



**THE IMPACT OF FINANCIAL LITERACY ON THE
PROFITABILITY OF SMALL AND MEDIUM SCALE ENTREPRISES
IN ADAMAWA STATE.**

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Abstract

Small scale business is an integral part of every nation's economy. They play a vital role in nations building and it is believed that as they grow and expand, the economy also grows. Small and medium scale business provide 85 percent of manufacturing employment in Nigeria, contribute about 70 percent to Nigeria GDP and account for 92 percent of businesses in Adamawa. The importance of making good budgeting system and keeping proper accounting of business incomes in promoting the growth of small business has been acknowledge in prior studies on small business growth and development. The main objective of this study is to examine the impacts of financial literacy on the profitability of small and medium scale enterprises in Adamawa state. A sample of 246 small businesses was selected using simple random techniques, primary quantitative data was collected by the used of structural questionnaire and analyzed using descriptive statistics, and multiple regression analysis was used. The empirical results shows that budgeting contribute to profitability of small scale firms with a beta coefficient of 0.769 percent while bookkeeping contribute to profitability with a beta coefficient of 0.128 percent. Based on the research findings, the study reveals that there exist a significant and linear relationship between profitability of SMEs and financial literacy variables (bookkeeping and budgeting) that discount allow to customers encourage more sales, that SMEs experience growth in savings, increase in business assets, and were able to employ more hands as a result of financial literacy. it is recommended that more training in SMEs should be carry out on the operators,

Government and NGOs should come out with policies that encourage SMEs, that the media should support the SMEs by creating a platform where they can advertise their products on lower prices.

Key Words: *Impact of financial literacy, profitability ability on small and medium enterprises.*

INTRODUCTION

Globally, small and medium scale enterprises (SMEs) have contributed enormously in improving the standard of living of the people by providing jobs to relieve the society of social embarrassment, stimulating indigenous entrepreneurship and utilizing scarce resources Idowu (2011). Small scale businesses are integral part of every nation's economic activity. They play a vital role in nation building, and it is believed that as they grow and expand the economy also grows. Small businesses create employment and serve as a major tool for poverty alleviation and economic development. Small businesses in Adamawa state over the years have contributed greatly to the overall employment and production of goods and services. According to Abor & Quartey (2010), small and medium scale enterprises provide 85 percent of manufacturing employment, contributes about 70 percent to Nigeria's Gross Domestic Product and account for about 92 percent of businesses in Adamawa state. The importance of keeping proper accounts in promoting the growth of small business has been acknowledged in prior studies on small business growth and development Abor & Biekpe (2001). Other studies have identified lack of keeping financial report as the most important constraint to growth in the small business sector. Sowa (1992) identified lack of demand, shortage of working capital and poor accountability as the main reasons for small business closures in Africa.

Presently, as part of the Sustainable Development Goals (SDGs), effort is being made to reduce poverty rate in developing countries. Effort is also being made to reduce the reliance of people on government and so-called "white collar jobs". These are achieved through the growth and development of small scale enterprises Eneh (2007). Furthermore, small scale enterprises play important roles in the economic growth and development of every nation. They are a veritable vehicle for the achievement of national macro-economic objectives in terms of employment generation at low investment cost and enhancement of

apprenticeship training. Financial literacy is the combination of consumer/investors understanding of financial product and concepts and their ability and confidence to appreciate financial risk and opportunities, to make informed choice, to know where to go for help, and to take other effective actions to improve their financial wellbeing Miller & Halt (2009). 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 product and make informed decision, Financial literacy as the name implies occupies a centre-stage in the quest to achieve an overall degree of success in an organization, Bernheim (2008). It also enhances to a reasonable degree, a business goal of financial profit. Thus, financial literacy (or lack thereof) has played a key role in the success and failure of our nations business for the past centuries. Companies and businesses have therefore been charged with ensuring that adequate and proper books of accounts are kept so as to ensure reliability of their financial statements. This will in the long run help improve their level of profitability, Profit can analogously be viewed as the life-blood of a business and hence the accounting bases, concepts and principles adopted ought to capture and report all the relevant information to ensure reliability in its measurement (Nelson & Onias, 2011) made it clear that no business can run effectively without being financially literate and also having one form of accounting records or the other. It can, therefore, be deduced that appropriate financial literacy is important for a successful management of any business, whether big or small. Consequently, suffice is to say that it is crucial that financial literacy be encouraged among small scale enterprises so as to enable them be able to supply complete and relevant financial information needed to improve on decisions made by them, and to also enhance their profitability.

STATEMENT OF THE PROBLEM

Bako (2015), stated that Small and Medium Enterprises (SMEs) in Nigeria have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Nigeria. This situation has been of great concern to the government, citizenry, operators, practitioners and the organized private sector groups. Year in year out, the governments at federal, state and even local levels through budgetary allocations, policies and pronouncements have signified interest and acknowledgement of the crucial

role of the SME sub-sector of the economy and hence made policies for energizing the same. There have also been fiscal incentives, grants, bilateral and multilateral agencies support and aids as well as specialized institutions all geared towards making the SME sub-sector vibrant Basil (2015). The small scale enterprises (SSEs) has not performs the expected role in spite of the fact that they have been regarded as the bulwark for employment generation and technological development. The small scale business owners find it difficult to determine its profit level due to lack or poor financial literacy. Small scale enterprises have been associated with the lack of financial literacy which is evident in their inability to keep complete accounting record. This has resulted into a situation where SMEs operating in the state cannot capture adequately the business profit Uduak (2013).

A study on the impact of financial literacy on the profitability of SMEs is of considerable interest to many researchers particularly related to SMEs. Locally few studies have been done on assessment of influence of financial literacy on profitability, among them includes: Jacquenline, (2013), an assessment of the role of financial literacy on performance on small and micro enterprises. The study used Equity foundation training program to assess the performance of SMEs before and after the training. The findings revealed that there was a high progress performance of SMES after the training on the financial literacy by those that attain the training. Another study was undertaken by Uduak, (2013). He studies the impact of financial literacy on the performance of SMEs, he considers the extent at which accounting record keeping such as sales day book and journals enhance their performance. The study shows that the adoption of financial literacy in Calabar is low and the utilization of accounting record significantly influence the performance of SMEs but none of the researcher has consider the impact of bookkeeping and budgeting as a financial literacy variables that contribute to the profitability of SMEs .

While the above research outcomes provide an insight to the adoption of financial literacy on the performance of SMES, there is no known study to the researcher on the impact of financial literacy on the profitability of SMEs which considered book keeping and budgeting as financial literacy variables contribute to profitability in SMEs in Nigeria. Therefore the knowledge gap exists as whether there is an impact of financial literacy on the profitability. Thus the study sought to identify the impact of financial literacy on the profitability of SMEs in Adamawa state.

LITERATURE REVIEW

Small and Medium Enterprises (SMEs) as defined by the National Council of Industries refer to business enterprises whose total costs excluding land is not more than two hundred million naira (N200, 000,000.00) only. A lot has been said and written about SMEs the world over. It has also formed the subject of discussions in so many seminars and workshops both locally and internationally. In the same token, governments at various levels (local, state and Federal levels) have in one way or the other focused on the Small and Medium Enterprises. While some governments had formulated policies aimed at facilitating and empowering the growth and development and performance of the SMEs, others had focused on assisting the SMEs to grow through soft loans and other fiscal incentives Basil (2005).

A major characteristic of Nigeria's SMEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SMEs is either sole proprietorships or partnerships. Even where the registration status is thus that of a limited liability company, the true ownership structure is that of a one-man, family or partnership business Basil (2005).

Most SMEs die within their first five years of existence. Another smaller percentage goes into extinction between the sixth and tenth year thus only about five to ten percent of young companies survive, thrive and grow to maturity Idowu (2010). Many factors have been identified as to the possible causes or contributing factors to the premature death. (Basil, 2005) stated the following challenges to SMEs which include insufficient capital, lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber staff, planlessness, cut-throat competition, lack of official patronage of locally produced goods and services, dumping of foreign goods and overconcentration of decision making on one (key) person, usually the owner. Other challenges which SMEs face in Nigeria include irregular power supply and other infrastructural inadequacies (water, roads etc) unfavorable fiscal policies, multiple taxes, levies and rates, fuel crises or shortages, policy inconsistencies, reversals and shocks, uneasy access to funding, poor policy implementation, restricted market access, raw

materials sourcing problems, competition with cheaper imported products, problems of inter-sectarian linkages given that most large scale firms source some of their raw material outside instead of sub contracting to SMEs, insecurity of people and property, fragile ownership base, lack of requisite skill and experience, thin management, unfavorable monetary policies, lack of preservation, processing and storage technology and facilities, lack of entrepreneurial spirit, poor capital structuring as well as poor management of financial, human and other resources Basil (2005).

Their characteristics and the attendant challenges notwithstanding, it is the consensus that SMEs, which globally are regarded as the strategic and essential fulcrum for any nation's economic development and growth have performed rather poorly in Nigeria. The reason for this all-important sector's dismal performance have been varied and convoluted depending on who is commenting or whose view is being sought. For sure it has nothing to do with government's appreciation of the vital central role of the sector as evidenced by how well SMEs have been acknowledged and orchestrated in various government's budget, with the imperativeness of SMEs as the bulwark for employment generation, poverty reduction and technological development being highlighted. While many attribute the relatively poor performance Basil (2005).

SMEs in Nigeria when compared with the significant roles which SMEs have played in developed economies such as the United Kingdom, Germany and the United States and even developing countries of the world like India to the challenges outlined above, some others hinge the reasons on the fair share of neglect on the sector by the government. The latter group argues that government's appreciation of the SMEs in capacity building has always been restricted to the pages of the budget presentations and submissions at various fora Idowu (2010).

Essentially, they argue that poor budget implementations over the years account for the unsavory impacts of SMEs on the Nigerian economy, which has had a record sluggish growth and declining future as measured by the population of Nigerians becoming literate, having more access to better health care, shelter, food, and other necessities of life such as access to more and better paying jobs as well as declining per capita income. Other parameters usually used to measure the performance of SMEs include percentage of working population employed by the SMEs in a given country or economy, the percentage

contribution to the country's GDP, managerial and technical capacity building, percentage of revenue internally generated or percentage of total PAYE accruing to the government from the SMEs employees, years increases in average household income, etc Basil (2005).

This research will critically appraise and analyzed the operating environment and circumstances of SMEs in Nigeria with a view to actually identifying why they (SMEs) are not playing the vibrant and vital roles in the Nigerian economy as they (SMEs) does in other economies such as India which has so many similarities with Nigeria in terms of population and other demographic variables. This is even more disturbing if one recalls that Nigeria remains the largest market in the African continent where investment opportunities are beckoning to be exploited Basil (2005).

Small businesses often face a variety of problems related to their size. A frequent cause of bankruptcy is mismanagement of funds. This is often a result of poor accounting procedures rather than undercapitalization and economic conditions. Again, when they first start out, many small business owners under price their products to a point where even at their maximum capacity, it would be impossible to break even. Cost controls or price increases often resolve this problem. This requires accounting knowledge. Another problem for many small businesses is termed the 'Entrepreneurial Myth' or E-Myth. The mythic assumption is that an expert in a given technical field will also be expert at running that kind of business. Additional business management skills are needed to keep a business running smoothly Basil (2005).

Many new business owners are daunted by the ideas of bookkeeping and accounting. But in reality both are pretty simple. Bookkeeping and accounting share two basic goals to keep the track of income and expenses , this improve the chances of making profit , and to collect the financial information necessary for filling various tax returns , there is no requirement that record must be kept in any particular way. As long as you records accurately reflect the business income and expenses. A proper system of financial records keeping has become integral part of managing enterprises in today's competitive and challenging business environment. A good financial record keeping enables business organizations to plan properly and also check for misappropriations of resources of the organization. Ademola, Oklaye & Olusoya (2013) explain that keeping proper books of accounts is essential to the growth and survival of a business. In order to ensure efficiency, effectiveness and the continuing survival of any

business organization, management must seek for reliable, relevant, accurate and timely financial information for planning and decision making.

Poor records keeping or non-availability of financial records will lead to resources mismanagement and poor cash management and this can cause the business to fail. Poor records keeping makes it difficult to differentiate between business transactions and personal transactions. It is the responsibility of business owners and managers to avoid using assets of the business for personal use at the expense of the business (Van & Muba 2008 and Ranklume 2010). According to them a well-qualified accountant should be employed to carry on this task. He or she should have proper knowledge to control cash as liquidity is the key to the success of any business. Qualified Accountants play major roles in decision making process of a business. Accountants with higher skills and experience have greater influence on the decision making process of a business (Tout and Ghazzaawi 2014). With their skills and experiences, they are in a good position to measure the financial performance and position of a business. This allows users especially management to plan and make economic decisions there is a requirement however , that some business use a certain method of crediting their account: The cash method or accruals method, depending on the size of the business and the amount of sales , one can create own ledger and report , or rely on accounting (Williams el-al. 1993). An accounting system record, retain and reproduce financial information relating to the financial transaction flow and financial position. Financial transaction flow encompasses primarily inflows on account of income and the outflow on account of expenses. Element of financial position, including property, money received, or money spend, are assigned to one of the primary groups. I.e. assets liability and equity Within these primary groups each distinctive assets, liability, income and expenses is represented by respective “Account” An account is simply a record of financial inflows and outflows in relation to the respective asset, liability, income or expenses account are considered temporally account .Since they represent only the inflows and outflows absorbed in the financial position elements on completion of the time period (Williams el-al 2008).

Padach (2014) emphasized the need for businesses to keep proper financial records and argued that proper system of financial records provide how well the business is performing and what decisions are necessary to be made in order to keep the business in the market. Most businesses are interested in measuring their profitability and to determine the profit, they should adopt appropriate

accounting bases, concepts, principles and standards to ensure the reliability of its measurement (Mbroh & Attom 2012). Accounting records can improve the performance of a business and as Abdulrahamon & Adajere (2014), noted, there is a strong positive relationship between accounting records keeping and performance of small scale enterprises. Accounting records keeping is essential for decision making which invariably affects the performance of SMEs.

Financial literacy theory argues that the behavior of people with high level of financial literacy may depend on the prevalence of two thinking style according to dual process theories: intuition and cognition Evans (2008).

Dual process theories embrace the ideas that decision can be driven by both intuitive and cognitive process. Dual process theories have been studied and applied to many different field e.g. reasoning and social cognition Evans (2008). Financial literacy remain an interesting issues in both develop and developing economies, and has much interest in the recent past with the rapid change in the finance landscape, Define financial literacy as the combination of consumer/ investors understanding of financial product and concepts and their ability and confidence to appreciate financial risk and opportunities , to make informed choice , to know where to go for help , and to take other effective actions to improve their financial wellbeing (Miller el-al, 2009) 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 product and make choices.

Greenspan (2002) argues that financial literacy helps to inculcate individuals with the financial knowledge necessary to create house hold budgets, initiate serving's plans, and make strategic investment decision. Proper application of that knowledge helps investors to meet their obligation through wise planning and resource allocation so as to derive maximum utility. G20 Seoul summit(2010) state that information asymmetry from SMEs lack of accounting records , inadequate financial statement or business plans also make it difficult for creditors to assess the credit worthiness of potential SMEs proposals. As the lack of financial literacy, operational skills, including finance and business planning representative formidable challenge for SMEs borrowers, Lack of business and management skills can magnify financial barriers for SMEs. Low level of financial literacy can prevent SMEs from adequately assessing and understanding different financing options, and from navigating complex loans application procedures.

Similarly, the fact that SMEs accounting tend financial statement are often not transparent makes them risky borrowers less attractive to lenders.

METHODOLOGY

This study employs a cross-sectional survey research design. Mugenda and Mugenda (1999) were of the opinion that survey is an attempt to collect data from members of a population in order to determine the present status of that population with respect to one or more variable. Survey can be used for explaining or exploring the existing status of two or more variables at a given point in time. Saunderson and Thornhill (2007) also explain that this research strategy allow collection of data through questionnaire administered to a sample and that the data collected by this design can be used to suggest possible reasons for particular relationship between variables and produced models for these relationship.

The target populations for the study are the 500 registered small scale enterprises (SMEs) in Adamawa state (CAC 2015). They were selected using simple random sampling techniques. To determine the sample size the Topman formula as presented by Philip (2014) was used.

$$N = \frac{z^2 \cdot p \cdot q}{e^2}$$

Where

N= required sample size

Z=the value of Z score associated with degree of confidence (1.96).

P=probability of positive response

Q=probability of negative responses

E=tolerance error (0.05)

The probability of positive and negative responses was obtained in a pilot study of 100 respondents 80 of the respondents agreed that bookkeeping, and budgeting contribute to profitability of the small scale enterprises, while 20 did not agree. Therefore the estimated sample size was determined thus:

$$Z= (1.96)$$

$$P =80/100=0.8$$

$$Q= 20/100=0.3$$

$$E= (0.05)^2$$

$$\frac{(1.96)^2 \times 0.8 \times 0.3}{(0.05)^2}$$

$$\frac{0.614656}{0.0025} = 246$$

The assumption of the study was that there are two managerial levels in the management of the small scale enterprises which are the proprietor and the manager. Base on this assumption the convenient sample method was used in selecting respondents. That is the management staff of the each businesses were sampled. These make it to be 2 respondent from each categories of business sampled. The 2 respondent multiply by 10 businesses of each category then the last category which is transportation due the large nature of the sector in the region, we randomly allocated 13 which we have 2*13. In all it will give us the total of 246 as shown on the calculations above.

Questionnaire was used as the method of data collection. Structured questionnaire were self-administered to the SMEs to gather primary quantitative data. The questionnaire was divided into three sections: Demographic information, profitability section and the impact of financial literacy on SMEs. The questionnaire was design to solicit information relating to financial literacy such as on bookkeeping, budgeting, and profitability of SMEs. Multiple regression analysis was used to established the relationship and magnitude between profitability(dependent variable) and financial literacy (independent variable).

This analysis was based on the model specified as follows:

$$\text{Profitability} = f(\text{Bookkeeping, Budgeting})$$

$$\text{Thus, the model PRF} = \alpha + \beta_1 B + \beta_2 B + \varepsilon \dots\dots\dots$$

{Equation 1 }

Where, PFR – Profitability, α – Constant

(Autonomous performance), B – Budgeting, B-Bookkeeping, $\beta_1.. \beta_3$ – Coefficients of

Independent variables and ε – Error term

SRESULTS AND DISCUSSION

The first research objective sought to determine the level of financial literacy training among SMEs in Adamawa state, to address this, respondent were asked to indicate their level of satisfaction with bookkeeping , budgeting and profitability of SMEs.

Bookkeeping

Table I indicate the level of satisfaction with bookkeeping among SMEs in Adamawa state, on whether they used purchase day book to keep record of trade creditors, 17 SMEs representing 6.9% strongly disagree, 29 representing 11.8% disagreed, and 99 representing 40.2 are undecided, while 101 SMEs representing 41.1% agreed. Indicating that SMEs in Adamawa state used purchase day book to keep track record of creditor.

On sales day book, 37 SMEs representing 15.0% strongly disagreed, 48 representing 19.5% disagreed, 52 representing 21.1% were undecided, 100 SMEs representing 40.7 % agreed while 9 representing 3.7% strongly agreed. This result shows that SMEs in Adamawa state used sales day book to keep record of trade debtors with the highest score of 44.4%. This result shows that profitability of SMEs can be enhance if they used sales day book to keep track record of their debtors.

On whether discount allow given to customers increases sales and enhance profitability? 8 SMEs representing 3.3 % strongly disagreed, 19 representing 7.7 disagreed, 48 representing 19.5 % were undecided, 101 SMEs representing 41.1% Agreed while 70 SMEs representing 28.1% strongly Agreed. Based on this result, it simply shows that when SMEs imbibe discount in their sales, it will greatly enhance their profitability drive.

On differentiating business cash from personal cash during record, 20 SMEs representing 8.1% strongly disagreed, 29 representing 11.8% disagreed, 65 representing 26.4 were undecided, 92 representing 37.4% strongly agreed while 40 representing 16.3 % strongly agreed. Base on this result, 53.7% agreed that differentiating personal cash from business cash will enhance the profitability of SMEs.

Table: I Response on Book Keeping

<u>Questions</u>	<u>Frequency</u>	
<u>percentage</u>		
Purchase day book help keeps record of trade creditors	17	6.9
SD 1		
	29	
11.8 D 2		

		99	
40.2	UD 3		
		<u>101</u>	
<u>41.1</u>	A 4		
		<u>246</u>	
<u>100</u>			
Sales day book help keeps record of trade debtors		37	15.0
SD 1			
		48	
19.5	D 2		
		52	
21.1	UD 3		
		100	
40.7	A 4		
		9	
<u>3.7</u>	<u>SA 5</u>		
		<u>246</u>	
		100	
Discount allow to customers encourage purchases		8	3.3
SD 1			
		19	
7.7	D 2		
		48	
19.5	UD 3		
		101	
41.1	A 4		
		<u>70</u>	
<u>28.1</u>	SA 5		
		<u>246</u>	
<u>100</u>			
In transactions, personal cash is differentiated from business cash			20
8.1	SD 1		
		29	
11.8	D 2		
		65	
26.4	UD 3		

			92		
37.4	A	4			
			<u>40</u>		
16.3	S	5			
Source: Field survey 2017			<u>246</u>	<u>100</u>	

Budgeting

Table II present the level of SMEs satisfaction with budgeting, on whether SMEs used to budget for well train sale force,43 SMEs representing 17.5% strongly disagreed,101 SMEs representing 41.1 disagreed,54 representing 22.0% were undecided, while 48 SMEs representing19.5% agreed. Base on the result, it simply means that SMEs in Adamawa state does not budget for a well train sales force in enhancing their profitability.

On whether SMEs in Adamawa used to budget for advertisement and sales promotion,34 SMEs representing 13.8 strongly disagreed,11 representing 4.5% disagreed, 45 representing 18.3 where undecided,101 SMEs representing 41.1% agreed, while 55 representing 22.4 % strongly agreed, base on the result, it shows that most SMEs in Adamawa used to budget for advertisement and sales promotion, and when SMEs adopt this policy, it will greatly increase their sales and subsequently profit.

On whether raw materials are budgeted for before production,55 SMEs representing 22.4 % strongly disagreed,122 representing 49.6% disagreed,24 representing 9.8% are undecided, while 45 representing 18.3 agreed.

On whether SDMEs accounting period run for 12 calendar months,34 SMEs representing 13.8% strongly disagreed,11 representing 4.5% disagreed,45 SMES are undecided,101 SMEs representing41.1% agreed,55 resenting 22.4% strongly agreed, base on this result, it shows that most SMEs in Adamawa run their accounting period for 12 calendar month, which adhering to that could lead to profitability.

Table: II Response on Budgeting

<u>Questions</u>	<u>frequency</u>	<u>percentage</u>
There are always plans for well train sales force SD 1	43	17.5

			54	
22.0	D	2		
			101	
41.1	UD	3		
			<u>48</u>	
<u>19.5</u>	A	4		
			<u>246</u>	
<u>100</u>				
There is always	Budget for advertisement and sales promotion			34
13.8	SD	1		
			11	
4.5	D	2		
			45	
18.3	UD	3		
			101	
41.1	A	4		
			<u>55</u>	
<u>22.4</u>	SA	5		
			<u>246</u>	
<u>100</u>				
Raw materials used are always budgeted for before production				55
22.4	SD	1		
			122	
49.6	D	2		
			24	
9.8	UD	3		
			<u>45</u>	
<u>18.3</u>	A	4		
			<u>246</u>	
<u>100</u>				
Accounting period always run for 12 calendar months				34
13.8	SD	1		
			11	
4.5	D	2		
			45	
22.4	UD	3		

		101
41.1	A 4	
		<u>55</u>
22.4	SA 5	
	Source: Field Survey,2017	<u>246</u>
	<u>100</u>	

The last research objective sought to find out the impact of financial literacy the profitability of SMEs in Adamawa state, to address this, SMSe where asked to comment on their profitability as a result of financial literacy they imbibe, from Table III .On increase in profit,1 SMEs representing 0.4% strongly disagreed,21 representing 8.5% disagreed,28 SMEs representing 11.4% were undecided,186 representing 75.6% agreed, while 10 representing 4.1% strongly agreed. Base on this result,79.7% agreed that they experience increases in their profit since imbibing financial literacy in their businesses .This result is similar to the findings of Jacquinline (2013) on assessing the role of financial literacy on the performance of SMES and Uduak (2013) On the important of financial literacy on SMES performance in Calabar.

On increase in the rate of turn over,36 SMEs representing 5.0% disagreed,53 representing 12.6% Disagred,27 representing 11.0 are undecided.53 representing 21.55 agreed, while 99 SMEs representing 40.2 strongly agreed.

On increase in savings, 39 SMEs representing 15.7% disagreed,99 representing 43.9 were undecided while 108 SMEs representing 40.2% agreed. Base on this result, it simply shows that majority of SMEs in Adamawa experience increase in their savings as a result of the wastages curtailed by financial literacy.

On increase in business assets,43 SMEs representing 17.5 strongly disagreed,54 representing 22.0 disagreed,48 representing 19.5 were undecided, while 101 SMEs representing 41.1 agreed, this result simply means SMEs in Adamawa state experience increase in their business assets as a result of financial literacy.

On training in managing SMES,8 representing 3.3 strongly disagreed,19 SMEs representing 7.7% disagreed,70 representing 28.5% were undecided,48 SMEs representing 19.5% agreed while 101 representing 41.1% strongly agreed. Base on the findings, it simply mean that most of the SMEs operators in Adamawa need training on how to run A successful SMEs and make profit.

Table III: FINANCIAL LITERACY AND PROFITABILITY OF SMEs

<u>Indicators</u>	<u>Frequency</u>	
<u>percentage</u>		
Ability to employ more hands	1	0.4
SD 1	21	8.5
D 2	28	
11.4 UD 3	186	
75.6 A 4	10	4.1
SA 5		
	<u>246</u>	<u>100</u>
Increase in the rate of turn over	36	14.6
SD 1	53	12.6
D 2	27	11.0
UD 3	53	21.5
A 4	99	40.2
SA 5		
	<u>246</u>	<u>100</u>
Increase in savings	39	15.7
D 1	99	43.9
UD 2	108	40.2
A 3		
	<u>246</u>	<u>100</u>
Increase in business assets of SMEs	43	17.5
SD 1	54	22.0
D 2		

	48	19.5
UD 3		
	<u>101</u>	<u>41.1</u>
A 4		
	<u>246</u>	<u>100</u>
Training in managing SMES	8	3.3
SD 1		
	19	7.7
D 2		
	70	28.5
UD 3		
	48	19.5
A 4		
	<u>101</u>	<u>41.1</u>
S A 5		
	<u>246</u>	<u>100</u>

Source: field survey 2017

FINANCIAL LITERACY AND PROFITABILITY OF SMES

The last objective sought to establish the relationship between financial literacy of SMEs and their profitability. To address this, a multiple regression analysis was used.

Multiple Regression Analysis

The multiple regression analysis was used to establish the effect of financial literacy on the profitability of SMES. It also shows the relationship between the variables. The coefficient of regressions results are presented in table IV, the regression model summary in table V, and Anova results in VI. The unstandardized beta coefficient column in table IV were used to obtain the overall equation as suggested earlier.(Equation I) .When theses beta coefficient are substituted in the equation, the model becomes:

PRF=0.609+0.080+0.540+ ε.....(Equation 2),this means that even without the two independent variables(Bookkeeping & Budgeting),the profitability of SMESs is expected to stand at 0.609(Y- intercept).0.080,0.540 are the coefficients of budgeting and bookkeeping respectively, they are all positive, meaning that as the magnitudes of the independent

variables(Budgeting and Bookkeeping) increases, the magnitude of the independent variable (profitability) also increase. It also shows the unique contribution (impact) to the explaining of the independent variable. This is shown by the beta value under the standardized coefficient column. The standardized coefficient assesses the contribution of each independent variables towards the prediction of dependent variable, since these values have been converted in the same scale enabling comparison. Budgeting ,having the largest beta of 0.769 has the largest effect on profitability, the second is bookkeeping with a beta of 0.128.The T-test statistic shows that all the B coefficient of Budgeting and Bookkeeping are significant(since<0.05)

Table IV: ESTIMATE CO-EFFICIENT OF EXPLANATORY VARIABLES

MODEL	UNSTANDARDIZED		STANDARDIZED CO-EFFICIENT	
	B	STD ERROR	BETA	T-SIGN
I(CONSTANT)	0.609	0.137	---	30.768
BOOKKEEPING	0.080	0.030	0.128	2.697
BUDGETING	0.540	0.033	0.769	16.158

Sources: field survey, 2017

a. Dependent variable: Profitability

From the model summary as shown in Table V, R is the correlation coefficient measuring the strengths and direction of the linear relationship. The R value is 0.729 and it implies a strong and positive linear relationship. The R² Value is the coefficient of determination(expressed as a percentage) and shows variability in dependent variable explain by the variability in independent variable. The R² value of 0.532 implies that 53% of the variation in the dependent variables (profitability) are explain by the variation in independent variables(BUDGETING & BOOKKEEPING).

Table V: MODEL SUMMARY

MODEL	R	R ²	ADJUSTED R ²	STD
<u>ERROR</u>	<u>SIGNIFICANCE</u>			
I	0.729	0.532	0.528	0.20969
0.000				

Source: Field survey 2017

a: predictor:(constant)BOOKKEEPING,BUDGETING

b: Dependent variable: profitability

From the Anova result on Table VI, it shows the overall significance of the model, that is the regression equation, in this analysis, the model is significance (since $F_{2, 243}=137.888$, $p<0.05$) Thus the model is a useful linear model.

Table VI: ANOVA

Model	Sum of Square	DF	Mean Square	F
<u>Significance</u>				
Regression	12.126	2	6.063	137.888
0.000				
Residual	10.685	243	0.044	
Total	22.810	245		

a:predictor(constant)Bookkeeping and Budgeting

b Dependent variable: profitability

CONCLUSION AND RECOMMENDATION

The study set out to evaluate the impact of financial literacy on the profitability of small scale enterprises in Adamawa state. To achieved this, three specific objectives were addressed, the first:

The study sought to know the impact of bookkeeping on the profitability of SMEs. The findings obtained shows that most SMES in Adamawa state uses purchase day book to keep record and track of trade debtors, with 41.1 % of SMEs agreeing. 44.4% of SMEs also agreed that they used sales day book to keep track record of debtors. This result shows that SMEs that adopted the use

of these books in their daily transactions, are be able to carry out their business activities successfully.

On discount allow to customers, 69.1% of SMEs agreed that it help in aiding customers to buy more thereby increasing the sales force of SMEs to make profit, The study also find out that 53.7% of SMEs do differentiate between their personal cash and business cash so as to be able to know the accurate amount realized as profit.

Secondly, the study sought to determine the impacts of budgeting on the profitability of SMEs, the findings shows that SMEs in Adamawa do not budget for well train sales force with only 19.5% agreed. The findings also show that SMEs always budget for advertisement and sales promotion to enhance their profitability with 63.5% agreeing to that fact, this results clearly shows that advertisement will greatly increases their sales because people who don't know about their goods and services will get to know about it. So SMEs are greatly enjoyed to imbibe the habit of advertising their goods and services. The finding also shows that raw materials used by the SMEs in production are not budgeted for. With 28.1%, this clearly shows that SMEs don't budget for raw materials but only go for it when the need arises. On whether SMEs run their account within the 12 calendar months, 63.5% agreed which simply shows that the accounting year of SMEs within the state is as normal as other businesses elsewhere.

The last research objective sought to find out the level of profitability of SMEs, the findings shows that 79.7% of SMEs were doing well and were able to employ one or two hands to help them run the business which is an evidence of growth and profitability. 61.7% of SMEs recorded increase in the rate of turn over within the year while 84.1% of SMES says they recorded increase in their saving. The findings also show that 60.6% of SMEs bought one or two assets to complement the ones used in their business already. Lastly the finding reveals that SMEs in Adamawa state are in need of training to increase their knowledge of on how to run a successful SME and make profit, Additional training on financial literacy need to be organized by the Government, or NGO to increase their knowledge of managing SMES.

The study concluded that there exist a relationship between financial literacy and profitability of SMSs. That financial literacy greatly affects the performance of SMEs; it therefore implies that improvement in the level of financial literacy will result to increase in profitability of SMEs in Adamawa

state. The study recommends that Government and NGOs should organized more and more training on financial literacy for those operating SMEs in Adamawa state. Government should come out with policies supporting SMEs operators and should reduce the stringent measures SMES has to go through before assessing any loan. Finally, media houses in the state should come out with programs supporting SMEs growth where they can advertise their products on a very low price. This current study was on SMEs operating in Adamawa state, Nigeria, it recommends a similar studies but employs more variables or should cover more than one state.

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