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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Like little drops of water that form a mighty ocean, the littleness of small scale businesses from the cradle has been the bedrock of industrialization in developing countries of the world. Globally, small scale enterprises 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.

Presently, as part of the Millennium Development Goals (MDGs), 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 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.

Furthermore, 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 and Onias, 2011). Also Enikanselu and Oyende (2009) 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 it 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. This research study therefore examines financial literacy and its impact on profitability of small scale enterprises.

1.2 Statement of the problem

Since the present civilian administration came into being in 1999, it has put in place policy measures, schemes and support schemes to develop the small scale enterprises sub-

sector and to increase its performance.

In today's Nigeria, small scale enterprises have not performed creditably well and they have not played expected significant role in spite of the fact that they have been regarded as the bulwark for employment generation and technological development.

First and foremost is the problem associated with small scale enterprises lack of financial literacy which is evident in their inability to keep complete accounting records. This invariably has resulted into a situation where SSEs operating in the state cannot capture adequately the business profit. This is because in the process of calculating profit, financial data are assembled in a way that can help make informed judgment and take decisions about the business. These financial data can not be assembled without adequate financial literacy. This problem has ultimately affected the profitability of small scale businesses.

In addition to the above is SSEs lack of awareness of financial risk and opportunities, reckless expenditure, use of business funds for personal transactions, limited access to bank credit facilities and insurance policies. These and many can be addressed by being financially literate.

Henceforth, the researcher believes that these inherent problems could be attributed to the neglect of financial literacy by small scale enterprises in Cross River State.

1.3 Objectives of the study

The main objective of this study is to clearly promote financial literacy as a tool to improving on the profitability of small scale enterprises in Calabar municipality of Cross River State. The specific objectives of the study are as follows:

- To examine the extent to which financial literacy is adopted by small scale enterprises in Calabar Municipality.
- To determine the extent to which accounting records enhance the profitability of small scale enterprises.
- To ascertain the problems that hinder the utilization of accounting records by small scale enterprises.

1.4 Research questions

The study developed the following research questions that will guide the researcher in the quest to finding solutions to these research problems:

§ To what extent is financial literacy adopted by small scale enterprises in Calabar Municipality?

§ To what extent does accounting records enhance the profitability of small scale enterprises?

§ What are the problems that hinder the utilization of accounting records by small scale enterprises?

1.5 Research hypothesis

In order to set a good base for carrying out the research, the following hypotheses were posed, believing that by the time adequate answers have been provided, the study would have covered necessary grounds. To achieve this, the study seeks to test the following two (2) operational hypotheses outlined in null form:

1.Ho: The level of adoption of financial literacy by small scale enterprise is low.

2.Ho: The utilization of accounting records does not significantly influence the profitability of small scale enterprises.

1.6 Scope and limitations of the study

With a large percentage of businesses in the state falling within the small scale enterprises sub-sector, the need to clearly define the scope and area of the study becomes imperative.

The study is therefore confined to the small scale enterprises operating in Calabar Municipality of Cross River State, and yet it is easy to use the result of this research to gain insight into the entire small scale enterprises.

Calabar Municipality has been chosen because of its peaceful nature and the serene vicinity, as it is a necessary panacea for the survival of the business and also for this study. Thus, all the necessary information needed for this study will be collected from this region of the state.

·Limitation of the study

A study of this nature could not have been carried out without any hitch. Notable among the constraints was the paucity of relevant empirical literature in financial literacy among small scale enterprises. Empirical information on problems of small scale enterprises are abundant in literature but work done on their financial literacy is still scanty and that was a serious limitation to the study.

Despite this challenge, this study still represents a true picture of all that was obtained from small scale businesses in Calabar Municipality metropolis.

1.7 Significance of the study

Given the vital role and contribution which small scale businesses in developed and developing countries make, and considering the ongoing reforms by the Central Bank of Nigeria for a sustainable financial literacy framework for small and medium scale enterprises in the country, the significance of this study cannot be overemphasized.

The significance of this study therefore lies in the attempt to document the factor that is truly critical to the profitability of small scale enterprises but which have not been appreciated, recognized or factored into the various incentives schemes and policy measures being put up for SSEs in the state and the nation at large. This critical factor is financial literacy among SSEs which is a pivotal requirement to its success and profitability.

In addition, this research will equip owners of small scale enterprises by encouraging them to give the keeping of proper accounting records a greater priority in the objectives of their business. With this, adequate information about the profitability of the business will be accurately known.

Also awareness will be created by this study on the urgent need to improve on the financial literacy level of SSEs owners as well as to improve on their accounting practices. This will help formalize their business operations in a way that will suit their little nature.

Furthermore, apart from the result of the study contributing to the “knowledge bank” of small

scale enterprises, it will stimulate more researches into this area since from research literature work in this field is still minimal.

Lastly, it will be my pre-requisite for the award of Bachelor of Science (B.Sc.) Degree in Accounting.

1.8 Organization of the study

This study is presented in five (5) chapters. These chapters are organized in a sequential manner that will aid careful investigation and easy achievement of the objectives.

Chapter one is a preview of the background of the study and the problem(s) that necessitated the research. This leads to the outline of the objectives, significant of the study, research questions and operational hypothesis within the sample scope of small scale enterprises in Calabar Municipality of Cross River State.

Chapter two presents the review of relevant works as it relates to the study. Also, theories about the dependent and independent variables were discussed. It also examines the theoretical framework of financial literacy and small scale enterprises.

Chapter three reveals the methods of data collection in relation to the research design, population and sample with emphasis on the model specification, estimation, validation and reliability of research instrument.

Chapter four presents and analyses the data and also the findings, dealing with the extent to which small scale enterprises adopt financial literacy and conversely the utilization of accounting records by SSEs and its influence on profitability.

Chapter five summarizes major findings from the study, recommends tentative policy thrust and also states suggested areas of further research.

1.9 Operational definition of terms

The expression financial literacy is used interchangeably with accounting literacy. It is also pertinent to state that the concept of financial literacy and small scale enterprises from empirical literatures available lack a consensus definition. Therefore, for the purpose of this research, the following definitions are given as peculiar to the study:

1. Small Scale Enterprises: Small scale enterprises can be defined as a business with employment level of not more than 5 persons and with an annual turnover of less than Five Hundred Thousand Naira (N500, 000).

2. Financial Literacy: Financial literacy is the ability to understand basic accounting and finance concepts as well as its application, the ability to use such knowledge and skills to manage financial resources effectively for a lifetime of financial well being.

3. Profitability: Profitability is the business ability to generate revenue in excess of the cost incurred in producing these revenues.

1.10 Historical background of small scale enterprises

Economic history is well stocked with enough insights into the humble beginnings of present day grand corporations. Evidences abound that almost all the multinational giant corporations were once small industries, growing as their industry grew. Even at the international level, in the early stages of her industrialization, Japan's economy was dominated by traditional industries, and by a large number of small scale firms, drawing their strength not from the

abundance of capital but rather from her supply of labour (Ogechukwu, 2011).

In concrete terms, small scale enterprises constitute a greater percentage of all registered businesses in Nigeria, and they have been in existence for quite a long time (Tijani-Alawe, 2004).

Pre-Independence Historical Development

Prior to Nigerian independence, the business climate was almost totally dominated by the colonial and other European multinational companies like United African Company (UAC), GB Olivant, Unilever Plc, Leventis Stores, etc. Towards the tail end of the 1950s, the Nigerian Industrial Development Bank (NIDB) was founded to assist potential entrepreneurs to get involved in Agricultural exploration of natural resources, commerce and industrial production. However, few Nigerians mostly the semi-illiterates benefited from the generous government attitude of this time. This was because during this time, Nigerians considered the civil service to be more prestigious than business despite the creation of the Colony Development Loans Board by the colonial administration.

1970-1976

A major and remarkable breakthrough in small scale business came about through the Indigenization Decree of 1972 and later the Nigerian Enterprise Promotion Act of 1977. There were genuine attempts by the federal government to make sure that Nigerians play an active role in the development of the economy.

Later in its 1970-1974 National Development Plan, the federal government gave special attention to the development of small scale industries particularly in rural areas. This was in recognition of the roles of small scale businesses as these seedbeds and training grounds for entrepreneurship.

1980-1989

Within this decade, government policy measures placed emphasis on the technological aspects of industrial development of small scale industries in Nigeria. Various Nigerian governments within this decade embarked in creative measures to divert efforts towards the maximum exploitation of natural resources, and tried to discourage capital intensive mode of production in the light of abundant resources available. Some basic policies were formulated and these policy measures as construed placed a great emphasis on the technological aspects of industrial development of small scale enterprises.

It is worthy of note that the introduction of the Structural Adjustment Programme (SAP) during the Babangida regime made matters worse for employers of labour and created a veritable ground for self-employment.

1999-1990

During this period, both federal and state governments have contributed to the growth of small scale enterprises in Nigeria especially in the rural areas. Various fiscal and non-fiscal incentives have been established for investor and entrepreneurs in the small scale sector of the economy. Of special mentioning was the strategy adopted by the federal government towards the training and motivation of the unemployed graduates, to be gainfully employed in out-of-school entrepreneurship development programs. Thus on the presentation of viable

and feasible projects, approved loans are disbursed through pre-selected commercial banks assisted by the National Directorate of Employment (NDE).

The Peoples Bank of Nigeria (PBN) was also in the vanguard of granting soft loans to unemployed youths and artisans, and this was aimed at diverting the attention of youths from government salaried jobs, to that of gainful self-employment. Thus, the Peoples Bank in collaboration with the National Directorate of Employment were solely charged with the responsibility of generating employment through their various programs for thousands of unemployed Nigerians.

-2000-Date

During this period, government at all levels has become increasingly interested in grooming young potential youths to be self-employed and be successful entrepreneurs. To show its seriousness, the federal government has through its educational agencies like the National Business and Technical Education Board (NABTEB), the Nigerian Universities Commission (NUC) and the National Youth Service Corps (NYSC) gave a directive that entrepreneurship development courses be incorporated into the curriculum of secondary and tertiary institutions as well as NYSC program.

THE IMPACT OF FINANCIAL LITERACY ON THE PROFITABILITY OF SMALL SCALE ENTERPRISES IN CALABAR MUNICIPALITY, CROSS RIVER STATE

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