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Research Article

Strategies and Methodologies in Nigerian Msmes Investment Decision Making and its Impact on Financial Reporting

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Abstract, This study looks at the options and issues surrounding financial reporting in Nigerian small and medium-sized businesses (SMEs). The purpose of the study was to identify the difficulties that Small & Medium Businesses (SMEs) in implementing efficient financial accounting reporting in Nigeria, as well as to determine the extent to which insufficient accounting records in SMEs in Nigeria are caused by subpar credit facilities. Data were gathered using the survey method, time series data, and the CBN statistical bulletin and questionnaire. A straightforward percentage table was used to assess the generated data. Inadequate accounting books and records, manpower, accounting system, and failure to conduct transactions through the banking system are the main obstacles that SMEs face when preparing and presenting financial reports, according to the study. The report suggests, among other things, that the two primary organizations in Nigeria, ICAN and ANAN, should support professional accountants as they are the only ones who can maintain appropriate books of accounts and prepare financial records its members to provide SMEs in Nigeria with free expert services.

Keywords: Alternatives, Financial Reporting, Problems, Small , Medium-Sized Businesses

1. INTRODUCTION

According to Sacco (1997), financial reporting is a description of a company's ability to raise, manage, and spend money. Formal records of a company's financial operations are called financial reports or financial statements. They give a summary of the short- and long-term financial health of a company (Wikipedia, 2008). However, financial reporting is more than just financial statements. It entails giving users access to all enterprise information, whether quantitative or qualitative, so they may make informed financial decisions (Sulaiman, 2023).

Small and medium-sized businesses' (SMEs') financial reporting has generated a lot of discussion and worry among Accountancy organizations (institutes) in the US, UK, Canada, Australia, New Zealand, and other nations. According to Ajiteru (2023), the primary question is whether there should be two sets of standards—one for large enterprises and one for SMEs—or just one set of criteria for all businesses.

According to Maingot and Zeghal (2019), the issue of financial accounting and reporting for SMEs has sparked a lot of debate in the accounting literature in recent years across numerous nations. Differential reporting for transparency and presentation appears to have widespread approval. Public corporations are not the same as small and medium-sized businesses. According to Sulaiman (2020), SMEs' transactions do not reflect the complicated financial instrument transactions that public corporations participate in. The widely recognized principles of accounting (GAAP), which was created for these bigger businesses, is used to prepare the financial statements of publicly traded organizations. SMEs are currently required to compile their accounts using the same GAAP, even though public firms can afford the expense of creating and presenting their financial reports because millions of external customers access them (Ajiteru, 2023). However, SME reports are used by only few people, like as owners/managers, bankers, tax officials, and possibly venture investors (Sulaiman, 2020). Additionally, it is exceedingly expensive and burdensome to produce these accounts using the current GAAP, which was created particularly for large corporations. Sometimes the expense results from the SME preparing the financial reports with its own managers or internal accountants. However, practitioners are frequently used by SMEs to create their financial reports. As a result, there are costs to the practitioners (continually updating their understanding of GAAP) as well as to the SME (fee paid), which leads to a continuous increase in overall costs (Abalaka, 2023).

The only exemption granted to small and medium-sized businesses (SMEs) or "small companies" in Nigeria is the ability to submit updated financial statements to the Corporate Affairs Commission in accordance with section 350 of the Companies and Allied Matters Act (CAMA) 1990, as amended to this day. Statements of cash flows, accounting policies, value added, and five-year financial summaries will not be included in these updated financial statements (Ilaboya, 2015:177). Given this, the study's objective is to gather and assess accounting professionals' ' views (opinions) about the adequacy and cost effectiveness of the present financial reporting system for small and medium scale enterprises (SMEs) and as a result, the following hypotheses were formulated Sulaiman (2023).

1.1 Statement of the Problem

Nigerian Deposit Money Banks have clearly adopted creative accounting in preparation for obtaining equity capital from capital businesses. Despite the fact that this method of financial reporting frequently results in an overestimation of assets, potential investors' perceptions of the bank's net worth always influence their decision to participate in Abalaka (2023). The issue with financial reporting transparency is the Deposit Money Banks of Nigeria Ajiteru's(2023). widespread non-compliance with industry corporate governance, ethics, and a regulatory requirement . Additionally, because many elements that impact financial health cannot be quantified, such as company model, competitive advantage, and banks' public reputation and prestige, financial statements do not accurately reflect these issues the banking's credit rating, as well as the effectiveness, loyalty, and moral character of the board of directors and management. Financial reporting's influence on Deposit Money Banks' investment decision-making in Nigeria has been found to present certain challenges for bank management, according to Sulaiman (2020).

Due to the flaws that have been identified in financial reporting, generally accepted accounting principles and, more recently, worldwide financial reporting standards have been improved and expanded (Sulaiman, 2020). According to Kariuki and Jagongo (2013), these flaws have made room for the new reporting guidelines that the International Accounting Standards Board (IASB) has released. These guidelines must have uniformity in financial reporting because they reflect changes in the reporting environment or business complexities. It can be inferred from the previous claims that by providing sufficient information on the value of the banks' profitability, performance, growth, and stability, the new policies and standards aim to reduce information asymmetry. This will either lessen adverse selection during the securities issuance process (Bushman and Smith, 2001) or lessen the associated moral hazard (Healy and Palepu, 2001; Santhosh et al., 2013), as cited by Nwaobia et al. (2016). Numerous studies have been conducted on this topic in the past, but an analysis of earlier empirical research found that there are unproven effects of financial reporting quality on the investment decisions made by Deposit Money Banks in Nigeria. This suggests that there is a research gap. Nwaobia el at (2019) and associates examined the impact of financial reporting quality on the choices made by investors using yearly time series data from 2010 to 2024.Anaja & Emmanuel (2015), Kapellas & Siougle (2017), Muhammed et al. (2019), Vestine, Kule & Mbabazi (2016), Muhamoud (2017), Muhammedi (2024), Verdi (2016) and Afolabi (2018), Zayol, Agaregh and Eneji (2017), Adebiyi (2017), and Chan-jane, Tawei, and Chao-jung (2022) are some other studies that have either directly or indirectly addressed related topics in Nigeria and/or other nations. It has been noted that no research has examined how the accuracy of financial reporting affects Deposit Money Banks' investment decisions in Nigeria between 2009 and 2016. Therefore, this study will have a significant gap due to the omissions of this in the literature (Sulaiman, 2023).

1.2 Research Objective

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

1.3 Research Hypothesis

HO1: Adopting a single set of GAAP with no exemptions would provide more advantages than disadvantages.

HO2: The advantages of adopting a single set of GAAP with SMEs excluded from some standards are not outweighed by the expenses.
HO3: Adopting two sets of GAAP (large GAAP and tiny GAAP) has more advantages than disadvantages.
Ho4: Investment decisions are not significantly impacted by the quality of financial reporting.

1.4 Relevance of the Research

The study's significance lies in its ability to improve the performance of deposit money banks by assisting them in making investment decisions (Abalaka, 2023). It will also help banks prepare financial statements using similar accounting principles and raise awareness of the significant influence that account reporting quality has on investment decisions (Ajiteru, 2023). It depicts how finance has been raised and how it has been deployed, and how relationships between wealth generated and wealth invested can be significant and useful indicators. of corporate efficacy. Lastly, it will function as a reference guide for scholars in the future who might be interested in conducting similar studies (Sulaiman, 2023).

2. Literature Review

2.1 Review of Literature

The impact of financial reporting quality and financial statements on investment or investors' decision-making has been the subject of numerous research in Nigeria and other countries with varying viewpoints and methodologies. However, the investigations' findings have demonstrated that investors' decision-making is significantly influenced by the quality of financial reporting. For example, Ajiteru (2023) found that the decision-making of insurance businesses in Iran was influenced by the quality of financial reporting, investment prospects, and dividends. They discovered a strong correlation between investment prospects and the caliber of business financial reporting. Sulaiman (2020) discusses dividend policy and investment choices.

Using ten carefully chosen industrial companies listed on the Nigerian Stock Exchange Market between 2010 and 2014, Nwaobia et al. (2016) investigated the impact of financial reporting quality on investors' choices. The investigation used a correlation matrix, a pooled OLS model, and vector auto regressive estimation. Accrual quality, investment volume, size, age, growth rate, and earnings per share were all employed as stand-ins for the data. They discovered that investors' decisions and the quality of financial reporting were positively correlated (Sulaiman, 2023).

Using a sample of Taiwanese listed companies from 1996 to 2011, Chan-jane, Tawei, and Chao-jung (2015) examined the relationship between investment choices and the caliber of financial reporting in the setting of family businesses versus non-family businesses. Their results indicated that in order to preserve their socioemotional wealth, family businesses are more prone than non-family businesses to underinvest, and that the underinvestment behavior of family businesses is more strongly correlated with the quality of financial reporting (Sulaiman, 2020). When a family member holds the position of chief executive officer, the study finds no substantial impact on this link, and the presence of internal finance channels mitigates this unfavorable association (Ajiteru, (2023). By emphasizing the distinctive features of family businesses, they added to the body of research on the relationship between investment choices and the caliber of financial reporting. According to Abalaka (2023), other research employs the expected investment model to calculate the extent of the departure from the anticipated level of investment as a stand-in for investment inefficiency.

The positive captures the deviation or negative residuals from the expected investment model and is indicated as the degree of over- or under-investment. For instance, McNichols and Stubben (2018) used publicly traded companies that were accused of manipulating earnings to show that those companies over-invested in capital expenditures during the period of misreporting but stopped doing so after the period of misreporting. Biddle, Hilary, and Verdit (2019) demonstrated a negative correlation between financial reporting quality (as measured by the standard deviations of discretionary accruals) and both under- and over-investment in R&D, capital expenditure, and acquisition, indicating that financial reporting quality can mitigate both under-and over-investment between the inefficiency of capital and R&D expenditures and the quality of financial reporting (as measured by discretionary accrual). Bank funding and incentives to reduce earnings for tax considerations have an impact on this association (Abalaka, 2023).

Anaja and Emmanuel (2015) examined the impact of financial statements on investment decision-making over a ten-year period in relation to United Bank for Africa Plc in Nigeria. They found that users' investing decisions are significantly impacted by the bank's financial statements' transparency. According to the test of hypotheses, every parameter estimate used in the regression equation was statistically significant. Additionally, they concurred that banks' profitability, assets, liabilities, and equity had important methods to of assessing a bank report's performance in terms of determining investment decisions.

Muhammadi (2014) examined the factors influencing the companies listed on the Tehran Stock Exchange between 2009 and 2012, as well as the connection between investment efficiency and the quality of financial reporting. His statistical analysis of 93 Tehran Stock Exchange companies revealed a strong positive association between investment efficiency and the quality of financial reporting. Additionally, he discovered a strong correlation between investment efficiency and firm size, cash reserves, growth prospects, and asset tangibility. Evidence about the impact of financial reporting practices on investment decisions was compiled by Kapellas et al. (2017). They talked about the body of research on how financial reporting procedures affect costs, first of equity capital and the impact of financial reporting practices on investment choices, as supported by research in the fields of stock market efficiency, cash flow sensitivity, information asymmetry effects, accounting quality, earnings management, and the effects of the information environment. From 2009 to 2015, Zayol et al. (2017) investigated how financial data affected the investment choices of shareholders in five particular Nigerian banks. They found that dividends per share and the investment choices made by Nigerian bank shareholders were positively correlated.

They said that when deciding whether to purchase shares of Nigerian banks, both current and potential investors should take financial data about dividends paid per share into consideration has a positive correlation with shareholders' investment choices. Between 2005 and 2015, 15 Deposit Money Banks listed on the Nigeria Stock Exchange had their board makeup and financial reporting quality assessed by Adebiyi (2017). He studied the extent at which the board composition (measured with three variables: Board size, board meeting and board independence) influence the financial reporting quality of Banks in Nigeria. He discovered that, when used as a stand-in for the quality of financial reporting, discretionary accrual had a negative correlation with board meetings but a good correlation with board size and independence. He proved that the makeup of the board plays a significant role in the caliber of financial reporting for Nigeria's listed Deposit Money Banks. Mahmoud (2017) looked into the significance of the quality of financial reporting provided by oil. Covered are Nigerian listed companies from 2011 to 2016.

In order to determine how much the accounting data of oil companies affects the share price valuation of Nigerian listed companies, he used the Ohlson Model, which compares share prices, market values, and earnings per share of the companies. He found that the quality of financial reporting provided by Nigerian listed oil companies is very relevant to the information's users. Additionally, he added to the theory by using Nigerian data to validate the Ohlson Model of share valuation and the quality of financial reporting (Abalaka, 2023).

2.2 Review of Theory

Numerous economic theories have been put out to help organizations justify their investment choices, and they are typically categorized under various theories like capital states that the study is guided by two theories: "Agency theory and capital needs theory," which include asset pricing theory, signaling theory, and dividend decision-walter model Sulaiman (2023).

Agency Theory: The firm can be seen as a hub of loosely defined contracts amongst resource holders, according to agency theory. According to Ajiteru (2023), an agency relationship occurs when one or more principals hire one or more agents to carry out certain tasks and then give the agents decision-making authority. (1) The relationship between managers and stockholders and (2) the relationship between debt holders and stockholders are the two main agency relationships in company. These connections are not always cordial; in fact, agency theory addresses conflicts of interest between agents and principals, also known as "agency conflicts." There are ramifications for this in addition to business ethics, corporate governance, and other things. Agency costs, or expenditures incurred to maintain an efficient agency relationship (e.g., paying management performance bonuses to encourage managers to work in the owners' interests), also tend to arise when agency arises. As a result, agency theory is frequently covered in corporate ethics texts and has become a prominent paradigm in the literature on financial economics. Conflicts of interest can occur in businesses when managers' personal interests take precedence over their responsibilities to adhere to the principal-agent contract of increasing shareholder wealth, according to Sheikh, Kahn, Iqbal, and Ahmed (2017). Managers often manipulate results because they want to show the company's shareholders and prospective owners a better outcome, which lowers the general caliber of stated earnings. Additionally, managers give a more accurate picture of the company financial situation in part because of the ongoing demand for cash as determined by investor decisions Abalaka's (2023).

According to agency theory, managers will try to maximize their personal utility at the expense of business shareholders in the face of imperfect labor and capital markets. Ajiteru (2023). The asymmetric information (managers know better than shareholders whether they can meet the shareholders' objectives) and uncertainty (many factors contribute to final outcomes, and it may not be evident whether the agent directly caused a given outcome, positive or negative) allow agents to act in their own self-interest rather than in the best interests of the firm. Proof of self-interest management conduct comprises the consumption of some company resources in the form of perquisites and the avoidance of optimal risk positions, whereby risk-averse managers ignore profitable possibilities in which the firm's owners would prefer they invest. External investors are aware that the company will act against their interests while making decisions. As a result, investors will lower the prices at which they are prepared to purchase the company's securities (Sulaiman, 2023).

When a company's manager owns less than 100% of the company's common stock, there may be an agency conflict. The owner-manager will act to enhance their own well-being if the business is a sole proprietorship run by the owner (Ajiteru, 2023). The owner manager will most likely use personal wealth to gauge utility, but may Contrast personal riches with other factors, like leisure and amenities. A possible conflict of interest known as an agency conflict occurs when the owner-manager sells some of the company's equity to outside investors, giving up some of their ownership (Ajiteru, 2023).

Capital needs theory: According to the capital needs theory, businesses with room to develop in the capital market make an effort to provide high-quality financial reports with sufficient disclosures to improve their chances of obtaining outside funding. Accordingly, financial reporting is the best way to draw in additional investment capital (Core, 2001), as stated in Nwaobia et al. (2016). Additionally, shareholders want to maximize their wealth, which entails maximizing the future cash flows' present value. Their financial choice serves as a stand-in of high-quality financial data. Investors therefore need information that will allow them to forecast the cash flow from their investments in the future as well as the volatility of the risks involved (Kariuki & Jagongo, 2013).

3. Proposed Method

3.1 Review of empirical data

Modugu and Eragbhe (2013) investigated how Nigerian SMEs were affected by the implementation of International Financial Reporting Standards. All Nigerian SMEs that satisfy the requirements set forth by the International Accounting Standards Board (IASB) must produce and present their financial statements in accordance with international standards by January 1, 2014. The difficulties in making decisions about adoption and execution were documented in the study. These consist of people, business, reporting, systems, and processes. According to Obamuyi (2017), the following are some common standards used to evaluate borrowers' creditworthiness: network, track record, profitability, and financial strength record, management caliber, company prospects, business hazards, collateral securities, and relationships and payment histories with other banks. Without proper accounting, none of the aforementioned criteria can be considered valid evaluations. The banks' insistence on collateral as a "must" for SME Abalaka (2023) is a result of the SME's poor record keeping.

The preparation of small and medium-sized businesses (SMEs) in Lagos State, Nigeria, for the implementation of International Financial Reporting Standards (!FRS) and the potential obstacles that may arise throughout the adoption process are examined by Adetula et al. (2014). The study used a descriptive survey approach, and primary sources were used to gather data. The findings indicate that one of the main reasons Nigeria would implement IFRSs is because other nations adopted them. Ajiteru (2023). Once more, the findings indicate that the adoption process for IFRS for SMEs is now facing a number of obstacles that, if not promptly resolved, could impede the successful adoption and implementation of IFRS for SMEs in Nigeria in 2014. In their 2011 study, "International Financial Reporting Standard (IFRS) and SMEs in Nigeria: Perception of Academics," Ojeka and Mukoro discovered that more education is still required to inform the public, particularly SME operators, about the benefits of IFRS for SMEs. The implementation of IFRS for SMEs in Nigeria will require a significant amount of work from the accountant. The following are some of the benefits of IFRS for SMEs: enhancing the comparability of data in financial statements, boosting trust in international SMEs' yearly invoices lower the expense of upholding accounting standards, have a comprehensive set of accounting principles that are made simpler for every kind of organization, and better meet the demands of those who utilize financial statements (Sulaiman, 2023).

3.2 Research methodology

The study made use of time series data studies and surveys. Primary and secondary data were used for the study. While secondary data was gathered from the CBN Statistical Bulletin (1992 to 2012), the study's population was centered on 2983 SME registered with the Anambra State Ministry of Commerce and Industry as of 2010. As a backup, 491 professional accountants in Anambra State as of 2013—371 ANAN members and 120 ICAN members—were also used.

To calculate the sample size, the actual sample size for professional accountants and SMEs was calculated using Yaro Yamane's formula. Consequently, applying the formula:

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

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

Applying the formula for SME:	For the professional accountant ANAN:
$n = \frac{2983}{1 + 2983\,(0.05)^2} = 300$	$n = \frac{371}{1 + 371\,(0.05)^2} = 192$
n = app. 300	n = 192 ICAN
Twenty (20) of these professional accountants sampled are staff of commercial banks in Anambra State.	$n = \frac{120}{1 + 120\,(0.05)^2} = 92$
	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.

3.3. Data Analysis Method

The researcher used five-point Likert scales to examine the data gathered for hypothesis one and two. Using the Statistical Package for Social Sciences (SPSS) version 20.0 software, simple regression analysis was used to assess the two hypotheses developed for the study.

Rule of decision:

We reject the null hypothesis and accept the alternative hypothesis if the f-value is equal to or greater than the "Sig" value, which indicates a significant interaction effect or difference.

Examination

To address the study topics, the gathered data was examined using descriptive statistics such as percentages. To ascertain the direction of their view and belief regarding the study, a simple percentage was employed.

Decision Parameter

When a specific response's percentage is higher, using simple percentage, We acknowledge it as the response to the inquiry.

Research question 1: Do SME have sound accounting system?

Table 1. SMEs responses on soundness of 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		
	Yes	No	Unaware
SMES have migrated to IFRS	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

Source: CBN statistical bulletin.

Notes*:This table contains revised figures.*

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.

3.4. 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 (2023).

Hypothesis two (null)

Ho: *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: LoantoSMEs

b. Predictors: (Constant), LoantoPrivatesector

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	45944.855	5357.739		8.575	.000
1 LoantoPrivatesector	-.003	.001	-.527	-2.703	.014

a. Dependent Variable: LoantoSMEs

Rule of Decision:

We reject the null hypothesis and accept the alternative hypothesis if the f-value is equal to or greater than the "Sig" value, which indicates a significant interaction effect or difference.

We reject the null hypothesis and support the alternative hypothesis, which claims that insufficient accounting records of SMEs in Nigeria are a result of poor credit facilities provided to them in comparison to other private sectors, as the f-value value is more than the sig-value (7.305>.014) (Sulaiman, 2023).

4. Results and Discussion

4.1 Study results

According to the investigated assumptions, small and medium-sized businesses (SMEs) in Nigeria face difficulties implementing efficient accounting reporting. Inadequate accounting records of SMEs in Nigeria are also a result of insufficient credit facilities provided to them in comparison to other private sectors. According to the study, the following are issues that small and medium-sized businesses face, such as the inability to prepare and publish financial reports, the lack of accounting books and records, the lack of personnel, the accounting system, and the failure to conduct banking system transactions. These issues were also noted in the SMEs collaborative research 2013–2025, and this analysis supports those findings. The study found the following strategies to improve SMEs' financial records: keeping proper books of accounts, hiring qualified employees, implementing a sound accounting system, conducting bank transactions, and better lending credit to SMEs (Sulaiman, 2023). According to the National Action Plan for the implementation of IFRS in Nigeria, SMEs in Nigeria have not adopted international financial reporting standards, the survey also found.

4.2 Final Thoughts

Without a doubt that in every economy, SMEs are the main drivers of growth. Proper, accurate, and efficient financial reporting of SMEs' transactions is a major factor in the economy's growth through their contributions.

5. Conclusion

In light of the results, the following suggestions are put forth:

The two major professional organizations in Nigeria, ICAN and ANAN, ought to encourage its members to provide free professional services to MSMEs in the country since only qualified accountants are capable of maintaining accurate books of accounts and creating financial records. In order to help SMEs set up a strong accounting system, the Federal Ministry of Trade and Industry and other Nigerian ministries of commerce and industry should set up a probono section where they can contact publicly engaged professional accountants. preparing financial reports and offering guidance on financial management.

Professional accountants should work in a unit at commercial banks to help SMEs with the paperwork so they may easily obtain loans. The establishment of the recently established National Council on SME should receive urgent legislative support and be emulated at the local level.

The 2014 switch to IFRS for SMEs' financial reporting systems should be modified over the following five years so that SMEs can find a solution to meet the workforce needs. Nigerian SMEs should receive more loans from banks.

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