.488	.483	5.25610	2.023

ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1886.000	1	1886.000	68.400	.000
Residual	1978.000	96	27.571		

Coefficients

	B	Std. Error	Beta	t	Sig.
(Constant)	2.427	.913		2.659	.009
Financial Management	2.771	.335	.699	8.270	.000

Interpretation: R^2=0.488 indicates financial management accounts for 48.8% of SME growth variation. Beta coefficient (β=2.771) suggests a one-unit increase leads to 277.1% growth increase. Durbin-Watson (2.023) indicates no auto-correlation. F-value (68.400) with p=0.000 confirms high significance. Since p<0.01, **Ho2 is rejected**.

Hypothesis 3: Influence of Accounting Knowledge on SME Growth

Model Summary

R	R^2	Adj. R^2	Std. Error	Durbin-Watson
.698	.488	.482	0.63306	2.023

ANOVA

	Sum of Squares	df	Mean Square	F
Regression	36.628	1	36.628	91.394
Residual	38.474	96	0.401	

Coefficients

	B	Std. Error	Beta	T	Sig.
(Constant)	1.377	0.113		12.216	.000
Accounting Knowledge	0.427	0.045	.698	9.560	.000

Interpretation: R^2=0.488 indicates accounting knowledge accounts for 48.8% of SME growth variation. Beta coefficient (β=0.427) suggests a one-unit increase leads to 42.7% growth increase. Durbin-Watson (2.023) indicates no auto-correlation. F-value (91.394) with p=0.000 confirms high significance. Since p<0.01, **Ho3 is rejected**.

Summary of Regression Results

Hypothesis	Independent Variable	R^2	Beta	F-value	p-value	Decision
Ho1	Book-keeping	.058	.937	5.936	.017	Rejected
Ho2	Financial Management	.488	2.771	68.400	.000	Rejected
Ho3	Accounting Knowledge	.488	.427	91.394	.000	Rejected

DISCUSSION OF FINDINGS

The findings of this study are presented in line with the three research hypotheses tested using simple linear regression analysis. The results are summarized as follows:

Finding 1: Book-keeping Significantly Influences SME Growth

The regression analysis revealed that book-keeping significantly influences SME growth (R^2=0.058, β=0.937, p=0.017). This aligns with Nsoke et al. (2021), who noted Nigerian efforts to promote book-keeping acquisition and training strategies. Properly managed SME capital through effective book-keeping leads to higher profits, market share, and expansion. The finding is consistent with Oredein and Stowe (2020), who found significant relationship between effective book-keeping and business development—46% of business owners do not keep transaction records, highlighting critical need for improved practices. Nwachukwu and Eze (2020) similarly found that proper book-keeping significantly contributes to SME survival. The lower R^2 (5.8%) suggests other factors beyond book-keeping contribute to SME growth, including market conditions, access to finance, and technological adoption.

Finding 2: Financial Management Practices Significantly Influence SME Growth

Financial management practices significantly influence SME growth (R^2=0.488, β=2.771, p=0.000), confirming that broad financial management responsibilities including working capital management

and budgeting play crucial roles. This is consistent with Kwarbai et al. (2020), who found financial management practices exert positive effects on SME financial performance. Olowookere et al. (2021) concluded that management accounting practices enhanced SME performance. Osim et al. (2020) found strong positive correlations between management accounting practices and SME performance in Akwa Ibom State. Ogbonna (2021) further supports this, indicating financial and management accounting practices are critical for decision-making. The high R^2 (48.8%) confirms financial management as a robust predictor of SME growth.

Finding 3: Accounting Knowledge Significantly Influences SME Growth

Accounting knowledge significantly influences SME growth (R^2=0.488, β=0.427, p=0.000), supporting previous research that operator ability to gain book-keeping and accounting knowledge contributes greatly to SME growth and competitive advantage. This aligns with Aligbe (2026), who demonstrated that accounting expertise significantly affects SME financial performance. Adebayo and Ogunleye (2022) found that accounting knowledge significantly influences business growth and sustainability. Okonkwo and Okafor (2020) found that financial record keeping and reporting significantly influence SME performance. The R^2 (48.8%) indicates accounting knowledge is a strong predictor of SME growth.

Conclusion

The importance of accounting practices in modern business cannot be overemphasized as they help entrepreneurs grow their SMEs. Based on regression analysis findings, the study concludes that:

i. **Book-keeping has a significant positive influence on SME growth** (R^2=0.058, p=0.017). Proper record-keeping enables operators to track business performance, make informed decisions, and identify growth opportunities.
ii. **Financial management practices have a significant positive influence on SME growth** (R^2=0.488, p=0.000). Effective financial management enables SMEs to optimize resource utilization, minimize costs, and maximize profits.
iii. **Accounting knowledge has a significant positive influence on SME growth** (R^2=0.488, p=0.000). Operators with better accounting knowledge are better positioned to manage their businesses effectively and achieve growth.

Among the three variables, financial management practices and accounting knowledge (R^2=0.488) have the strongest predictive power, followed by book-keeping (R^2=0.058). These findings underscore the critical role of proper accounting practices in fostering SME growth and sustainability.

Recommendations

i. **Government and policymakers** should integrate accounting education into SME development programs and provide incentives for book-keeping adoption. Training centers should be established in rural areas to reach underserved SME operators.
ii. **SME operators** should equip themselves with adequate accounting knowledge through training programs, including financial statement interpretation, cash flow management, and budgeting. This will enhance operational efficiency and decision-making.
iii. **Financial institutions** should provide financial education alongside credit facilities to enhance SME creditworthiness and sustainability. This will improve loan repayment rates and reduce non-performing loans.

iv. **SME associations and chambers of commerce** should organize regular workshops and seminars on accounting practices, book-keeping, and financial management to improve financial literacy. Mentorship programs linking experienced SME operators with new business owners should be established.

v. **Academic institutions** should develop practical training programs tailored to SME operators' needs, including short courses, certificate programs, and continuing education opportunities focused on practical accounting skills.

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