

# **IMPACT OF FINANCIAL ACCOUNTING REPORT ON BUSINESS PERFORMANCE OF AN ORGANISATION IN NIGERIA**

**(A CASE STUDY OF GUARANTEE TRUST COMPANY PLC)**

**BY**

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## **CERTIFICATION**

This is to certify that this project work has been written by ABDULRASAK SODIQ HND/22/ACC/FT/431 and has been read and approved as meeting part of the requirements for the Award of Higher National Diploma (HND) in Accountancy, Institute of Finance and Management Studies, Kwara State Polytechnic, Ilorin, Kwara State.

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## **DEDICATION**

This project is dedicated to Almighty Allah the beneficent and merciful, whose abundant mercy and incomparable blessings have brought to me so far in the vigorous house of academic advancement.

Also dedicated my beloved parents MR &MRS ABDULRASAK for their financial constraint has been taken pains to sponsor me throughout my program.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

Why are financial report useful? It is because it helps investors and creditors to make better economics decisions it is a known, facts that the development and growing of business activities over the year has. Inevitably created considerable public interest in business activities. The public interest has caused business organization to accepts social as well as the means to communicate information to satisfy the ranging need of individual and organization is through the issue of annual financial report all the end of every accounting period of disclose the resources held by it claims on them or change there in within a specified period of time and result of its operation during such period to observed the need of the various parties interested in its activities.

Financial reports all at best only approximation of economic reality, because of the selective reporting of economic event by the accounting method and estimate. The tendency to delay accounting recognition of some transaction and valuation accounting recognition of some transaction and valuation charges means that financial reports tend to behind reality as well.

As a result of the diverse users of these financial reports and their various information needs, it becomes necessary for such reports to represent reliable and useful information which would be used to assess the performance and activities of the organization.

By virtue of this, the company act 1968 specified the nature of the procedures for the preparation and presentation of such financial reports and explicitly indicate the type of financial data and information, it should contain about the business organization. According to the act, such financial

reports should show a true and fair view of companies financial position and it is expected to indicate the performance of the business not only for the current period but previous year also.

Through published annual reports account provide a valuable information about a particular company which need the application of analytical tools and technical to derives measurement and relationship that are useful in it's effectiveness in decision making investors are particularly concerned with present and expected. Future earning of the company they would want to know about the consistency in the earning power of the firm. As a result, investors might concentrate their analysis on the profitability of the term and also long term bond holders are also interested too in the earning power of the organization.

The investment decisions become a very critical decision most especially in an organization which requires massive investment to restore capacity.

Therefore, the annual report should be prepared and presented in such a manner that would enable used undertake such analytical examination and also confirm. Information that would enhance the value of the results of such analysis for various decision making like investment decision.

## **1.2 STATEMENT OF THE PROBLEM**

The problem to be addressed in this project to examine the financial report preparation and the contents relating to investment decision making in the banking industry.

Generally speaking, only few investors are opportune to be able to read and understood the usefulness of financial reports in making investment decision various investor tale decision based on information provided in the financial statement but financial statement information will not provide a



clear picture as to future trends, for example the goods. Profit and loss account could only be meaningful for decision only when compared with the asset employed in generating such profits, in this regard they will require. Some reliable information that will help them to either buy or sell old share of the company and their performances as well over a period of time.

An investor who wishes to make sound investment decision must be able to appraise critically and understand thoroughly the financial statement disclosures that are relevant to his investment decision.

Aside the problem inherent in the financial statement itself, there is a problem of tick of industry and economic data should be analyzed together with the financial statement. When these are available there is the problem of synthesizing them i.e of trying to bring information together what is relevant from what is relevant.

### **1.3 RESEARCH QUESTIONS**

1. Do financial reports have any significant on future performance of the organization?
2. Do organization managements rely on financial information before making decision?
3. Do investor and other parties take decision base on organization's financial reports?

### **1.4 OBJECTIVES OF THE STUDY**

1. To examine the role of financial report on future performance of the organization
2. To verify if organization managements rely on financial report before making decision.
3. To examine if investor and other parties take decision base on organization's financial reports.

### **1.5 RESEARCH HYPOTHESES**

Hypothesis is defined as assumption set up based on the fact which to indicates a given phenomenon in the research. Hence, subsequently testing the output produced.

In a study of this magnitude formulation of hypothesis is necessary before one can achieved the desired aim. In the cause of this stuffy, the following hypothesis were listed.

Ho: There is no significant impact of financial report in decision making in an organization

H<sub>1</sub>: There is significant impact of financial report in decision making in an organization.

## **1.6 SIGNIFICANCE OF THE STUDY**

This study figure out the main reason behind the presentation of financial reports by companies is to transmit information about the financial position and condition of the company to those who are interested in the affair of the company. It is in light of this, the companies act of 1998 explicitly stipulate the contents and presentation of these financial reports. Management still exercises discretion over these disclosure of certain management information depending on whether it is for the best interest of the organization despite the fact that the acts regulate the contents of annual reports. Therefore this study would be justified to management who are responsible for the preparation of annual reports it would reasonable management to be aware of the importance of the disclosure of certain financial information reports to tone and fair view of financial condition of the company.

The relevance of annual report to instrument decision can only be release and accurate interpretation can be drawn from such reports and this to large extent depends on degree of analysis undertaking by the investors. As a result, this study is justified as I will introduce investor of various method of financial analysis which could lead to effective and accurate interpretation toward the best decision making.

This study would also enlighten the investors on how the recessionary economy effects the performance of the company toward profit making and operation.

## **1.7 SCOPE OF THE STUDY**

The study attempted to core the preparation of financial report and these reports serve as a guide for decision making by investors. Theoretical aspect of the issue (Normative) has been marched with what obtains (positive) in practice.

### **1.8 LIMITATION OF THE STUDY**

During the cause of this study, there are so many factors which really limit the researcher ability to cover a wide scope. Some of these factors;

1. Lack of cooperation from some officials of Nigeria social and economy research principle who refuses to divulge any information without express permission from the highest authority in the department.
2. Inadequate Materials: Scarcity of material is also another hindrance. The researcher finds it difficult to long hands in several required material which could contribute immensely to the success of this research work.
3. Time constraint also there is no adequate time to carry out the investigation proper on the subject matter.

### **1.9 DEFINITION OF TERMS**

In a study of the nature, it is usual to define some unfamiliar terms that would be used in the study to avoid an ubiquities.

- a. *Financial Statement*: This is the annual report of public quoted companies to comprises of the balance sheet profile and loss account, statement of accounting policies and five years financial summary as well as value added statement.
- b. *Investment*: The use of money for the purpose of making more money to gain income or increase capital or both.

- c. *Creditors*: A person whom an account of money is owned.
- d. *Financial*: To provide capital either through borrowing as from internally generates fund.
- e. *Balance Sheet*: A statement is showing the assets and liabilities of the business.
- f. *Investors*: A person who buys a security or some other property for the purpose of obtain an income from it while preserving the principal.
- g. *Uses of financial statement*: Users include investor private and institution financial analyst.
- h. *Profit and loss*: This is an account which show traders, true financial position at a given period.
- i. *Asset*: This is referred to economic resources that are expected to provide future benefits.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 CONCEPTUAL FRAMEWORK**

##### **2.1.1 CONCEPTS OF FINANCIAL REPORTS**

Before examine what annual report are, it would be wise to tools at the accounting process through which such report came about.

Accounting is a descriptive that has been given different definition over the years by various people and institution.

The AMERICAN ACCOUNTING ASSOCIATION (AAA) defined accounting as “the process identifying, measuring and communication that permit to informed judgments and decision by user of the information” Broadly speaking accounting is an economy information system designed to communicate and signified financial and other economic information about the entity to people who are interested in the affairs of the business entity.

The accounting process involves recording of economics data for the period widening identifying, collecting, analyzing and measuring transactions. Classifying and summarizing the economic data of the end of period and finally reporting and interpreting the resulting periodic financial statement. Therefore the primary objective of accounting is to communicate economic information to users and such communicate in achieved through the preparation and presentation of financial statement to users.

Users could be internal user. Like management employee and external user comprising of such group as investors, creditors, and supplier and so on. The preparation or presentation of such financial reports are, it is not directed toward the specific need class of users, as this would not be possible due to the diverse need of all classes of users. But such financial statement are prepared in such away as to satisfy the general and basic needs of users hence they are general purpose in nature.

Annual reports are financial statement of an enterprises which are issued or prepared periodically usually at the end of every accounting period. The term annual reports as to statutory definition, but it consist of following financial statement, the balance sheet, profit and loss account statement of sources and application of funds, directors report and so on. Financial statement like the balance sheet, profit and loss account are statutory required by the COMPANIES ACT 1968 as amended in 1990 to be prepared and presented and incorporated under the company and allied matter act (CAMA) in Nigeria.

The purpose of these corporate reports is basically be provide users with information pertaining to the financial position of an enterprise which would enable them to the effective economic decision with regards to the enterprise financial statement are the presentation of the activity for the enterprises in a financial year. The presentation of the annual report of both current and previous year statement for comparative purpose increase the usefulness.

### **2.1.2 REQUISITES OF FINANCIAL STATEMENTS**

All companies have their account like the profit and loss account the balance, sheet, cash flow statement etc. published at the end of every accounting period usually a year. This is legal requirement designed and protects the investors and any other parties dealing with the company.

Schedule 2 (section 120, 335 and 337) prescribed the general information to be disclosed on the form and content of companies financial statement. The part are state that;

1. All accounting information that will assist users to access the financial liquidity, profitability and liability of a company should be disclosed and presented in a logical clear and understood manner.
2. The financial statement of a company shall be stated.
  - a. The name of the company.
  - b. The period of time covered.
  - c. A brief description of its activities.
  - d. Its legal form.
3. The following must be stated separately if not yet written off.
  - a. Preliminary expenses.
  - b. Expenses on issues of share or debentures.
  - c. Commission paid in respect of share or debentures.
  - d. Discount allowed on share
4. The following must also be shown.
  - a. Capital reserve.
  - b. Revenue reserve and provision other than provision for depreciating.
5. Footnotes: The following shall be shown in footnote:

- a. Number of shares, any person has the option to subscribe.
- b. Area of fixed cumulative dividends on the company shares.
- c. Particular of charges on the company's asset e.g. mortgage.

### **2.1.3 ANALYSIS**

Dandago K.J (1996) defined analysis as “the fact finding process that result in the qualitative expression of significant relationship and its services as a basic for decision making.

Through it is used interchangeable with the interpretation in the process of reaching opinions regarding the firms activities on the basis of analysis. Financial statement analysis “the judgment process which aims to evaluate the current and past financial position and the result operations of an enterprise financial statement analysis involve the examination of a first. Such as evaluating the performance of the firm.

Financial statement analysis can be used as a process of diagnosis of management operating other problem area. It could also serves as tools in the evaluation of amendments. It has been discovered that in recent year there has been an increased demand by inventors and other users of annual reports for additional information which would for the analysis of financial statement.

The need for supplementary information in analyzing statement. Statement was clearly portrayed by BEN'S, No matter how clear and complete the balance sheet and statement of income and retain earning the information in this conventional financial statement in variably need to be supplemented. Some of the kinds of supplementary information been presented include the following:

- a. Financial and operating ratios
- b. Shareholders information (Types of shareholder numbers of each and number shareholder by each type).



- c. New facilities constructed.
- d. Per share earnings and dividends.

#### **2.1.4 TOOLS AND TECHNIQUES OF FINANCIAL STATEMENT ANALYSIS**

Financial statement, analysis involves the use of some tools and methods such tools and techniques include:

- a. Comparative analysis.
- b. Trend analysis.
- c. Common size statement
- d. Ratio analysis

**A. COMPARATIVE ANALYSIS:** This method of analysis involves the comparison of one year results with that of another.

This is accomplished by setting up the financial statement namely, the balance sheet, profit and loss account and cash flow statement of one period with that of another period and reviewing the change which have occurred in individual categories therein from year to year and over the years.

Comparative analysis of financial statement is used in the investigate because these statement bring out more clearly the nature and trends of current charge affecting the enterprise. In using these tools of analysis. It should be noted that comparison loss the value and trend become misleading. If the data being studies do not reflect the consistent application of general accepted accounting principles from period to period.

**B. TREND PERCENTAGE ANALYSIS:**

When a comparison of financial statement covering more than three is undertaken in year 10 year method of comparison may become cumbersome. The best way to reflect such long term comparison is by mean of index number trend analysis. The computation requires a choice have and

index amount of hundred (100). Generally the first year selected as the basic year, unless is the amount for that result of enterprise.

Trend percentage are generally not computed for all of the items in the financial state but is only computed between items having some logical relationship to one another, for instance profit may have increased by hundred percent (100%) over a five year period. Such percentage becomes meaning when it is compared with operating assets, which have increased by two hundred percent (200%), during the same period or with sales which may have increased by one hundred and fifty percent (150%).

### **C. COMMON SIZE STATEMENT ANALYSIS:**

The two above mentioned tools of analysis have investors or analyst to compound the naira.

**LIQUIDITY RATIO:** Are ratios used to judge a firm ability to meet its short term obligation. It provides insight into the cash. Solvency of the firm and its ability to remain solvent in the event of adversities it include ratio like current ratio, acid test ratio e.t.c.

- a. Current Ratio: This is mathematically expressed as

Current Asset

Current liabilities

Perhaps the most commonly used measured short-term solvency, such that it indicate the creditors are covered by asset that are expected to be converted to cash in a period through corresponding in the maturity or the claims.

- b. Quick or Acid test ratio: Are of two types, those showing profitability in relation to sales and those showing profitability in relation to investment together. These ratios indicate the firm's efficiency of operation it encompass ratio like the gross profit margin, net profit margin and return on capital employed.

Profitability in relation to sales ratio are used to assess the compatibility on the firm's management to control the various expenses involved in generating sales. These ratios are:

- i. Gross Profit Margin: This is calculated by

Gross profit

Net sales

The gross profit margin indicates the percentage of each sales rupee remaining after the firm has paid for its goods.

- ii. Net profit Margin: This is calculated by:

Net profit after tax

Sales

Ratio that measures profitability in relation to investment and attempt to equate the profit realized with the invested funds used to generate those profits they attempt to assess all the effectiveness of the firm's management these are:

- a. Return on Total Asset: This ratio measures the return on total investment in the firm. It is given by changes in individual items that have taken place from year to year in relation to total assets, liabilities and owner equity or total net sales.

Here the conventional balance sheet and income statement are converted into common size statements by designing the total asset, net sales, total liabilities or total equity each item in each of them by the total asset, net sales total liabilities or total capital such common size statements are useful in making comparisons between industry and with industry standards.

**D. RATIO ANALYSIS:** To evaluate the financial condition and performance of a firm, the investor or analyst frequently use ratio analysis as defined. The accountant handbook, a ratio is an expression of the quantitative relationship between two number or item's since the late 19<sup>th</sup> century, direct and understandable relationship between the sales prices of an item and its costs rates, like most other relationship financial statement are not significant in themselves and can only be interpreted when compared with some standard.

The analyst can compare a persent ratio with past financial ratio for the company.

The second method of comparison involves comparing the ratio of one firm with these similar firms or with industry average at the same. Point in time such comparison must be approach in the caution. Both the financial condition are evaluated for meaningful studies and evaluated for meaningful interpretation of financial ratio using this method of comparison. Ratios and evaluation of a firm's performance can be classified into the following categories.

- i. Liquidity ratio
- ii. Profitability ratio
- iii. Efficiency ratio
- iv. Leverage ratio
- v. Investment ratio

Profit after Tax

Total Asset

This is because asset are financed by editors as well as shareholders.

- b. Return on ordinary share: The ratio of the net income after taxes and preferred dividends to common equity on ordinary share (R.O.E) or the rates of return on the stockholder investment which is computed by:

Profit after Tax-preferred dividends

Ordinary shares

- c. Net operating profit Rate of Return: This is also known as the basic earning power ratio is to be calculated by:

Earning before Tax

Total Assets

- iii. **EFFICIENCY RATIO:** This category of ratios provided the basic for assessing how effectively usage of its resources to generate sales some of the ratios under them are:

- a. Inventory turnover
- b. Average collection period
- c. Fixed assets turnover
- d. Total assets turnover
- a. Inventory Turnover: This is also called utilization ratio. It is calculated as follows.

Sales

Inventory of finished goods

- b. Average collection period: This is the measure of the account receivable turnover; it is computed in (2) two ways.
  - i. Annual sales divided by 360 to get the average daily sales.

- ii. Daily sales are divided into amount receivable to find the numbers of days sales tied up in receivable.

$$\text{Sales per day} = \frac{\text{Sales}}{360}$$

360

$$\text{Average collection period} = \frac{\text{Receivable}}{\text{Sales per day}}$$

Sales per day

- c. Fixed Asset Turnover: This is the efficiency with which the firm utilizes its investment in fixed asset this is calculated by:

Sales

Net fixed Assets

A firm acquired plant and machinery and other productive fixed assets for the purpose of generating sales, therefore the efficiency of fixed asset should be judge in relation to sales.

- d. Total Asset Turnover: This ratio indicate how many naira is sales, the firm squeeze out each naira it has invested in assets. This is calculated as follows:

Sales

Total Assets

- iv. **LEVERAGE RATIO:** Measure the fund supplied by owner as compared with the finance provided by the firm.

Firm has been financing their investment by borrowing debt ratio are all included in these categories.

- a. **Debt to Asset Ratio:** This ratio measures the proportion of total assets provided by firm's creditors. In other words, this ratio measures the extent to which borrowed funds have been issued to finance the firm operation. The ratio is calculated by:

Total Debt

Total Assets

- b. **Debt Equity Ratio:** This ratio indicates the relationship between the long-term fund provided by creditors and the funds provided by the firm's owner. It is calculated as:

Long Term Debt

Stock Holder Equity

It should be noted that the stockholder equity is the net worth. Firms with large amount of fixed asset and stable cash flow by skeptically have high debt equity ratios while other less capital intensive firm normally have lower debt equity ratios.

- c. **Time Interest Earned:** The time interest earned ratio indicates the firm's ability to meet its interest payment of annual operating earnings. The ratio measures the number of times the firm is carrying its interest.

Earning Before Interest and Tax

Interest Charges

A firm that fails to meet its interest payment early is a potential candidate for bankruptcy.

- v. **INVESTMENT RATIO:** This shows how the market price for a share reflects in a company's performances and measures the firm's ability to maintain it. It consists of ratios like earnings per share ratio (EPS), price earnings ratio (PE), dividend yield ratio etc.

### **2.1.5 FINANCIAL STATEMENT ANALYSIS**

Investors are used in this can be classified into two group namely:

1. Potential investor: Actual investors include both the shareholder and the debenture holders of a particular business; the shareholder provide the risk capital for the business.
2. The financial statement should include the following
  - a. Statement of accounting polities.
  - b. Balance sheet
  - c. Profit and loss account or income statement
  - d. Notes of the account
  - e. Statement of sources and application of funds.
  - f. Five years financial summary.
3. Profit and loss/income statement
  - a. Depreciation, Renewal/Income statement
  - b. Depreciation Renewal/diminishing in value of fixed assets changed to revenue.
  - c. Interest in debenture and other fixed loan.
  - d. Nigeria income tax and other Nigeria taxation on profit.
  - e. Appropriation for redemption of share capital and loan (amount set aside for the purpose of redemption).

#### **THE FOLLOWING SHOULD BE DISCLOSED IN FOOT NOTE**

- a. If depreciation is not provided for by way of depreciation charge. The method of pension must be disclosed.
- b. Basis of calculation of Nigeria income tax.
- c. Whether or not, dividend paid and proposed are subject to income deduction.



Any appreciable change on the item shown caused by either items of non-recurrent nature or a change in the basis of accounting (change from FIFO and LIFO).

## **BALANCE SHEET**

1. Authorized share capital, issued share capital, asset and liabilities summarized and particular necessary to disclose the general nature of asset and liabilities. Specific disclosure should be made.
  - a. Any preference share and the earliest possible date of redemption.
  - b. If not disclosed in the profit and loss, any interest paid on share capital, net of capital and the rate at which interest paid.

Consequently, they won the resources remaining after the payments of all debts by virtue of their relationship with business, they are regarded as the owners of the business while the debenture holders are long term creditors of the business.

Shareholders and debenture holders therefore require a wide range of accounting information in order to help them decide whether to leave their funds invested in the business, increase their investment.

- a. **Operating performance:** Each financial statement would provide insight into the performance of the company with regards to profitability and earning prospects. The type of financial information required would include the net profit figures for past years (i.e. Net profit margin) sales turnover figures, interest and dividend payment and so on. Such data would be analyzed by directors for trends which would be used in predicting and projecting future profitability and earnings.
- b. **Financial Condition:** Both financial and actual investors would want to ascertain the current financial condition of the business with regards to its present assets with fixed and current assets its liquidity position, its capital structures i.e. the balance between equity capital and debt

capital and its current and long term commitment such data would enable investors predict the likely effort of future economic event on its performance.

- c. Earning prospect investors also need to determine and evaluate the earning capability of a particular business, such need is based on the fact that would guarantee item an acceptable level of profit.
2. Corporate Annual Report: An annual report of a company from the source of financial and accounting information to investors. The financial statements contained there in are made up of summarized information about the firms operating condition and statement of affairs organized systematically. The balance sheet which shows the financial condition of a firm at a particular point in time provides vital information about the asset and resources of the firm, its liabilities and capital structure the profit and loss account provides the investors with pertinent financial data concerning the operating performance of the firm for a period of time. The sources and application of funds statement helps to explain the movement of liquid current assets both into and out of the firm with a particular period.

Because of the summarized nature and complexity of modern day financial statement, it is necessary for investors and other users of financial statement to undertaken the efficient and comprehensive analysis of such financial which would not only highlight silent points but would also value the information less complex realistic and comprehensive.

Therefore, the need to develop a framework for the analysis and interpretation of a firm's position and operating result to aid investment decision making and performance evaluation. This need has given rise to financial statement analysis and interpretation which will provide answers required by equity investors the following questions.

- a. What has the company operating performance been over the pass year?

- b. What does this reward gold for future earning prospectus?
- c. Has the company's earning record been one of the growth, stability or decline?
- d. How does the company compare with other companies in its industry?

## **2.2 THEORETICAL FRAMEWORK**

### **2.2.1 DECISION-USEFULNESS THEORY**

The decision-usefulness theory emphasizes the relevance of the information communicated to decision making and on the individual and group behavior caused by the communication of information. Accounting is assumed to be action-oriented, its purpose is to influence action that is, behavior; directly through the informational content of the message conveyed and indirectly through the behavior of preparers of accounting reports. The focus is on the relevance of information being communicated to decision makers and the behavior of different individuals or groups as a result of the presentation of accounting information.

In the study of Patton and Littleton (1940), they gave user need even more prominent attention, including them in their statement of the purpose of accounting. The purpose of accounting is to furnish financial data concerning a business enterprise compiled and presented to meet the needs of management, investors and public. The most important users of accounting reports presented to those outside the firm are generally considered to include investors, creditors, customers, and government authorities.

However, decision usefulness can also take into consideration the effect of external reports on the decisions of management and the feedback effect on the actions of accountants and auditors.

According to Chambers (1955), "The objective of accounting is to provide financial information about the economic affairs of an entity to interested parties for use in making decisions". To be useful in making decisions, financial information must possess certain normative qualities such as relevance, reliability,

objectivity, verifiability, freedom from bias, accuracy, comparability, understandability, timeliness and economy. It must also provide for the development of the theory on the basis of knowledge of decision processes of investors, tax authority, negotiating regulating agencies and other external users of accounting as well as managers.

### **2.2.2 POSITIVE ACCOUNTING THEORY**

The basic message in positive theory of accounting is that most accounting theories are unscientific because they are normative and should be replaced by positive theories that explain actual accounting practices in terms of management's voluntary choice of accounting procedures and how the regulated standards have changed over time. It attempts to set forth and explain what and how financial information is presented and communicated to users of accounting data. Positive theory yields no prescriptions and norms for accounting practices. It is concerned with explaining accounting practice. Watts and Zimmerman (1986) asserted that, "The objective of positive accounting theory is to explain and predict accounting practice. Explanation means providing reasons for observed practice. For example, positive accounting theory seeks to explain why firms continue to use historical cost accounting and why certain firms switch between a numbers of accounting techniques.

Prediction of accounting practice means that the theory predicts unobserved phenomena." Unobserved phenomena are not necessarily future phenomena; they include phenomena that have occurred, but on which systematic evidence has not been collected. For example, positive theory research seeks to obtain empirical evidence about the attributes of firms that continue to use the same accounting techniques from year to year versus the attributes of firms that continually switch accounting techniques. We might also be interested in predicting the reaction of firms to a proposed accounting standard, together with an explanation of why firms would lobby for and against such a standard, even

though the standard has already been released. Testing these theories provides evidence that can be used to predict the impact of accounting regulations before they are implemented.

### **2.2.3 NORMATIVE ACCOUNTING THEORY**

The 1950s and 1960s are described as the 'golden age' of normative accounting research. During this period, accounting researchers became more concerned with policy recommendations and with what should be done, rather than with analyzing and explaining what currently accepted practice was. Normative theories in this period concentrated either on deriving the 'true income' (profit) for an accounting period or on discussing the type of accounting, information which would be useful in making economic decisions. Normative accounting theory attempts to prescribe what data ought to be communicated and how they ought to be presented; that is, they attempt to explain 'what should be' rather than 'what is.' Financial accounting theory is predominantly normative (prescriptive). Most users are concerned with what the contents of published financial statements should be; that is, how firms should account (Jawahar, 2017).

Government regulations relating to accounting and reporting has acted as a major force in creating a demand for normative accounting theories employing public interest arguments, that is, for theories purporting to demonstrate that certain accounting procedures should be used, because they lead to better decisions by investors, more efficient capital market, etc. Further, the demand is not for one (normative) theory, but rather for diverse prescriptions and suggestions.

In the study by Scott (2004) and Hodgson (2006), it says whether or not normative theories have good predictive abilities depend on the extent to which individuals actually make decisions as those theories prescribe. Certainly, some normative theories have predictive ability; we do observe individuals diversifying their portfolio investments. However, we can still have a good normative theory even though it may not make good predictions. One reason is that it may take time for people to figure out theory.

Individuals may not follow a normative theory because they do not understand it, because they prefer some other theory or simply because of inertia. But, if a normative theory is a good one, we should see it being increasingly adopted over time as people learn about it. However, unlike a positive theory, predictive ability is not the main criterion by which a normative theory should be judged.

#### **2.2.4 STAKEHOLDER'S THEORY**

Considers all those who had one input or the other towards achieving organization goals and objectives. These groups are all interested in the overall performance of the business and in its financial reports to ensure proper accountability and profitability. Many users, especially external, use annual reports to make investment and other decisions. Investors, creditors, lenders have to assess the earnings prospects of companies by examining the implications of the different accounting procedure (Jawahar, 2017). All the users are interested to know the effect of alternative reporting methods, on their decisions (welfare). For example, corporate executives want to know how straight-line method of depreciation affects their welfare vis-a-vis accelerated depreciation. Similarly, if a company is concerned about the market value of its shares, the accounting methods effects on share prices are to be analyzed.

#### **2.3 EMPIRICAL STUDIES**

According to Nwaobia, Kwarbai, Jayeoba & Ajibade (2016) in their research on the effect of financial reporting quality on investment decision using a sample of Nigerian manufacturing firms have stated that higher reporting quality increases investment decision.

Sayed (2014) stated that one of these factors is the quality of financial reporting which can facilitate the efficient allocation of capital in the economy. One of the most important facets of this fact is to improve the investment decisions.

Popoola, et-al (2014) investigated the published financial statements which they correlated with investment decision among commercial bank stakeholders in Nigeria. According to their findings,

balance sheet is negatively correlated with investment decision whereas income statement, notes to the account, cash flow statement, and value added statement and five-year financial summary are positively correlated with investment decision making. They also found out that the components of published financial statement contributes to the investment decision making for commercial bank stakeholders.

According to Michael (2013) in his critical investigation on the degree of reliance of the published financial statements by corporate investors found that one of the primary responsibility of management to the investors is to give a standardized financial statement evaluated and authenticated by a qualified auditor or financial experts and also investors depend heavily on the credibility of auditors/financial expert approval of financial statement in making investment decisions and as such published financial statement is very important in the investors' decision making. He recommended that adequate care and due diligence should be maintained in preparing financial statements to avoid faulty investment decisions which could lead to loss of funds and possible litigations.

The ability to present a good and accurate figure for accrual is known as financial reporting quality. Financial reporting quality is related to the accuracy with which a firm's stated financials reflects its operating performance and if they are useful in forecasting future cash flows. Nyor (2013)

Adebayo, et-al (2013) examined the impact of accounting information system in assisting organizations for making sound and effective investment decision. Their findings have shown that accounting information system is an important tool in investment decision making in today's world.

### **CHAPTER THREE**

#### **RESEARCH METHODOLOGY**

### **3.1 RESEARCH DESIGN**

Primary and secondary data were used in conducting a research. The secondary data are used in conducting this research; the secondary data are information collected from various textbook; journals and unpublished work. The primacy data was collected by personal interview.

Personal interview was used in order to clarify some needed information and it allows. Some more accurate information to be obtained by asking the respondents more suggestion.

### **3.2 POPULATION OF THE STUDY**

The population of the research was restricted only to the Nigeria social and economy research principle. Twenty five questionnaires were distributed to the respondents out which twenty three were returned and two of them are wrongly filled.

Therefore, due to some certain constraint, the research limit it scope of the study to a firm which will serve as a “sample” in the industry and which will provide all the necessary information. Hence, NIGERIA SOCIAL AND ECONOMY RESEARCH PRINCIPLE was selected to test the industrial performance.

### **3.4 SAMPLE SIZE AND SAMPLING TECHNIQUES**

The data collected would be to generalize findings for the benefit of all the banking industries in Nigeria. This is because all the industries show the same characteristics.

#### **SAMPLE SIZE**

The sample size of the focuses in the NIGERIA SOCIAL AND ECONOMY RESEARCH PRINCIPLE which covers affairs nationwide. All other information used are exclusively related to industries affairs. Such as Annual financial report of the industry for the period of five (5) years of financial year within 2016-2024 this period provided the necessary information due to its length and through past economic policies and strategies that have been adopted in the country. This causes various charges and



fluctuation within the firm and the centre industry in general which in turn affect the performance especially areas of crucial importance that could be compared on assessment carried out.

### **3.5 INSTRUMENT OF DATA COLLECTION**

A questionnaire requiring subjects not to disclose their identity was used to collect data from staffs. The questionnaires were structured questions. The researcher also used questionnaires in order to uphold the confidentiality of the respondents and also in order to save time. The study also used structured interview schedules to collect information from staffs.

The procedure for data collection was being as follows: Permission was requested from the laboratory management showing that the study is for academic purposes. Typed questionnaires were hand delivered to the subjects. The subjects were instructed not to reveal their identity and were assured that the information given was purely for research purpose and would not affect them individually.

### **3.6 METHODS OF DATA COLLECTION**

Data can be grouped into two (2) namely: primary and secondary data. Methods of data are considerable from the respondent of affected environments. Therefore, data of this nature is unprocessed to produce more reliable information from this type of data may mainly be gathered through interview, questionnaire etc usually it covers a specific aspect that is needed, due to reliability.

Other limitations constitute the major obstacle that cannot be used for various purpose guide towards decision making.

Secondary method of data arises through formal methods that is, through a series of procedures e.g. textbooks, journal, magazines etc. it is necessary to consider more appropriate data to be used to any research work in order to produce more reliable more and useful information as to achieved a desired objectives. To this conclusion or end, research undertake the use of secondary data method towards evaluating industrial performance. This consists of items such as companies. Balance sheet, profit and loss account, all related information, financial and non-financial information needed by the research being conducted.

### **3.7 METHODS OF DATA ANALYSIS**

The data obtained were presented using table and analyzed by using simple percentage. The percentage was used to evaluate the responses of the respondents to each question in the questionnaire.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS**

#### **4.0 INTRODUCTION**

This chapter will focus on the analysis of data collection from respondents through the use of researcher questionnaire with the use of research questionnaire. Twenty five questionnaire were distributed to the respondents out which twenty three were returned and two of them are wrongly filled.

#### **4.1 DEMOGRAPHIC REPRESENTATION OF THE RESPONDENT**

**TABLE 1: Which group of respondent do you belong to?**

GROUP	NUMBER	PERCENTAGE (%)
Employee	8	38.1
Employer	2	9.5
Shareholder	7	33.3
Stock brokers	4	19.1
Total	21	100

**Source: Field Survey, 2024**

The essence of the questionnaire is to enable researcher access the respondent to understand the subject matter from table 1,8 respondent representing 38% are employee, which only 2 respondents of 9.5% are employers and 7 respondents of 33.3% represents the shareholder while 4 respondents of 19.1% are stock holder with this varying group of respondents, if shown subject matter was given a bird-eye judgment.

**TABLE 2: Does the company prepare financial report in accordance with (AMA 1990)**

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	21	100
No	0	0
Total	21	100

**Source: Field Survey, 2024**

From table 2 above, the aim of this is to determine whether the financial report comply with the general statutory and professional requirements and all respondent respond positively which shows that it disclose all the acquired information.

**TABLE 3: Does the financial report contain relevant information to enable investors to value effective decision.**

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	21	100
No	0	0
Total	21	100

*Source: Field Survey, 2024*

The essence of the question is to enable the researcher to evaluate the quality of corporate annual report of NIGERIA SOCIAL AND ECONOMY RESEARCH PRINCIPLE contains relevant information for investment decision.

**TABLE 4:What is the behaviour of aggregate amount of resources?**

RESPONSE	NUMBER	PERCENTAGE (%)
Increasing	21	100

Decreasing	-	-
Total	21	100

**Source: Field Survey, 2024**

The essence of this is to know the company can meet up with investment opportunity by financial through the reserve of the company, from the above; it shows that the company's reserve is increasing.

**TABLE 5: Is the market price of the share changing?**

RESPONSE	NUMBER	PERCENTAGE (%)
Increasing	-	-
Decreasing	21	100
Total	21	100

**Source: Field Survey, 2024**

From responses as the of the market behaviour price of the company's share journal and stock exchange as well as the financial statement of the company, the share price has been fluctuating negatively as 100% of the respondent said the price if decreasing.

**TABLE 6: Are the profit adequate to the capital employed?**

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	15	71.4
No	6	28.6
Total	21	100

**Source: Field Survey, 2024**

The relevance of this is to know whether the return or profit earned from the business are enough to attract more investors or to be commended when compared with capital employed from the responses 71.4% responded positively and only 28.6% responded negatively this shows that the profit is more attractive and adequate in relation to the capital employed.

**TABLE 7: Could better return be relieved from another company?**

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	19	90.5
No	2	9.5
Total	21	100

**Source: Field Survey, 2024**

The table above show that 90.5% of the respondent believed that better return could be earned from company if received from another company.

**TABLE 8: Which of the tools do you use to assess the operating performance of the company?**

RESPONSE	NUMBER	PERCENTAGE (%)
Comparative Analysis	6	28.6
Commonsize statement	2	23.8
Trend Analysis	5	9.5
Ratio Analysis	8	38.1
Total	21	100

**Source: Field Survey, 2024**

The essence of the questionnaire is to enable the researcher to know the tools and method used in analyzing financial statement.

**TABLE 9: Which among the ratios could aid in deciding whether to buy or sell share?**

RESPONSE	NUMBER	PERCENTAGE (%)
Dividend for share (DPS)	16	76.2
Earning per share (EPS)	3	14.2
Dividend yield (DY)	1	4.8
Dividend cover (DC)	1	4.8
Total	21	100

**Source: Field Survey, 2024**

The table 11 above shows that investor believe much more in dividend per share 76.2% of the respondents response positively.

That is to say most investors believe that or bind at trend. Is better than two in the bush therefore they prefer to get dividend gain now than capital gain. Though responses to earning per share 14.2% dividend yield is 4.8% and dividend cover is also 4.8% but this is insignificant.

**TABLE 10:** Does the auditors, directors and chairman report gives the investors a bird-eye view of the position of the company?

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	19	95.2
No	2	4.8
Total	21	100

*Source: Field Survey, 2024*

Table 12 show that 95.2 responded positively while 4.8% responded negatively the essence of this is to know important the auditors, directors and chairman report and investors in assessing the company. In conclusion these reports give the users, especially the investors a bird-eye view of the position of the company.

## 4.2 STATISTICAL RESULT

The result obtained from the above tables shows that, Table 1 shows that 1,8 respondent representing 38% are employee, which only 2 respondents of 9.5% are employers and 7 respondents of 33.3% represents the shareholder while 4 respondents of 19.1% are stock holder. Table 2 shows that the aim of this is to determine whether the financial report comply with the general statutory and



professional requirements and all respondent respond positively which shows that it disclose all the acquired information considering the fact that 100% of the respondent agree . Table 3 shows that the essence of the question is to enable the researcher to evaluate the quality of corporate annual report of NIGERIA SOCIAL AND ECONOMY RESEARCH PRINCIPLE contains relevant information for investment decision considering the fact that 100% of the respondents agree. Table 4 shows that the essence of this is to know NIGERIA SOCIAL AND ECONOMY RESEARCH PRINCIPLE can meet up with investment opportunity by financial through the reserve of NIGERIA SOCIAL AND ECONOMY RESEARCH PRINCIPLE, from the above; it shows that NIGERIA SOCIAL AND ECONOMY RESEARCH PRINCIPLE's reserve is increasing considering the fact that 100% of the respondents agree. Table 5 shows that from responses as the of the market behaviour price of NIGERIA SOCIAL AND ECONOMY RESEARCH PRINCIPLE's share journal and stock exchange as well as the financial statement of NIGERIA SOCIAL AND ECONOMY RESEARCH PRINCIPLE, the share price has been fluctuating negatively as 100% of the respondent said the price if decreasing.

The relevance of table 6 is to know whether the return or profit earned from the business are enough to attract more investors or to be commended when compared with capital employed from the responses 71.4% responded positively and only 28.6% responded negatively this shows that the profit is more attractive and adequate in relation to the capital employed. Table 7 shows that 90.5% of the respondent believed that better return could be earned from company if received from another company. Table 8 shows that the essence of the questionnaire is to enable the researcher to know the tools and method used in analyzing financial statement. Table 9 shows that investor believe much more in dividend per share 76.2% of the respondents response positively. That is to say most investors believe that or bind at trend. Is better than two in the bush therefore they prefer to get dividend gain now than capital gain. Though responses to earning per share 14.2% dividend yield is 4.8% and dividend cover is also 4.8% but this is insignificant.

Table 10 shows that 95.2 responded positively while 4.8% responded negatively the essence of this is to know important the auditors, directors and chairman report and investors in assessing NIGERIA SOCIAL AND ECONOMY RESEARCH PRINCIPLE. In conclusion these reports give the users, especially the investors a bird-eye view of the position of NIGERIA SOCIAL AND ECONOMY RESEARCH PRINCIPLE.

#### **4.3 TEST OF HYPOTHESIS**

H<sub>1</sub>: There is significant impact of financial report in decision making in an organization

RESPONSE	PERCENTAGE
YES	100%
NO	0%

Therefore, we can now agree that financial report play a vital role in decision in an organization.

#### **4.4 SUMMARY OF THE FINDINGS**

This research study shows that financial report comply with the general statutory and professional requirements, it's also serve as relevant information for investment decision and also it increase bank reserve. The bank share price has been fluctuating negatively also profit is more attractive and adequate in relation to the capital employed.

Most investors believe that or bind at trend. Is better than two in the bush therefore they prefer to get dividend gain now than capital gain.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

## **5.1 SUMMARY**

The first chapter contained the general description of the study that is the main objective of the study which was ascertain the degree of compliance of the banking sectors to both statutory and professional requirement with respect to corporate financial report preparation and to assess the impact of such financial report on investment decision making. It also contain among other things like the hypothesis, justification and limitation of the study and lastly the scope of the study.

Chapter two contained all relevant works related to the study. Which were received with much emphasis on the companies and allied matter decree 1990 and other statutory law and regulation like Nigeria Accounting standard Board (NASB) as well as other findings are recommendation of various author together with major point raised by them.

Chapter three, dealt with the methodology the population of the study. Sampling techniques used were also explained the sample size is the NIGERIA SOCIAL AND ECONOMY RESEARCH PRINCIPLE, Ilorin branch documentary sources of data were employed as mean of collection.

Chapter four, form the body of the research works, this deals with the analysis and interpretation of data collected. The chapter also highlighted other findings on the course of the research study. Therefore, it was exhibited that NIGERIA SOCIAL AND ECONOMY RESEARCH PRINCIPLE prepare their financial reports in accordance with companies Act as regard timing, contents and in areas where accounting standard are available.

## **5.2 CONCLUSION**

Because of the recent privatization and commercialization going on in the country, there have been increase in investment in banking industry.

Therefore, rapidly expanding interest in the accounts and comment on the investment analysis, broker and many users all of whom require full information accounts.

In recent year, there has been a marked improvement in the presentation of the audited account and effective steaming of balance sheet and profit and loss account.

Much work still have to be done if annual report are to have a greater import on the users of such reports the Nigeria Accounting Standard Board (NASB) should continue to conduct to conduct corporate financial reports and should also issue as many statements are possible so as to narrow areas of different and consequently enhance the quality of financial statement.

### **5.3 RECOMMENDATIONS**

In view of the importance of published reports in investment decisions and the problems faced by the investors certain measure can be adopted by the various companies, professional and regulatory bodies and even the entire financial community in order to enhance the value of the information provided to users.

The following are some of the measures:

- a. Supplementary to satisfy the needs of the users, a supplementary statement could be attached which would highlight significant figures in the account.
- b. Availability of external statistical data: That is, an effort should be made to compile and makes available financial data about operation of those companies quoted on the stock exchange market.
- c. Furnishing of information on regular basis: If a company could issue information about its performance and affair on a more regular basis this will improve. It corporate image and encourage investors and other interested parties to make decision on a timely basis such media include daily newspaper financial newspaper etc.

- d. Narrowing are of differences: To solve the problem of historical cost data for the effect of inflation and revolving non-monetary asset can be solved through the use of present price level. It also to solve the problem of alternative method employed by companies this could be through Nigeria Accounting Standard Board (NASB) to issue and publish. More of accounting standard which would help in eliminating or reducing the area of differences.
- e. Accounting for price level change: The problem of historical cost data for the effect of inflation and revolving non-monetary asset can solved through the use of present price level, adjusted result along with a firm historical results. So that the impact of inflation on its income in financial position can be highlighted.

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