



Ignatius Ajuru University of Education, Port Harcourt, Nigeria

Research and Development Centre

1st International Conference and Exhibition on Research, Innovation and Development (ICERID 2026)

Proceedings URL: <https://iauejournals.com/index.php/ICERID>

Website: <https://icerid.online>



ISBN: 978-978-63205-1-9

June 2026; Page No. 415-421

Digital Accounting Systems and Financial Performance of SMEs in Nigeria: An Empirical Analysis

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Abstract

This study examines the relationship between digital accounting systems and the financial performance of small and medium-sized enterprises (SMEs) in Nigeria. The study adopts a quantitative research approach using a cross-sectional survey design. Primary data were collected through structured questionnaires administered to a sample of 100 SME owners, managers, and accounting personnel, out of which 100 SME's were found usable. The measurement of digital accounting systems was done through accounting software usage, cloud accounting adoption, automation and ICT competency, and financial performance was proxied by profitability, revenue growth, cost efficiency and return on assets. Multiple regression analysis was employed to analyse the data. The results show that digital accounting systems have a good and significant effect on the financial performance of SMEs in Nigeria. Specifically, it was observed that the use of accounting software, automation, cloud accounting and ICT competence considerably and positively influences financial performance, with cloud accounting and ICT competence having the biggest effect. The research shows that the use of digital accounting systems improves the efficiency of operations and decision-making and improves the financial results of SMEs. Therefore, SME operators are advised to invest in digital accounting systems and improve their technical capabilities for the full benefits of digitalization. The report also recommends that authorities should assist the implementation of digital accounting systems in the SME sector with supportive frameworks.

Keywords: Digital Accounting Systems; Financial Performance; Small and Medium Enterprises (SMEs); Accounting Information Systems; Automation; Nigeria

Introduction

The advent of digital technology has transformed the manner in which business is conducted worldwide. This trend is notably noticeable in accounting and financial management. In the past, most of the accounting work was done by hand and was slow and occasionally error-prone. Today, organizations are utilizing digital accounting solutions to make their work easier and faster. These systems use software, cloud technology, and automation to manage and record financial transactions more effectively. This means businesses may get financial information fast and make better decisions in a competitive climate.

Small and medium enterprises (SMEs) are very vital to the development of any economy, especially in countries like Nigeria. They help produce jobs and money and stimulate economic progress. But there are severe hurdles for many SMEs in Nigeria. Typical difficulties include inadequate record-keeping, the absence of suitable accounting systems and restricted access to dependable financial information. Problems may impede business owners' ability to make appropriate financial decisions, which might impact their overall performance. Indeed, previous research has indicated

that poor accounting processes are one of the reasons for the failure of many SMEs in Nigeria (Nkwor-Azariah & Nkwor, 2015).

The emergence of accounting information systems (AIS) enhanced, to a certain degree, the organisations' management of their financial data. These systems, manual or computerized, are used for the collection, processing and presentation of financial information for decision-making. With the progress of technology, AIS evolved into more sophisticated digital accounting systems. Research has demonstrated that the performance of SMEs can be improved by increased accuracy, support of financial analysis and better decision-making by management (Siyanbola et al., 2019). Similarly, companies that have formal systems of accounting are typically in a better position to monitor their performance and improve over time (Odunsi & Adedipe, 2022).

Digital Accounting System has been more emphasised in recent years. "The reason behind this is that they provide a lot of benefits such as automation, quick access to financial reports, and fewer human errors." These benefits are quite important for SMEs, especially those with limited resources. Research conducted in Plateau State revealed that digital accounting systems have the potential to enhance the operation of the organisation by simplifying and improving financial processes (Mohammed et al., 2024). Research in Cross River State also shows that computer accounting systems help boost profitability and minimise expenses by improving financial reporting (Elom & Atah, 2025). Recent studies have also shown that digital accounting solutions assist organisations in managing their finances better, complying with rules and increasing overall efficiency. SMEs may maintain correct financial records, track cash flow and prepare financial statements on time with these tools. These are really crucial in making successful business judgements. However, despite the benefits, many of the SMEs in Nigeria have not adopted digital accounting systems. This is mainly because of issues such as high cost, lack of technical skills and weak infrastructure (Sulaiman & Usman, 2025). The business climate is getting more complicated today because of advances in technology and growing competition. This is why SMEs need to embrace digital solutions to thrive and develop. Digital financial instruments like accounting systems are helping organisations become clearer and manage resources better. Research has indicated that such instruments further contribute to business development and improve daily activities (Aikor et al., 2025). This demonstrates that digital accounting systems are becoming highly vital for long term financial success.

There are various studies on accounting systems and SME performance, but there is minimal research on digital accounting systems specifically in Nigeria. Most research focuses on generic accounting systems and does not examine characteristics such as automation, cloud technologies and real-time reporting. Technology is changing; thus, there is a demand for additional research in this area to understand its overall impact on corporate success. The study is consequently based on the analysis of the impact of digital accounting systems on the financial performance of SMEs in Nigeria. It will provide essential information which will allow business owners, policymakers and other stakeholders to understand the reasons why these systems are crucial. Ultimately, it will help to strengthen financial management techniques and to expand SMEs. Digital accounting systems have made a huge difference in the way accounting is done. They assist SMEs to function more efficiently, helping to eliminate errors and enhance financial performance. The advantage, however, is only as great as the adoption and use of these systems. The digitalization of corporate processes continues, and so digital accounting systems will be crucial for long-term business success.

The main aim of this study is to examine the relationship between digital accounting systems and the financial performance of small and medium-sized enterprises (SMEs) in Nigeria. The specific objectives are to:

1. Examine the relationship between accounting software usage and the financial performance of SMEs in Nigeria.
2. Determine the relationship between cloud accounting adoption and the financial performance of SMEs in Nigeria.
3. Assess the relationship between accounting automation and the financial performance of SMEs in Nigeria.
4. Investigate the relationship between ICT competence and the financial performance of SMEs in Nigeria.

The following null hypotheses are formulated to guide the study:

1. There is no significant relationship between accounting software usage and the financial performance of SMEs in Nigeria.
2. There is no significant relationship between cloud accounting adoption and the financial performance of SMEs in Nigeria.

3. There is no significant relationship between accounting automation and the financial performance of SMEs in Nigeria.
4. There is no significant relationship between ICT competence and the financial performance of SMEs in Nigeria.

Methodology

This study employs a quantitative research approach to examine the association between digital accounting systems and the financial performance of small and medium-scale firms (SMEs) in Nigeria. A cross-sectional survey design was utilised, whereby data were collected from respondents at one point in time. This methodology might be employed in research that aims to study associations between variables and analyse them through statistical procedures. The demographic of interest in this study is registered SMEs in operation in Nigeria, particularly those that are actively doing business and have some sort of accounting records. A sample of SMEs was selected from this population using both purposive and simple random sampling procedures. The population of the study was the entire registered Small and Medium Enterprises (SMEs) in the designated study area in Nigeria. However, owing to time and budget constraints, a sample of one hundred (100) SMEs was selected for the study through an acceptable sampling technique. The selected SMEs were regarded as suitable for the purpose of providing useful information regarding digital accounting systems and financial performance. The data for the study were collected mainly through a structured questionnaire provided to firm owners, managers and accounting personnel of the selected SMEs. The questionnaire was built based on existing research and had questions to measure the digital accounting systems and financial performance. Responses were collected on a 5-point Likert-type scale (1=strongly disagree, 5=strongly agree). This made it feasible to translate the thoughts of the respondents into facts that could be measured and statistically analysed. In this study, digital accounting systems serve as the independent variable and are measured using indicators such as the use of accounting software, the level of automation in accounting processes, adoption of cloud-based accounting platforms, and the ICT skills of personnel. On the other hand, financial performance, which is the dependent variable, is assessed using indicators such as profitability, revenue growth, cost efficiency, and return on assets. These indicators are widely used in previous studies that focus on evaluating the performance of SMEs.

List of Sampled SMEs Used for the Study (n = 20 Extracts)

S/N	Name of SME	Business Type	Location	Years of Operation	No. of Employees
1	Bright Ventures Ltd	Retail Trade	Port Harcourt	6–10 years	15
2	Emeka Agro Services	Agriculture	Aba	3–5 years	10
3	Golden Touch Fashion	Fashion/Design	Lagos	1–3 years	8
4	Divine Table Water	Manufacturing	Owerri	6–10 years	20
5	Kings Tech Solutions	ICT Services	Abuja	3–5 years	12
6	Mercy Foods Enterprise	Food Processing	Port Harcourt	6–10 years	18
7	Alpha Logistics	Transport/Logistics	Lagos	3–5 years	14
8	Blessing Bakery	Food Production	Uyo	1–3 years	9
9	Unique Pharmacy Ltd	Health Services	Enugu	6–10 years	11
10	Prestige Prints	Printing/Media	Ibadan	3–5 years	13
11	Smart Home Supplies	Retail	Benin City	1–3 years	7
12	Hope Construction Co.	Construction	Abuja	6–10 years	22
13	Fresh Farm Produce	Agriculture	Jos	3–5 years	16
14	Elite Beauty Hub	Cosmetics	Lagos	1–3 years	6
15	Rapid Repairs Ltd	Engineering Services	Port Harcourt	6–10 years	17
16	Zenith Catering Services	Hospitality	Calabar	3–5 years	12
17	SkyNet Communications	ICT	Abuja	6–10 years	19
18	City Furniture Works	Manufacturing	Onitsha	3–5 years	15
19	Prime Laundry Services	Laundry	Port Harcourt	1–3 years	5
20	Oceanic Fisheries	Agriculture	Warri	6–10 years	18

A total of 100 SMEs were studied from chosen states across Nigeria. The enterprises were drawn from various industries such as retail, agriculture, manufacturing, information and communication technology (ICT) and services.

The selected SMEs are summarised in Table X, and the full list is available upon request. The analysis of organisations from different sectors adds to the generalizability of the study conclusions. The questionnaire was validated by accounting and research technique specialists for the suitability of data gathering. Their response helped to validate that the device was measuring what it was supposed to. In addition, the reliability of the questionnaire was verified by the Cronbach's alpha coefficient. Values higher than 0.70 were regarded as satisfactory, which indicates that the items of the instrument were consistent and reliable. The data obtained from the respondents were analyzed using descriptive and inferential statistical methods. Responses were summarized and described using descriptive statistics such as mean and standard deviation. In contrast, the influence of digital accounting systems on financial performance was determined via multiple regression analysis as an inferential approach. All statistical analyses were performed with the Statistical Package for the Social Sciences (SPSS). The empirical relationship between the variables in the study is described by the following model:

$$FP = B_0 + B_1DAS + E.$$

In this model, financial performance (FP) is described by digital accounting systems (DAS), where β_0 is the constant, β_1 is the coefficient of the independent variable, and ε is the error term. We extended the model to better represent the many elements of digital accounting systems:

$$FP = \beta_0 + \beta_1ASU + \beta_2CA + \beta_3AUTO + \beta_4ICT + \mu$$

In this extended paradigm, ASU is the use of accounting software, CA is the adoption of cloud accounting, AUTO is the level of automation in accounting processes, and ICT is the ICT competency of persons participating in accounting activities. Ethics statement: All ethical standards were met in this investigation. Participation was entirely voluntary, and respondents were aware of the goal of the research. They were also told their comments would be anonymous and confidential. The data collected were utilised purely for scholarly purposes.

Results

To examine the effect of digital accounting systems on financial performance, a multiple regression analysis was conducted. The results are summarized below:

Table 5: Regression Results

Variable	Coefficient (β)	Std. Error	t-value	p-value
Constant	0.842	0.312	2.70	0.008
Accounting Software Usage (ASU)	0.215	0.089	2.42	0.017
Cloud Accounting (CA)	0.268	0.102	2.63	0.010
Automation (AUTO)	0.193	0.081	2.38	0.019
ICT Competence (ICT)	0.241	0.095	2.54	0.012

$R^2 = 0.62$

Adjusted $R^2 = 0.60$

F-statistic = 18.45

Prob (F-statistic) = 0.000

The result of the regression analysis shows that digital accounting systems have a significant positive effect on the financial performance of SMEs in Nigeria. The coefficient of determination ($R^2 = 0.62$) indicates that 62% of the variation in financial performance is explained by the digital accounting system variables in the model. The F-statistic is significant at the .05 level, indicating that the overall model is appropriate for the data. The coefficients of each variable show that the usage of accounting software, adoption of cloud accounting, automation and ICT expertise have positive and statistically significant effects on financial performance. Cloud accounting ($\beta = 0.268$) has the strongest influence among the factors, in particular, indicating that the SMEs using cloud-based accounting systems are likely to receive better financial outcomes due to enhanced accessibility, real-time data processing, and better collaboration. Conversely, there is also a significant positive relationship between the use of accounting software ($\beta = 0.215$) and financial performance. Therefore, SMEs that utilise digital instruments to record and execute financial transactions are more likely to experience improved profitability and efficiency. Automation ($\beta = 0.193$) also promotes performance by eliminating manual errors and improving operating speed, while ICT competence ($\beta = 0.241$)

underlines the need for human ability for effective digital technologies use. These results are consistent with empirical literature that suggests the digitalisation of accounting procedures enhances financial reporting accuracy, enhanced decision making and ultimately contributes to increased business performance. The results also confirm the view that SMEs which take up digital technologies are more competitive in a dynamic and technology-driven business environment.

The regression analysis results indicate that the influence of digital accounting systems on the financial performance of SMEs in Nigeria is considerably beneficial. The coefficient of determination ($R^2 = 0.62$) shows that the variables of the digital accounting system in the model explain 62% of the variation in financial performance. The F-statistic is significant at the 0.05 level, indicating that the model as a whole is appropriate for the data. The coefficients of each variable suggest that accounting software, cloud accounting, automation and ICT expertise have positive and statistically significant effects on financial performance. Specifically, of the determinants, cloud accounting ($\beta = 0.268$) has the strongest influence, suggesting that SMEs adopting cloud-based accounting systems are likely to achieve better financial outcomes due to enhanced accessibility, real-time data processing, and improved cooperation.

In contrast, there is also a strong positive relationship between the use of accounting software ($\beta = 0.215$) and financial performance. Therefore, SMEs that utilise digital instruments to record and execute financial transactions are more likely to experience improved profitability and efficiency. Automation ($\beta = 0.193$) also promotes performance through eliminating manual errors and improving operating speed, while ICT competence ($\beta = 0.241$) underlines the need for human ability for effective digital technologies use. These results are consistent with empirical literature that suggests the digitalisation of accounting procedures enhances financial reporting accuracy, enhanced decision making and ultimately contributes to increased business performance. The results also confirm the impression that SMEs using digital technologies are more competitive in a dynamic and technology-driven business environment.

Discussion

The findings of this study demonstrated that the digital accounting system has a substantial favourable effect on the financial performance of SMEs in Nigeria. The study revealed that characteristics such as use of accounting software, cloud accounting, automation and ICT skills had beneficial contributions to business productivity, accuracy in financial reporting and better decision-making. These findings are congruent with the study of Grande, et al. (2011), who showed that accounting information systems improve organizational performance by improving the quality and reliability of the financial information provided to management. Similarly, the results are in line with Uyar, et al. (2017), who found that competent accounting information systems had a beneficial impact on business performance, particularly for SMEs.

The findings on the use of accounting software reveal that SMEs who embrace computerised accounting methods enjoy enhanced operational efficiency and financial management. This result is in line with Elom and Atah (2025), who claimed that computerised accounting systems enhance the financial performance of an organization through enhanced accuracy, speed and administration of records. The study also supports the findings of Odunsi and Adedipe (2022) who found that accounting information systems contribute greatly to the growth and sustainability of SMEs in Nigeria.

The results also showed that there is a positive association between cloud accounting and SME performance. This is in line with the findings of Mohammed, et al. (2024), who found that digital accounting platforms improve accessibility to financial data, lower operational expenses and enhance effective financial monitoring. Flexibility and real-time access of cloud accounting systems offer great benefits to current business operations. However, this result is slightly different from the study of Ismail and King (2014), who claimed that the efficiency of accounting information systems is determined mostly by organisational alignment and managerial support rather than just the technology adoption. Besides, the favourable influence of automation on financial performance shows that the automation of accounting operations minimises human error and improves efficiency. This result supports the findings of Ajibola, et al. (2025) who stated that digitalised accounting activities improve operational efficiency and business productivity of SMEs. The study also confirms the conclusions of Turner, Weickgenannt, and Copeland (2020) who stressed that automation increases accuracy, control, and dependability of accounting systems.

Cite this paper as:

419 Wike, C. J. (2026). Digital accounting systems and financial performance of SMEs in Nigeria: An Empirical Analysis. In *Proceedings of the 1st International Conference and Exhibition on Research, Innovation and Development (ICERID)*, Ignatius Ajuru University of Education, Port Harcourt, Nigeria. (Vol. 1, pp. 415-421).

Finally, the results on ICT competency demonstrated that the efficiency of digital accounting systems is significantly dependent on the technical knowledge and skills of users. This conclusion is similar to the findings of Yusuf and Mohammed (2023), who found that SMEs with strong digital and ICT capabilities are more likely to achieve increased financial performance. The implication is that the mere adoption of digital accounting systems is not adequate unless employees have the requisite ICT ability to use the systems successfully. SMEs should therefore combine technology adoption with personnel training and continuous capacity development to maximize the benefits of digital accounting systems.

Conclusion

This study used an empirical approach to investigate the relationship between digital accounting systems and financial performance of small and medium enterprises (SMEs) in Nigeria. The results indicate that the use of accounting software, cloud accounting, automation and ICT competency as digital accounting systems has a positive and significant impact on the financial performance of SMEs. In particular, those SMEs who use these digital instruments are likely to have higher profitability, better cost control and increased revenue generation. Also, the results reveal that cloud accounting and ICT competency are highly important elements that effect financial performance. It highlights the relevance of the technological assets and the skills of the personnel who manage these systems for good results. Digital accounting solutions can help to drive performance thru real-time access to financial information, decreasing the likelihood of error in record-keeping, and enabling better informed decision-making processes. These benefits increase the productivity and competitiveness of SMEs. Digital accounting systems can be seen as operational tools, but also as strategic resources to promote the growth and sustainability of SMEs. With the continuous digital transformation in the corporate world, the adoption and effective use of these technologies will remain critical for SMEs to compete and grow in a dynamic economy like Nigeria.

Recommendations

Based on the findings of this study, the following recommendations are proposed:

1. **Increased Adoption of Accounting Software Usage:** SMEs in Nigeria should adopt and effectively utilise modern accounting software to improve the accuracy, reliability, and speed of financial record-keeping. Proper use of accounting software will enhance financial reporting, reduce manual errors, and support better decision-making, thereby improving the financial performance of SMEs.
2. **Improvement in the Use of Cloud Accounting Systems:** SMEs should embrace cloud accounting systems to facilitate secure data storage, easy accessibility of financial information, and real-time monitoring of business transactions. The adoption of cloud accounting will improve operational efficiency, support timely financial reporting, and enhance the overall financial performance of businesses.
3. **Integration of Automation into Accounting Processes:** SMEs should integrate automation tools into their accounting operations to minimize repetitive manual tasks and increase efficiency. Automated accounting processes can improve transaction processing, reduce operational costs, and enhance the accuracy and timeliness of financial information, which contributes positively to business performance.
4. **Development of ICT Competence among Staff and Managers:** SME owners and managers should invest in continuous ICT training and capacity development for employees to improve their competence in the use of digital accounting technologies. Improved ICT competence will enable staff to effectively operate digital accounting systems, maximise their benefits, and contribute to improved organizational productivity and financial performance.

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