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The Role of Tax Incentive on Sustainability Disclosures and Performance of Listed Manufacturing Firms in Nigeria

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ABSTRACT

The study examined the Impact of Financial Accounting Literacy on the sustainability of Small and Medium Enterprises (A case study of Yobe State). The researcher conveniently selected 130 out of the overall population as the sample size which comprise 25 block businesses, 20 sachet water businesses and 10 bakery businesses, 20 tailoring businesses, 15 poultry farm and 40 provision store a total of 130 SMEs as the sample size for this study. In this study, the researcher adopted the convenient sampling method to determine the sample size. The study employed the use of structured questionnaire as method of data collection and the hypotheses were tested using Pearson Correlation Statistical Tool SPSS v23. Findings showed that there is a significant impact of financial accounting literacy on the growth of Small and Medium Enterprise in Yobe State, there is a significant impact of financial accounting literacy on the survival of small and medium enterprise in Yobe State and there is a significant impact of financial accounting literacy on the profitability of Small and Medium Enterprise in Yobe State. It was recommended that Government agencies such as the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) should mandate financial literacy training as a prerequisite for business registration, licensing, or support fund access and educational institutions in Yobe State and across Nigeria should integrate financial literacy courses into the entrepreneurship, business education, and vocational training curricula.

Keywords: Financial Accounting Literacy, sustainability, Small and Medium Enterprises, Profitability, Growth, Survival

1.1 Introduction

Financial literacy remains an interesting issue in both developed and developing economies, and has elicited much interest in the recent past with the rapid change in the finance landscape. Atkinson and Messy (2005) defined financial literacy as the combination of consumers'/investors' understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.

Financial literacy helps in empowering and educating investors so that they are knowledgeable about finance in a way that is relevant to their business and enables them to use this knowledge to evaluate products and make informed decisions. It is widely expected that greater financial knowledge would help overcome recent difficulties in advanced credit markets. Financial literacy prepares investors for tough financial times, through strategies that mitigate risk such as accumulating savings, diversifying assets, and purchasing insurance.

Financial literacy facilitates the decision-making processes such as payment of bills on time, proper debt management which improves the credit worthiness of potential borrowers to support livelihoods, economic growth, sound financial systems, and poverty reduction. It also provides greater control of one's financial future, more effective use of financial products and services, and reduced vulnerability to overzealous retailers or fraudulent schemes. Facing an educated lot, financial regulators are forced to improve the efficiency and quality of financial services. This is because financially literate investors create competitive pressures on financial institutions to offer more appropriately priced and transparent services, by comparing options, asking the right questions, and negotiating more effectively. Investors on their part are able to evaluate and compare financial products, such as bank accounts, saving products, credit and loan options, payment instruments, investments and insurance coverage, so as to make optimal decisions (Miller, Godfrey, Levesque and Stark, 2009).

Lack of business and management skills can magnify financial barriers for SMEs. Low levels of financial literacy can prevent SMEs from adequately assessing and understanding different financing options, and from navigating complex loan application procedures. Similarly, the fact that SMEs' accounting and financial statements are often not transparent makes them risky borrowers and thus less attractive to lenders. Capacity building of SMEs in terms of preparing financial statements and business plans, as well as improving their financial literacy and management training, is shown to have positive impact on SME development. Furthermore, strengthening the horizontal linkages with other SMEs and vertical linkages with larger firms would improve SMEs' market access.

In Yobe State, where SMEs constitute a significant source of livelihood and economic activity, many businesses continue to face challenges such as poor bookkeeping, inadequate financial reporting, cash flow mismanagement, and limited financial planning, all of which threaten their sustainability. These challenges are often exacerbated by low levels of financial accounting literacy among business owners and managers, particularly those operating informal enterprises. As competition increases and business environments become more dynamic, SMEs require sound accounting knowledge to improve financial performance, attract external financing, manage risks, and ensure business continuity. Previous studies have established that financial literacy positively influences business growth, profitability, and sustainability by enhancing financial management capabilities and resource allocation (Lusardi & Mitchell, 2014; OECD, 2023). Against this backdrop, this study seeks to examine the impact of financial accounting literacy on the sustainability of SMEs in Yobe State, with the aim of providing empirical evidence that can guide policymakers, financial institutions, entrepreneurship development agencies, and business owners in designing interventions that strengthen financial management competencies and improve the long-term survival of SMEs.

1.2 Statement of the Problem

Quite a number of studies have been conducted in developed countries and have shown significant relationship between financial accounting literacy and the growth, survival and sustainability of small and medium scale enterprise. According to World Bank, Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to our estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world. In emerging markets, most formal jobs are generated by SMEs, which create 7 out of 10 jobs. However, access to finance is a key constraint to SME growth, it is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries.

SMEs are less likely to be able to obtain bank loans than large firms; instead, they rely on internal funds, or cash from friends and family, to launch and initially run their enterprises. The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of $5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending. East Asia and Pacific accounts for the largest share (46%) of the total global finance gap and is followed by Latin America and the Caribbean (23%) and Europe and Central Asia (15%). The gap volume varies considerably region to region. Latin America and the Caribbean and the Middle East and North Africa regions, in particular, have the highest proportion of the finance gap compared to potential demand, measured at 87% and 88%, respectively. About half of formal SMEs don’t have access to formal credit. The financing gap is even larger when micro and informal enterprises are taken into account.

However, there are a lot of diverse perceptions about financial accounting literacy and these are caused by several factors. A major concern is the ignorance of owners of SMEs on the importance of book keeping and the proper understanding of the entity concept, thereby causing their business to suffer, due to lack of information (financial in nature) to aid in forecast against future eventuality and expansion. This has necessitated this study to find out the impact of financial accounting literacy on the growth and sustainability of small and medium scale enterprise in Yobe state, Nigeria. This study will help small and medium scale owners and folks interested in going into similar venture to understand the impact of financial accounting literacy on the sustainability of SMEs.

1.3 Objectives of the Study

i. To explore the impact of financial accounting literacy on the growth of Small and Medium Enterprises in Yobe State.

ii. To determine the impact of financial accounting literacy on the survival of Small and Medium Enterprises in Yobe State.

iii. To ascertain the impact of financial accounting literacy on the profitability of Small and Medium Enterprises in Yobe State.

1.4 Research Questions

The following research questions will be pursued in the course of this work:

i. What is the impact of financial accounting literacy on the growth of Small and Medium Enterprises in Yobe State.

ii. What is the impact of financial accounting literacy on the survival of Small and Medium Enterprises in Yobe State.

iii. What is the impact of financial accounting literacy on the profitability of Small and Medium Enterprises in Yobe State.

1.5 Hypotheses of the Study

The hypotheses to be tested in this study are:

$H0_1$: There is no significant impact of Financial Accounting Literacy on the growth of Small and Medium Enterprise in Yobe State.

$H0_2$: There is no significant impact of Financial Accounting Literacy on the survival of Small and Medium Enterprise in Yobe State.

$H0_3$: There is no significant impact of Financial Accounting Literacy on the profitability of Small and Medium Enterprise in Yobe State.

2.0 LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Concept of Financial Accounting Literacy

According to Lusardi and Mitchell (2014), financial literacy involves the knowledge and ability to understand and use various financial skills, including personal financial management, budgeting, and investing. When applied to business, financial accounting literacy expands to include knowledge of bookkeeping, financial reporting, tax compliance, and interpreting financial statements (Atuma & Okoye, 2021).

Financial accounting literacy refers to the ability to understand, interpret, and use financial accounting information for effective decision-making in personal, business, and organizational contexts. It involves knowledge of accounting principles, financial statements, budgeting, recording transactions, and analyzing financial performance. Individuals with financial accounting literacy can evaluate income statements, balance sheets, and cash flow statements to assess the financial health of an entity and make informed economic decisions (Atrill & McLaney, 2022). This literacy is essential for managers, investors, entrepreneurs, and students because it enhances transparency, accountability, and financial planning.

Furthermore, financial accounting literacy contributes significantly to economic growth and organizational sustainability by improving financial management practices and reducing the risk of poor financial decisions. It enables individuals to comply with regulatory requirements, interpret financial reports accurately, and communicate financial information effectively to stakeholders. According to Lusardi and Mitchell (2014), financial literacy, including accounting knowledge, plays a critical role in promoting sound financial behavior and long-term financial stability. Therefore, developing financial accounting literacy is increasingly important in today's complex financial environment, where individuals and organizations must navigate diverse financial challenges and opportunities.

2.1.2 Concept of Sustainability

Sustainability in business refers to the practice of operating in a manner that meets present economic, social, and environmental needs without compromising the ability of future generations to meet their own needs. It involves integrating responsible environmental practices, ethical social values, and economic performance into business strategies and operations. Sustainable businesses aim to minimize negative environmental impacts, promote social well-being, and ensure long-term profitability through efficient resource utilization and responsible corporate behavior (Brundtland, 1987). This concept is often associated with the "triple bottom line," which emphasizes people, planet, and profit as key dimensions of organizational success (Elkington, 1997).

In modern business environments, sustainability has become an essential component of corporate governance and competitive advantage. Organizations that adopt sustainable practices can improve their reputation, attract environmentally conscious consumers, and reduce operational costs through energy efficiency and waste reduction. Furthermore, sustainability encourages innovation and resilience by helping businesses adapt to changing market conditions and regulatory requirements. According to Carroll and Brown (2018), sustainable business practices also contribute to stakeholder trust and long-term organizational growth by balancing financial objectives with social and environmental responsibilities. Therefore, sustainability is not only a moral obligation but also a strategic approach to achieving enduring business success.

2.1.3 Concept of Growth of Business

Growth is the process through which a business expands its operations, resources, market share, sales revenue, customer base, or overall organizational capacity over time. It reflects an organization's ability to increase its economic activities while adapting to changes in the business environment. Business growth can be measured using indicators such as sales turnover, asset accumulation, employee size, market expansion, production capacity, and profitability. According to Penrose (1959), firm growth results from the productive utilization of internal resources and managerial capabilities, which enable organizations to exploit new opportunities. Similarly, Daft (2022) explains that organizational growth signifies an increase in organizational size and performance through innovation, strategic planning, and effective resource management. Sustainable growth is particularly important because it ensures that expansion occurs without jeopardizing the firm's financial stability or long-term competitiveness (Hitt et al., 2020). Consequently, growth is widely regarded as an essential indicator of organizational success and business continuity.

2.1.4 Concept of Survival of business

Business survival refers to the ability of an organization to continue operating successfully over an extended period despite internal challenges and external environmental uncertainties. Survival emphasizes continuity, resilience, adaptability, and the capacity to withstand economic fluctuations, competition, technological changes, and market disruptions. According to Schumpeter (1934), organizations survive by continuously innovating and responding effectively to changes in their operating environment. Similarly, Barney (1991) argues that firms achieve long-term survival by developing valuable, rare, inimitable, and non-substitutable resources that provide sustainable competitive advantages. Wheelen et al. (2018) further note that organizational survival depends on strategic management practices, efficient resource utilization, effective leadership, and the ability to adapt to changing customer demands. Therefore, survival represents not merely remaining in existence but maintaining operational efficiency and competitiveness over time.

2.1.5 Concept of Profitability

Profitability is the ability of a business to generate earnings that exceed its operating costs over a given accounting period. It measures the efficiency with which an organization utilizes its resources to produce financial returns for owners and stakeholders. Profitability is commonly assessed using financial indicators such as net profit margin, return on assets (ROA), return on equity (ROE), gross profit margin, and return on investment (ROI). According to Brigham and Ehrhardt (2022), profitability is one of the most important indicators of a firm's financial health because it demonstrates management's effectiveness in utilizing assets and controlling costs. Ross et al. (2022) similarly describe profitability as the firm's capacity to earn adequate returns while sustaining operational efficiency and creating value for shareholders. High profitability enhances an organization's ability to finance expansion, invest in innovation, reward investors, and withstand economic downturns, thereby contributing to long-term sustainability and competitive advantage.

2.1.5 The Impact of financial accounting literacy on SMEs sustainability

Financial accounting literacy has a significant effect on the sustainability of small and medium-sized enterprises (SMEs) because it enhances the ability of business owners and managers to make informed financial decisions. Financial literacy involves understanding financial concepts such as budgeting, cash flow management, savings, investment, financial reporting, and risk management. SME owners who possess strong financial literacy skills are better equipped to manage resources efficiently, control costs, access financing opportunities, and plan for long-term growth. According to Lusardi and Mitchell (2014), financial literacy improves financial decision-making and contributes to better financial outcomes, which are essential for business survival and sustainability. As a result, financially literate entrepreneurs are more likely to maintain profitable and stable businesses in competitive markets.

Furthermore, financial literacy supports SMEs sustainability by improving strategic planning and reducing the likelihood of business failure. SMEs often face challenges such as inadequate capital, poor financial management, and limited access to credit, which can threaten their long-term sustainability. Owners with adequate financial knowledge can prepare accurate financial records, evaluate investment opportunities, and respond effectively to economic uncertainties. Bongomin et al. (2017) argued that financial literacy positively influences the performance and sustainability of SMEs by strengthening financial management capabilities and promoting informed business practices. Therefore, improving financial literacy among SME operators is essential for enhancing business continuity, competitiveness, and sustainable economic development.

2.2 THEORETICAL REVIEW

2.2.1 Knowledge-Based Theory

The relevant theory that helps significantly towards realizing the important role of financial management is the knowledge-based theory developed by Grant (1996). He argues that the source of competitive performance in dynamic business environment is not the knowledge that is repository to a firm, because the value of such knowledge erodes quickly due to obsolesce and imitation. Rather, sustained business performance is determined by non-proprietary knowledge in the form of tacit or idiosyncratic individual knowledge. Tacit knowledge acquired from business experiences can form the basis of competitive advantage because it is both unique and relatively immobile.

The main assumption of the knowledge-based theory of the firm is that SMEs create and grow values in two ways each time knowledge is acquired and converted both internally and externally. This enables SMEs to improve their capacity to act and utilize financial leverages while avoiding situations of financial ignorance. In other words, SMEs are social entities that use and store internal knowledge, competencies and capabilities that are vital for the firm's survival, growth and success (Hakanson, 2010). The theory assumes that SMEs are all heterogeneous knowledge-bearing entities that apply knowledge to the production of their goods and services (Foss, 1996). SMEs may be able to organize the way they do because they are depositories of productive knowledge.

The Knowledge-Based Theory (KBT) is the anchor theory for the study on the impact of financial accounting literacy on the sustainability of small and medium enterprises (SMEs) in Yobe State because the theory emphasizes knowledge as a critical organizational resource that contributes to competitive advantage and long-term success. The theory argues that the ability of individuals and organizations to acquire, develop, and apply knowledge effectively determines their performance and sustainability (Grant, 1996). In the context of SMEs, financial accounting literacy represents a valuable form of knowledge that enables business owners and managers to understand financial records, manage cash flow, prepare budgets, interpret financial statements, and make sound financial decisions. SMEs in Yobe State that possess adequate financial accounting knowledge are more likely to utilize resources efficiently, minimize financial risks, and adapt to changing business environments, thereby enhancing their sustainability and growth.

2.3 EMPIRICAL REVIEW

Abdulmalik, Umar & Yakubu (2025) researched on financial literacy and performance of small and medium enterprises in Damaturu Metropolis, Yobe State. This study shows that financial accounting literacy significantly enhances SME sustainability by improving financial decision-making, record-keeping, and profitability. A study conducted in Damaturu Metropolis, Yobe State, found that financial knowledge, behaviour, and experience positively influence SMEs' survival and sustainability, particularly through better budgeting and resource allocation practices. The study concluded that SMEs with stronger financial literacy are more likely to achieve long-term sustainability and operational stability.

Abdullahi and Ibrahim (2024) examined the impact of financial accounting literacy on the sustainability of SMEs in North-East Nigeria. The study adopted a descriptive survey design and sampled 350 SME owners from Borno, Yobe, and Adamawa States using stratified sampling techniques. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings showed that financial accounting literacy had a significant positive effect on business sustainability through improved financial reporting, budgeting, tax compliance, and strategic decision-making. The study concluded that accounting literacy is a critical factor for SME survival and competitiveness, particularly in economically vulnerable regions. It recommended collaboration between government agencies, financial institutions, and educational organizations to strengthen financial accounting capacity among entrepreneurs

Adebayo and Yusuf (2023) examined the impact of financial accounting literacy on the sustainability of small and medium enterprises (SMEs) in Kano State, Nigeria. The study adopted a descriptive survey research design and collected data from 312 SME owners using structured questionnaires. Multiple regression analysis was employed to analyze the data. The findings revealed that financial accounting literacy significantly improved business sustainability by enhancing budgeting practices, financial planning, and effective record-keeping among SME operators. The study concluded that entrepreneurs with sound accounting knowledge were more likely to maintain business continuity and withstand economic challenges. The researchers recommended regular financial literacy training for SME owners to improve long-term business performance.

Okonkwo and Eze (2022) investigated the relationship between accounting literacy and the sustainability of SMEs in Anambra State, Nigeria. Using a cross-sectional survey design, the researchers obtained responses from 280 registered SMEs. Data were analyzed using Pearson correlation and ordinary least squares regression techniques. The results indicated that accounting literacy had a positive and statistically significant influence on business sustainability through improved financial decision-making, cost control, and profitability. The study emphasized that inadequate accounting knowledge was one of the major causes of SME failure. It recommended integrating financial accounting education into entrepreneurship development programmes

Fatoki (2021) examined the relationship between accounting literacy and the sustainability of SMEs in South Africa. The study adopted a survey research design involving 260 SME owners in Johannesburg. Data were analyzed using descriptive statistics and regression analysis. The findings revealed that accounting literacy positively influenced sustainability by promoting accurate financial reporting, efficient cash management, and effective budgeting practices. The study concluded that entrepreneurs with accounting knowledge were better equipped to secure external financing and adapt to changing business environments. It recommended expanding financial literacy programmes for SME operators

Mwangi and Karanja (2021) assessed the effect of financial literacy on the sustainability of SMEs in Nairobi County, Kenya. The study employed an explanatory research design involving 340 SME operators selected through stratified random sampling. Data were analyzed using multiple regression analysis. The findings demonstrated that financial accounting literacy significantly influenced business sustainability by improving financial reporting, cash flow management, and investment decisions. SMEs managed by financially literate entrepreneurs exhibited higher survival rates than those managed by owners with limited accounting knowledge. The study recommended continuous financial management training to strengthen SME resilience

3.0 RESEARCH METHODOLOGY

In this study, the researcher employed the survey research design. The population size is the entire SMEs in Yobe State with focus on two local government area. In this study, the researcher adopted the convenient sampling method to determine the sample size. Out of all the entire population of SMEs in Yobe, Yobe State, the researcher conveniently selected 130 out of the overall population as the sample size which comprise 25 block businesses, 20 sachet water businesses and 10 bakery businesses, 20 tailoring businesses, 15 poultry farm and 40 provision store a total of 130 SMEs as the sample size for this study. In this study, the researcher adopted the convenient sampling method to determine the sample size. The primary source of data collection was used using questionnaires. 130 questionnaire was distributed but only 120 was returned. The responses were analyzed using the frequency tables, which provided answers to the research questions. While the hypothesis was tested using Pearson Correlation Statistical Tool SPSS v23.

4.0 DATA PRESENTATION AND ANALYSIS AND RESULT

4.1 Analysis and Hypotheses Testing

1. Test of Hypothesis One

Hypothesis (H_{01}): There is no significant impact of Financial Accounting Literacy on the growth of Small and Medium Enterprise in Yobe State.

Table 1: Test of Hypothesis One

Variables	N	Correlation Coefficient (r)	p-value	Decision on H_0	Implication
Financial Accounting Literacy	120	0.712	0.000	Reject H_0	Significant positive impact exists
SME Growth					

Source: Author's Computation

The Pearson correlation coefficient (r = 0.712) indicates a strong positive impact of financial accounting literacy on the growth of SMEs. The p-value (0.000) is less than the significance level of 0.05, thus the null hypothesis is rejected. This result implies that as SME owners improve their knowledge of financial accounting, their businesses tend to experience increased growth. This could be due to better financial planning, record-keeping, and informed decision-making. This finding supports Adebayo & Yusuf (2020), who assert that accounting literacy enables strategic financial management essential for SME expansion.

2: Test of Hypothesis Two

Hypothesis (H_{02}): There is no significant impact of Financial Accounting Literacy on the survival of Small and Medium Enterprise in Yobe State.

Table 2: Test of Hypothesis Two

Variables	N	Correlation Coefficient (r)	p-value	Decision on H_0	Implication
Financial Accounting Literacy	120	0.685	0.000	Reject H_0	Significant positive impact exists
SME Survival					

Source: SPSS 23 Output

The correlation value of r = 0.685 indicates a moderately strong positive impact of financial accounting literacy on SME survival. The p-value (0.000) is statistically significant ($p < 0.05$); therefore, we reject the null hypothesis. This finding reveals that SME survival is enhanced when owners possess financial accounting knowledge. It equips them to anticipate financial risks, manage debts, and maintain sustainability. According to Okpara (2019), poor accounting practices are a major cause of SME failure in Nigeria; hence, this result validates the need for improved financial education among entrepreneurs.

3: Test of Hypothesis Three

Hypothesis (H_{03}): There is no significant impact of Financial Accounting Literacy on the profitability of Small and Medium Enterprise in Yobe State.

Table 3: Test of Hypothesis Three

Variables	N	Correlation Coefficient (r)	p-value	Decision on H_0	Implication
Financial Accounting Literacy	120	0.741	0.000	Reject H_0	Significant positive relationship exists
SME Profitability					

Source: SPSS 23 Output

The Pearson r-value of 0.741 indicates a strong positive impact of financial accounting literacy on SME profitability. The p-value of 0.000 is less than 0.05, thus leading to the rejection of the null hypothesis. This result suggests that profitability in SMEs is highly influenced by the owners' financial literacy. With a clear understanding of budgeting, cost control, and revenue tracking, entrepreneurs can make smarter financial decisions that boost earnings. Ogundele (2021) supports this finding, noting that profitable SMEs often implement sound accounting practices that help reduce waste and optimize resources.

4.2 Summary of Hypothesis Testing

Hypothesis	Variables Involved	Correlation (r)	p-value	Decision	Relationship Type
H_{01}	Accounting Literacy vs SME Growth	0.712	0.000	Reject H_0	Strong Positive
H_{02}	Accounting Literacy vs SME Survival	0.685	0.000	Reject H_0	Moderately Strong Positive
H_{03}	Accounting Literacy vs SME Profitability	0.741	0.000	Reject H_0	Strong Positive

Source: SPSS 23 Output

4.3 Discussion of Findings

1. Financial Accounting Literacy and SME Growth

The study found a statistically significant and strong positive impact of financial accounting literacy on SME growth ($r = 0.712$, $p < 0.05$). Respondents noted that financial knowledge improves resource management, financial planning, and decision-making, which contribute to business expansion and capacity enhancement. This aligns with the findings of Oseifuah and Gyekye (2013), who examined the financial literacy levels of SMEs in South Africa and concluded that accounting literacy was essential in supporting strategic decisions that promote growth and scalability. They emphasized that SMEs with strong financial skills could effectively allocate capital and reinvest profits, facilitating expansion. Similarly, Atkinson and Messy (2012) in an OECD global study reported that higher levels of financial education among entrepreneur's correlate with increased business capacity, access to financing, and improved growth prospects.

Furthermore, Ezejiofor et al. (2014) studied SMEs in Anambra State, Nigeria, and found that financial literacy significantly impacted owners' ability to maintain cost controls and monitor growth indicators such as revenue trends and market expansion. The authors emphasized the need for continuous financial training for SME owners to sustain their growth trajectory. In agreement, Kumar and Rao (2015) argued that financial literacy drives strategic investment and innovation in SMEs, enabling them to scale their operations and adapt to market changes.

2. Financial Accounting Literacy and SME Survival

The research also revealed that accounting literacy contributes significantly to the survival of SMEs ($r = 0.685$, $p < 0.05$). Participants highlighted that being financially literate helped them manage debt, assess financial risks, and plan operations to avoid collapse. This finding resonates with the results of Olawale and Garwe (2010), who found that poor financial management was one of the top reasons for SME failure in South Africa. Their study emphasized that SMEs with poor budgeting and accounting systems were more vulnerable to bankruptcy during economic downturns.

In Nigeria, Agbeja, Adelakun, and Akinyemi (2015) conducted a study on SME performance and observed that the absence of basic accounting skills often led to mismanagement of loans, tax problems, and inability to forecast future challenges. They noted that enterprises with financial management training had higher survival rates, especially during periods of inflation and uncertainty. Also, Fatoki (2014) emphasized that financial knowledge enables SMEs to prepare for contingencies, maintain solvency, and navigate turbulent financial environments, thus reducing business mortality. Another relevant study by Eniola and Entebang (2016) in Malaysia demonstrated that financial management competencies including bookkeeping, debt servicing, and budget forecasting were positively related to SME longevity and resilience.

3. Financial Accounting Literacy and SME Profitability

The third major finding showed a strong positive impact of financial accounting literacy on profitability ($r = 0.741$, $p < 0.05$). Respondents agreed that accounting knowledge facilitated cash flow management, accurate record-keeping, and strategic budgeting, which are essential for maintaining and improving profit margins. This corroborates the study of Wachira and Kihiu (2012), who found that Kenyan SMEs with basic financial literacy skills reported better profit margins due to reduced overhead, strategic pricing, and informed reinvestment decisions. Similarly, Lusardi and Mitchell (2011), in a U.S.-based study, found that financial literacy helped small business owners increase their profit margins by avoiding costly financial mistakes and optimizing their cost structures. In the Nigerian context, Lawal, Tajudeen, and Azeez (2018) studied SMEs in Lagos and found that accurate record-keeping and financial analysis products of accounting literacy enabled entrepreneurs to identify unproductive expenses and redirect resources to profit-generating activities.

Additionally, Idowu (2012) highlighted that financial reporting and budget adherence were instrumental in ensuring profitability in SMEs across selected Nigerian states. His findings strongly supported financial education as a profit-enhancing tool. In contrast, Abanis et al. (2013) studied SMEs in Uganda and found that profitability was often hindered not by lack of opportunity, but by lack of accounting literacy. Many entrepreneurs failed to differentiate profit from cash flow and confused turnover with financial health, leading to flawed reinvestment strategies.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

This research set out to assess the impact of financial accounting literacy on the sustainability of Small and Medium Enterprises (SMEs) in Yobe State, Nigeria. The importance of SMEs in economic development cannot be overemphasized they are instrumental in job creation, innovation, and poverty reduction. However, the challenge of sustainability continues to plague many SMEs, often due to poor financial management skills and lack of accounting literacy. Based on the findings of this study, it is concluded that financial accounting literacy is a fundamental determinant of the sustainability of small and medium-scale enterprises in Yobe State. The study supports the assertion that proper understanding and application of accounting principles by SME operators enhance business growth, ensure long-term survival, and improve overall profitability. The conclusion drawn from this study is multifaceted. For instance, on growth, entrepreneurs who can analyze financial statements, monitor cost behaviors, and understand cash inflow/outflow patterns are better positioned to allocate resources efficiently, invest wisely, and expand their operations. Growth is no longer incidental but intentional and data driven. On survival, financial literacy acts as a cushion against unforeseen financial setbacks. Business owners who track their liabilities and understand their breakeven points can adapt quickly to market changes and survive financial downturns or economic recessions. On profitability, profitability thrives in an environment of planning and control. SMEs that practice budgeting, expenditure tracking, and profit analysis tend to avoid financial leakages and maximize earnings. Therefore, financial accounting literacy should not be considered an optional skill but a core competency for SME sustainability in Nigeria. It is both a survival tool and a growth enabler. Without financial knowledge, SMEs are likely to operate on guesswork, which often leads to poor decision-making, losses, or even business failure.

5.2 Recommendations

Considering the study findings and conclusions, the following recommendations are proposed:

1. Government agencies such as the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) should mandate financial literacy training as a prerequisite for business registration, licensing, or support fund access. These trainings should focus on budgeting, cash flow analysis, debt management, and financial reporting.

2. Educational institutions in Yobe State and across Nigeria should integrate financial literacy courses into the entrepreneurship, business education, and vocational training curricula. This prepares students for real-world business challenges and fosters a generation of financially literate entrepreneurs.

3. Microfinance banks and cooperatives should offer free or subsidized financial advisory services to SMEs, including one-on-one coaching, periodic workshops, and mobile-based financial education tools.

4. Technology providers should be encouraged to develop user-friendly accounting software and mobile apps tailored to SMEs. These tools should enable SMEs to track expenses, manage inventory, generate invoices, and analyze profits/losses without needing advanced bookkeeping skills.

5. Government and donor-funded entrepreneurship development programs should include a monitoring and evaluation component that assesses financial knowledge retention and the application of accounting practices among beneficiaries.

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