# THE IMPACT OF INFLATION ON BAD DEBTS OF FINANCIAL INSTITUTIONS IN NIGERIA

*(A CASE STUDY OF DANGOTE PLC, ILORIN)*

BY

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## CERTIFICATION

This is to certify that this project work has been written by **IBRAHIM KEHINDE OWOLABI** with Matriculation Number **ND/23/ACC/PT/0163** and has been read and approved as meeting part of requirement for the Award of National Diploma (ND) in the Department of Accountancy, Institute of Finance and Management Studies (IFMS), Kwara State Polytechnic, Ilorin, Kwara State

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## DEDICATION

This project work is dedicated to **Almighty Allah**, the omnipotent, omnipresent, and omniscience for His blessing, protection and guidance over me.

## ACKNOWLEDGEMENT

I offer my deepest gratitude to **Almighty Allah** who has been my rock and source of inspiration throughout this project".

My appreciation goes to my supervisor (**Mr. Azeez Y.O**) for his guidance and support through my project. May God almighty bless him and his family. Amen.

I must not fail to appreciate my parent (**Mr. & Mrs. Ibrahim**) May God let you live long to reap the fruit of your labour. Amen

My appreciation also goes to all my family and friends, I pray God will continue to bless you all. Amen

Once again I am grateful to God for his mercies, loves and care for the greatest opportunity he gave me to accomplish the task of being a graduate, ALHAMDULILLAHI.

# TABLE OF CONTENT

# CHAPTER ONE

# INTRODUCTION

## 1.1 BACKGROUND TO THE STUDY

Bad debts are usually associated with the function of commercial banks and the incidence of bad debt remain as told as the essential function itself. Commercial banks like other business entities have one objective of being in business maximize their profit since banking is service industry. (Dyers, 2022).

Commercial bank also strive to give efficient service to their customer at all time to make profit and remain in banking business.

Therefore, commercial banks most learn in other to earn interest, which provides the revenue commercial bank can lend on loan or over draft to their customers, the choice of facilities repayable could be agreed installment over a good period of time while an over draft is short time which could be involving and required to be made good after one year. An over drat facility is the working capital of the business man. (Nwanko, 2020).

The lending function of the commercial bank can only be accomplished if such commercial, bank are in a position to collect deposit from other lending and the size and mode of lending loan an advice constitute a greater proportion of credit available in the economy, lending therefore, helps to satisfied the legitimate credit needs of the society. Credit like money finds its main function in the production and service in facilitating the exchange of good credit has also help to make possible modern like scale production and wide spread division of labour. (Sadiku, 2019).

Because of the direct impact lending can have any economy, government all over the world usually integrate the activities of banks in to policy formulation. The commercial banks intermediation ruled in the economy is highlighted in the deposit creation lending of those banks. While the commercial banks collect deposit from those who have surplus funds, the part give out part of this funds to those who required more funds to expand an existing business or established in a new one. (Ajayi, 2020).

The depositor's relationship with their banks is base mainly on their mutual trust while it is known from experience that all depositors can not call for their deposit at the same time commercial bank must always ensure that these are always a find to meet depositors requirement. (Sadiku, 2019).

In addition to the profitability and efficiency objective of commercial bank therefore the needs for sounds liquidity at all time is always emphasized. The liquidity object of commercial banks compelled most commercial to lend on short term basis since most of their deposit is kept over a short period of time the depositor's fund, which form the lenders working capital required prudent management if the working capital is to grow and not depleted. This position explain the reason why commercial banks take time to study business requesting for financial assistance. (Adewumi, 2023).

The bank manger and other officers appointed to give surplus of these credit appraise each proposes thoroughly ensuring their can on of lending which improved purpose and the amount required the sectorial classification of the loan required, the proprietors stake in the business and the security offered. (Aina, 2020).

Experience has shown however that money business that were appraised and which appeared attractive in the past continual of fall in recent years Nigeria now funds herself. Many business that appeared initially attractive failed because they can no longer obtain raw materials with which to produce some failed because they can not raise enough local currency to produce spare parts for their grounded machine while some find the current cost of capital too much to bear such business try to avoid the repayment of both interest and principal debt against them by switching to other banks. (Aina, 2022).

Business failures have for reaching effect on the ability of borrowers of banks fund to repaid their debts. The resultant effects if these failure is the ever growing incidence of bad debts in Nigerian banks for example Dangote which is the one of three leading banks in the country has had an unpleasant share of the burden of those debts. (Adewumi, 2020).

## 1.2 STATEMENT OF THE PROBLEM

The impact of inflation on bad debts, which cut across all share of business society in Nigeria. Recently, the incidence of inflation has been the focused of government attention. In this project attempt will be made to analyze inflation causes and effect of the growth of the backing system in particular and the overall development and likely solution with a view to minimize it frequent occurrence detail of this may be found in next chapter.

### The Need for the Problem

The need for this project study has been amplified by the economic depression in which Nigeria has found here self in the past fourteen years the depression has brought with its economic problems which include huge foreign and interest debts high unemployment, severe raw materials and severe parts shortages, high rate of inflation and rapidly declining per capital income.

The economics twist of fate of Nigeria that proper her departure from can era of economic boom in the mid seventies and eighties to a period of prolonged depression is first and foremost to the sharp decline in revenue derivable from crude oil.

The depression economy can also be attributed to economic mismanagement by Nigeria leaders misplaced priorities, neglect of agriculture which can another veritable source of foreign exchange earnings, general depression in the world economy, high level of deficits spending by government and excessive imports which are not at par with exports consequent upon the dull economic climate therefore, may loans and overdrafts facilities granted by commercial banks to individuals and corporate bodies the past are no longer being regularly services may of the facilities which are totally bad are now abandoned.

The growing brand of bad debt in the book of commercial banks is now a cause for concern to leading banker's failures to pay an existing debt limits the credit creation capability of banks and this limitation will affect economic production the volume of which is always influence by the availability of credit.

When production capacity can not be enlarged, new employment cannot be credited, when plant are under utilized labour gets retivialized or totally discarded.

There is need therefore, to look at the correction between the prevailing economical depression and the increasing failure rate of banking lending which in affect can affects banks profitability and jeopardize their shareholders return on investment.

## 1.3 RESEARCH QUESTIONS

i. To what extent does inflation on bad debts have impact on the financial institution?
ii. To what extent does inflation  influence the financial institution?
iii. Does inflation on bad debts affect financial institution?

## 1.4 OBJECTIVE OF THE STUDY

i. To analyze the impact of the inflation on bad debts in Dangote through effective debt management.
ii. To suggest ways and means by which loans liquesces can be drastically reduced through effective lending controls.
iii. To ascertain the means of inflation and to show it affect bad debts and their financial intermediation role to the economy.

Although, the study, as Dangote in view the project work is to serve as a relevant working paper and guide to other commercial bank in Nigeria.

## 1.5 RESEARCH HYPOTHESES

**Ho**: inadequate collateral provision by borrows does not increase the incidence of bad debts in Dangote.

**$H_1$**: inadequate collateral provision by borrowers increase the incidence of bad debts in Dangote.

## 1.6 SCOPE OF THE STUDY

The disciplinary scope of this study is the impact of inflation on bad debts of financial institution, while the spatial scope is on Dangote, Ilorin.

## 1.7 THE SIGNIFICANT OF THE STUDY

The significance of the study stems from the assumption that the attack on the impact of inflation on bad debt was originally incurred by business promoters to finance the acquisition of one thing or the other. The purpose could be an item of fixed asset, it could also be for the purpose of financial working capital what ever the case may be, inflation as it is the case in the Nigeria economy has an unfolding impact of the performance of fixed asset financed by back loan and the adequacy or other wise of the firm's working capital.

## 1.8 LIMITATION OF THE STUDY

The major problem encountered in the course of this study is distance the company under is situated far away from the school it takes at least 30 minutes trip travelling for the collection of relevant data, Unwillingness of the respondent to give the replies.

a. **Time constraint**: a lot of a sacrifice has to be made so that the researchers could have enough time for this study. The time lag is a serious problem faced by the researcher, that is the time space between the period it was submitted which was not sufficient enough as the researcher has to combine academic activities with the research work which was not all that easy. Additionally, the time constraint made quite challenging following up on respondents to collect questionnaire feedback for the necessary required data for analysis as well as meeting with supervisor for consultation.
b. **Financial constraint**: the researcher encountered some financial difficulties as I could not get enough adequate funds for some activities which have great impact on the success of the researcher as well.

**Availability of Data**: the statistical data to be collected were scarcely recorded in almost all department in the organization and not properly kept, not updated and this made it difficult for the researcher to get sufficient and adequate information needed.

## 1.9 DEFINITION OF TERMS

| | |
|---|---|
| **Inflation:** | Inflation is the persistent rise in general level of goods and services. It is also a period in which there is a rise in the general level of price measured by price indexes. |
| **Moderate inflation:** | Moderate inflate occurs<br>When prices are rising slowly |
| **Galloping inflation:** | Galloping inflation occurs when price start rising at double prices |
| **Hyper inflation:** | Hyper in inflation is a period of extra-ordinary rises in price |
| **Bad debt:** | It is the money that can no be recovered |

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 INTRODUCTION

This chapter reviews relevant literature relating to the study variables and covered the theories of inflation, review of empirical studies related to the topic, the concept of inflation and the concept of loan repayment. It also provides a conclusion identifying the gap of the study.

## 2.2 CONCEPTUAL FRAMEWORK

### 2.2.1 THE CONCEPT OF INFLATION

Inflation is as old as a market economy, it is a period in which there is a rise in general level of prices measured by price indexes which are averages of consumer or producers prices, in other words it a condition of a persistent rising in general price level. Like disease inflation shows different level of symptoms. It is useful to classify them into there categories. Moderate inflation, Galloping inflation and hyper inflation.

Moderate inflation is the medium price are rising it is not extreme or excessive, holder of moderate inflation make or become moderate we might arbitrarily classify this inflation rates, those less than ten percent annually. In conditions of moderate and stable inflation. Relative prices do not spend much time trying to unload their money because its real interest rate is not too low.

Galloping inflation is which the rate of inflation is so mild, and unalarming and is tolerated as a “price” for other objectives like sustained growth in economy. Most economist believe that a small rate of inflation (i.e. Galloping inflation) is necessary in an economy because it is natural that price must rise to stimulate production and economic growth.

Financial market whether away and funds are generally allocated by rationing rather than by interest rate people head goods, buy houses and never lend money at ordinary interest rates.

Hyper inflation or run-away inflation occurs when price have escalated to such unreasonable level that it makes money to be virtually useless. A hyper inflation means that money rapidly loses its value in such a situation, people are anxious to spend money as quickly as possible while, they can still get something in exchange for it is an extreme form of inflation.

Having discussed in detail, inflation as a subject matter. It is necessary to relate the effect of inflation on bad debts in financial institution.

It is important to note that bad debts was originally incurred by business promoters to financial this acquisition of one thing or the other. The purpose could be an item of fixed asset.

It could also be for the purpose of financial working capital. Whatever the case may be, inflation as it is the Nigerian economy has an unfolding impact on the performance of fixed asset financed by bank loan and the adequacy or other wise of the firms working capital.

It is note worthy that in an era of inflation it is the borrower of fund that has an advantage. The lending banker is usually at economic loss. This is so because the lending banker gives out fund any time the value of money is higher and expect repayment over a time frame. Because of the time value of money funds received and repaid at an installment rate in the same currency is often discovered to have lost it's original value of the time of repayment.

Owning to the high level of inflation in the Nigerian economy. May of these assets that were financed by bank loan could no longer be effectively maintained. Business promotes find it difficult to get the relevant spare parts for this assets all, the prices are so prohibitive that they can hardly afford to buy. Because of the entrepreneur inability to maintain their fixed assets plant and machinery they are forced to make use of the machine in their faculty state with their resultant effect of reduce production capacity.

While the machine continues to be flopped more damages are being done to them until such as time that machine are totally grounded and production comes to be half.

Total production stoppage is experience at this stage and it is only after these has happened that business promoters start for funds to keep the machinery working again. In the mean time since company can no longer sell and make profit, the borrower finds it difficult to meet his banking obligation again. The effect of this is too known the company's debt become abandoned thereby increasing the volume of bad debts in our banks most working capital provided by bank some times ago has in the face of the growth of inflation in our economy because totally inadequate for the need of business promoters.

A very straight forward example is the working capital provision, a Dangote made for one of its cashew nut processor in February, 2000. when a tonne of cashew nut was sold for N8,000.000 three months after a tonne of this product sold for as high as N15,000.00.

Because of the sudden rise in prices the bank customers will required almost twice the original working capital provided it is to sustain his current production tempo. Because of the pressure of increased finance on the working capital requirement of firms, most company have borrowed to finance their project are finding it increasingly difficult to remain in business.

Even through, simple topic has it that, when production cost goes up selling price will naturally shoot up. Companies that have not been able to produce because of working capita problem will real have nothing to sell.

In this had time therefore, many companies have been found wanting in meeting their obligation to the bank. Many are totally short down while many remain is skeletal production. In both cases because of the company reduce earning in the face of escalating monthly interest changes on their bad debts and bounds. Interestingly promoters of this business take refuge in abandoning their debts there by adding to the mountain of bad debt in Dangote and the banking industry in general.

### 2.2.2 CONCEPT OF BAD CREDIT

Credit given by commercial banks are good for the borrower, the national and the loan guarantor but soon become a disadvantage to the letter when borrower do not pay back as agreed or they default and the loan become bad. Bank credits that are often given by banks are agents of economic growth and business development. Loans and advances are important to the bank because they are account for a large proportion of their income.

It is the income derivable from these facilities that enable the banks to achieve their profit maximization objective and which serves as their main attraction when considering their customer's new requests. As important as loans and advance are to banks, so also do they constitute the most risky assets in a bank portfolio. They may become bad and irrecoverable and therefore turn into problem lending. Credits are off shorts of deposits and the ability to raise deposits it is observed that commercial bank in Nigeria lend on short-term basis because the bulk of their deposits are also of short duration.

### 2.2.3 CAUSES OF BAD DEBTS

There can never be an exhaustive list of reasons for bad debts as they are as multifarious as there are disease. The longer one live as a banker the more experience being a painful but realistic witness of accounts once cherished as impressive beginning to show ailing signs and finally becoming classified.

The banker like a car driver should alert sport early danger signals sop as to avoid a disastrous accident. Some of the cause of a bad debts are enumerated below.

1. Poor analysis of financial data
2. Quality of financial statement
3. Bad management of the account
4. Inadequate project monitoring
5. Misrepresentation and dishonesty on the part of customers.
6. Excessive lending on security values
7. Inadequate project finding
8. Raw material crisis
9. Matter beyond customer's control, such as five burglaries and hole cast all of which are insurable and some others like retrenchment and debt over which he has no control.
10. Loss of market
11. Management in competence on the part burrower
12. Diversion of fund like diverting working capital to fixed asset development.
13. Lack of adequate spare parts for plan equipment
14. Policy of lending
15. Bank negligence by posting wrong an unit into account
16. fraud

Some of the cause of bed debts listed above can be symbolically likened to a pot sitting lending while causative factors which can be the bank officials, the borrowing customers or other uncontrollable factor represent the tripod very offend, bank loans or overdraft are regarded borrowers as their no intention to reply such loans are often diverted to purposes other than the one for which they were granted at time into building, funeral or late grand father or mothers, bid memorials in news papers, expensive cars e.t.c transaction are consummated in cash to avoid taxation with consequent deflation of turnover in the banks.

Loans and advance secured from a particular bank can be treated almost like a grant since with the collusion of the bank staff or through inefficient book keeping the bank will not press its claim when the advances are due to be retired.

### 2.2.4 CONCEPT OF DEBTS RECOVERY

Debt recovery is about the most difficult and hazardous task of a banker. It is uninteresting and hazardous task of a banker. it is most union hope of possible recovery of bad debt depend on the effectiveness of any special recovery effort or strategies put in.

When recovery in hopeless, bad debts are written off from profits thus reducing profitability and not worth of the business. In anticipation of default therefore and in order to achieve the recovery of bad debts banks usually required their borrowing customers to provide securities for their loans and advances and these securities are expected to be perfected before any draw down of the facility is allowed.

Where remedial actions fail, the logical step for a banker whose claim is secured is usually to point a receiver that need for adequate security for bank loans and advances which is the recovery of a bad debt cannot be over emphasized.

Then it must be noted that when things start to go wrong for a customer and once we are aware of the nonpayment of the debt, we have to look into what we have in our securing dossier.

Furthermore, facilities should be agreed subject to security coverage. Therefore credit managers should ensure that security offered is fully perfected before customers is allowed to draw down.

Security perfection is the only prudent practices since customers are over willing to co-operate before any drawn down is effected by become extremely difficult, once they have taken the money advanced to them accepting the need for debt recovery, it is agreed that not all business do survive.

Debt recovery and security realization are and important aspect of banking but debt recovery should not be totally hinged on the realization of security alone, debt recovery is no doubt-often strewn with problems.

Customers may turn hostile when pressed to make good their obligation to the bank. They may not honour the bank's invitation or simply may resort to litigation to delay security realization and while they buy time may attempt to subvert the bank's realization effort by striping the corporate debtors of some of the assets charged to the bank.

Debt recovery becomes almost impossible when facilities advanced are unsecured fails to meet the repayment requirements, the bank may have to undergo along and tedious process of litigation

### 2.2.5 ADVANTAGES AND DISADVANTAGES OF INFLATION

Increase in earning of business men. Businessmen gain more profits during inflation especially during the initial stages when wages do not rise in the same proportion as rise in price of goods and services.

Redistribution of income-inflation redistributes income from workers and peasants to capitalists and entrepreneurs. This means that workers and peasant become poorer where as businessmen become richer.

Fixed income earners real income fall during inflation, what money can buy (i.e. real income) falls. Those who suffers most are fixed income receivers, e.g. pensioners, salary earners, landlords, etc. This is because fever goods can row be obtained with their given income.

Effective price control government can check inflation, also by fixing maximum prices for both raw materials and finished goods and ensuring adequate implementation of such a policy.

Inability to increase domestic food production farmers are becoming more attracted to cash crop production since this earns them more incomes. moreover, oil drilling (e.g. in Nigeria and mining e.g.) in sierra leone) have diverted attention from farming. The situation has been worsened by the drought that has afflicted a number of west African countries.

## 2.3 THEORETICAL FRAMEWORK

### 2.3.1 The Classical Quantity Theory of Money

This theory was developed by Fisher (2020), where he took the view that money was only used as a medium of exchange to settle transaction involving the demand and supply for goods and services. Empirical studies of the quantity theory of money (QTM) have focused directly on the relationship between the rate of change of the money stock and inflation. In monetary economics, the quantity theory of money is the theory that money supply has a direct, proportional relationship with the price level, (Fisher, 2015). The theory was challenged by Keynesian economics, but updated and reinvigorated by the monetary school of economics. While mainstream economists agree that the quantity theory holds true in the long run, there is still disagreement about its applicability in the short run. Critics of the theory argue that money velocity is not stable and, in the short-run, prices are sticky, so the direct relationship between money supply and price level, (Friedman, 2019). The quantity theory of money, despite its affinity with monetarism in Western economics, has long been one of the accepted doctrines of the socialist monetary authority. The version of the quantity approach adopted is of course the classical, transactions-based one rather than the modern, Friedmanite extension which includes considerations on interest rates, assets and wealth, and adaptive expectations, among other variables, (Friedman, 2021).

### 2.3.2 The Keynesian Theory

Keynes, (2020) argued that an increase or decrease in money supply only affects, only indirectly, the demand for goods and services and hence the level of income though a change in the rate of interest thus for example an increase in money supply leads to a fall in the rate of interest which in turn causes private investment to fall and ultimately results in a decline in the level of national income. The impact on the economy of the increase in money supply depends on the effect that the interest rates produce. According to Keynesian view, both investment demand and consumer demand are relatively insensitive to interest rate changes. That is why the interest is inelastic, (Keynes, 2016). Keynes (2019) argued that the volume of investments' depends heavily on technological changes and business confidence and expectations, hence an increase in the supply of money will have a limited effect on aggregate demand and consequently relatively little effect on output and employment. Keynesian argues that monetary policy will have limited effect on the economy and national income, because increase in money supply would be neutralized by the reductions in the velocity of circulation leaving PT unaffected. According to Keynes increase in money supply cannot lead to a proportional increase in the price level, (Keynes, 2021).

### 2.3.3 MONETARIST THEORY

Monetarists argue that since money is a direct substitute for all other assets, an increase in the supply of money, given a fairly stable velocity of circulation, will have a direct effect on the demand for other assets since there will be more money to spend on those assets. If the total output of the economy is fixed, then an increase in the money supply will lead directly to higher prices (Friedman, 2018).

Monetarists therefore reach the same conclusion as the old quantity theory of money that a rise in money supply will lead directly to a rise in prices and probably also to a rise in money incomes, an increase in real output and so an increase in employment (Friedman, 2021). In the long run however, they argue that all increases in the money supply will be reflected in higher prices unless there is a long-term growth in the economy. Monetarist school of economic thought contended that money supply is a key determinant of the level of production the short run and the rate of inflation in the long run. In order to minimize uncertainty monetarist advocated for the maintenance of a constant rate of growth of money supply (Friedman, 2017).

### 2.3.4 Determinants of Loan Repayment

Default on Default on borrowed funds could arise from unfavorable circumstances that may affect the ability of the borrower to repay as pointed out by Stigliz and Weiss (2020). The most common reasons for the existence of defaults are the following: if the financial institution is not serious on loan repayment, the borrowers are not willing to repay their loan; the financial institutions staffs are not responsible to shareholders to make a profit; clients lives are often full of unpredictable crises, such as illness or death in the family; if loans are too large for the cash needs of the business, extra funds may go toward personal use; and if loans are given without the proper evaluation of the business, (Norell, 2021). Wakuloba (2021) in her study on the causes of default in Government micro credit programs identified the main causes of default as poor business performance, diversion of funds and domestic problems. Breth (2018) argued that there are many socio-economic and institutional factors influencing loan repayment rates. The main factors from the lender side are high-frequency of collections, tight controls, a good management of information system, loan officer incentives and good follow ups. In addition, the size and maturity of loan, interest rate charged by the lender and timing of loan disbursement have also an impact on the repayment rates (Oke et al., 2017).

The main factors from the borrower side include socio-economic characteristics such as, gender, educational level, marital status and household income level and peer pressure in group based schemes. Khemraj & Pasha (2019) and Fofack (2015) stated that there is a positive relationship between the inflation in the economy and non-performing loans. Nkusu, (2022) explained that this relationship can be positive or negative. According to the author inflation affects loan payment capacity of borrowers positively or negatively, higher inflation can enhance the loan payment capacity of borrower by reducing the real value of outstanding debt. Moreover increased inflation can also weaken the loan payment capacity of the borrowers by reducing the real income when salaries/wages are sticky.

## 2.4 EMPIRICAL REVIEW

Ng'etich & Wanjui (2019) carried out a study that sought to establish the effects of interest rate spread on the level of Non Performing Assets (NPAs). The study adopted a descriptive research design on a sample of all commercial banks in Kenya operating by 2008 which were 43 in number. The study used questionnaires to collect data from primary data sources and secondary data, collected from Bank Supervision Report, to augment the primary data findings. The study used both quantitative and qualitative techniques in data analysis to the relationship between the interest rate spread and loan non-performance.

The data was presented using graphs, table and pie-Charts. The study concluded that interest rate spread affects performing assets in banks as it increases the cost of loans charged on the borrowers, regulations on interest rates have far reaching effects on assets non-performance, for such regulations determine the interest rate spread in banks and also help mitigate moral hazards incidental to NPAs. Credit risk management technique remotely affects the value of a bank's interest rates spread as interest rates are benchmarked against the associated non-performing assets and non-performing assets is attributable to high cost of loans. The study recommends that commercial banks in Kenya should assess their clients and charge interest rates accordingly as ineffective interest rate policy can increase the level of interest rates and consequently NPAs. They apply stringent regulations on interest rates charged by banks so as to regulate their interest rate spread and enhance periodic/regular credit risk monitoring of their loan portfolios to reduce the level of NPAs. Bichanga & Aseyo (2021) carried out a study to find out the causes of loan default within Micro Finance Institutions (MFIs) in Trans-Nzoia County. Specific objectives were to investigate how non- Supervision of borrowers influences the loan repayment financed by MFIs in Trans-Nzoia county; to find out the effects of shrinking economic growth experienced by borrowers on loan repayment and to establish how diversion of loan funds by borrowers leads to default in loan repayment. The target population comprised a total of 400 loan borrowers and 200 MFIs out of which a sample of 150 was picked using simple random sampling for each stratum, which enable every member of the population have an equal and independent chance of being selected as respondents and also simplest, most convenient and bias free selection method. The data was collected by use of structured and semi-structured questionnaire. The data was analyzed from questionnaires using both quantitative and qualitative techniques and tabulated by use of frequency tables. The study found out that loan repayment default was as result of non supervision of borrowers by the MFIs, and also as a result of inadequate training of borrowers on utilization of loan funds before they received loans. The findings also revealed that most borrowers did not spend the loan amount on intended and agreed projects.

Ogol (2016) carried out a study to investigate factors affecting loan repayment among customers of commercial Banks in Kenya with specific reference to Barclays Bank of Kenya Limited. The study achieved its purpose through three objectives namely to determine the effect of Lenders factors on loan repayment among customers of commercial Banks in Kenya, to find out the extent to which Borrowers factors affect loan repayment among customers of commercial Banks in Kenya and finally to establish the effect of loan factors on loan repayment among customers of commercial Banks in Kenya. The study included staff of Barclays Bank of Kenya which includes Credit Administrators and Relationship Managers within the Branches of Nairobi County. It also included both mass market customers and the relationship managed customers. The target population included 78 respondents. The research design used was descriptive statistics. The study reviewed relevant literature with the aim of establishing a gap which the research fulfilled. Methods of collecting data were questionnaires and interview schedules. This study concludes that there is a significant relationship between firm/group factors and the loan repayment among customers of commercial banks in Kenya. The study also concluded that there was a significant relationship between individual borrowers' factors and the loan repayment among customers of commercial banks in Kenya. The study further concluded that there is a significant relationship between loan factors and loan repayment among customers of commercial banks in Kenya.

Kiliswa (2015) conducted a study with the objective of identifying the major determinants of loan repayment in Small Scale Enterprises (SSEs) with particular reference to SSEs in Kariobangi Division, Nairobi County. In order to achieve this objective, primary data were collected from 50 randomly selected respondents by using questionnaires. For data analysis, descriptive statistics including mean, frequency and percentages were used to describe the socio-economic characteristics of the borrowers. A regression model was used to analyze the determinants of loan repayment. The study found that even though many factors can lead to loan defaults, some of the factors were regarded to be of higher impact. Business related factors were significant in influencing loan repayment of the respondents with increase in input prices as the major factor that led to loan defaults while death of spouse was seen as the least factor that led to loan default. In addition, education level, family size, amount of loan applied and business experience of the respondents were found to have a positive relationship to loan repayment. Age, interest rate and change in gender had an inverse relationship to loan repayment. The study recommended that more loans should be advanced to female SSE owners aged 30-40s as they proved to be the least loan defaulters. SSEs in Kariobangi division should use prequalified suppliers in order to minimize variation in input prices. The financial institutions should provide financial education and awareness to SSE owners as they are less educated.

Apunyo (2020) did a study that sought to determine the effect of interest rates on loan repayment in Uganda's commercial banks using study of Equity bank. The analysis was implemented based on data obtained from 10 bank officials and 50 customers. The data analysis was based on the objectives of the study and done by use of Statistical Package for Social Sciences on collected data. The result of the study reveals that there is to great extent a close relationship between interest rates and loan repayment in conjunction with business growth and performance. High interest rates, coupled with lack of entrepreneurial skills were seen as the major factors that have a direct bearing with the loan repayment among Equity Bank loan customers. The study also established that all respondents were fully aware of the effect of interest rates role played by micro-credits in regards to business performance. Basing on their views, the provision of loans to entrepreneurs has a great impact on the businesses performance as compared to businesses not facilitated by micro-credits. This partly explains unenthusiastic regard of the management of Uganda Micro Finance Institutions to their improvements, in the credit terms to their client's entrepreneurs. However the businessperson appeared to be supportive to the micro-credit scheme, they yarned and claimed for increase of their loans and reduction on the interest rates and requested for entrepreneurship skill training and loan investment workshop as being the major factors that will lead to the improvement of their business performance. Taner (2018) carried out a study to investigate the effects of inflation uncertainty on credit markets by using a disequilibrium framework. They used quarterly data from 1980 to 1995 for the developing countries and longer sample periods for the developed countries (1971-1995 for Germany, 1972-1995 for Italy, 1975-1995 for Switzerland, and finally 1968-95 for the UK).

### 2.4.1 RESEARCH GAP

If inflation is anticipated, it significantly impacts financial performance. It seems especially clear regarding the effective distribution of the available resources, it has demonstrated that a high inflation rate reduces the financial sector's efficiency by increasing financial market frictions, lowering investment levels, and slowing economic growth. Further, policymakers are preoccupied with the issue of inflation due to its effects on the economy, which include deterring long-term planning, lowering savings and capital accumulation, decreasing investment., causing a shift in the distribution of real. Income and a resulting misallocation of resources, and introducing uncertainty and distortions into the informational content. of prices. Depending on the precise model assumptions, economic theory can forecast whether the trend of inflation will have a positive, negative, or zero impact on financial performance. The anticipated association between inflation and financial performance is still largely a matter of empirical investigation given the lack of a theoretical agreement. The consensus among economists on the impact of policy decisions on inflation rates highlights the importance of stable monetary policy for economic stability.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 INTRODUCTION

This chapter highlights the procedures used in conducting the study. Pertinent issues discussed in this section include the research design, population of the study, sample size and sampling techniques, sources and methods of data collection, instrument of data collection and techniques for data analysis.

## 3.2 RESEARCH DESIGN

A research design is the basic plan which guide the data collection and analysis phase of the research project. It is structuring of investigation aimed at identifying variables and their relationships to one another. It is basically a preconceived notion of what the information, the investigation needs to generate to complete the study, why it is needed, how it is needed to be secured and how it is to be referred and related to the statement of the problem.

In management science, the research methods employed include historical, empirical, case study and survey method. Survey method was therefore employed for this study.

## 3.3 POPULATION OF THE STUDY

A population is an aggregate of similar things, that is the total head count of the element involved in the programme affected. Cherisnall (2020) described population as any group of people or objects which are similar in more ways and which forms the subject of the study in a particular survey.

In this research work, the population is involves the staff in the administration department and accounting department of Dangote, Ilorin. Under investigation formed the population of the study since it would be impossible for the researcher to study and investigate all the staff responsible for the information sort for. The population of the study is the entire staff of Accounting Department of Dangote, Ilorin. The entire staff of this department is 30 staff. This is according to the information provided by the Human Resources Department as at December,

2022. The sample size for this study consist of 28 staff of Accounting Department of Dangote Plc, this is arrived at according to Yaro Yammane formula.

Sample size of the population is 30 and the researcher issue the same number of the questionnaire to the staff of the company to answer. To determine the minimum number of response from each of the section of work in the population Bowley's proportional method or formula was applied.

### 3.4 SAMPLE SIZE/SAMPLING TECHNIQUES

Sampling of the opinion has been drawn using simple random sampling method. The population is 30 respondents. Random sampling is used because it is the only method that gives the respondents equal chance of being selected and it is an unbiased techniques. Therefore, to determine the sample size for the study, Yaro Yamane's formula will be applied.

$$n = \frac{N}{1 + N(e)^2} \qquad N = 30$$

Where N = population

n = sample size

e = error

$$\frac{n = 30}{1 + 30(5\%)^2}$$

### 3.5 SOURCES AND METHOD OF DATA COLLECTION

The two basic sources of data collection used include primary and secondary data collection

**PRIMARY DATA COLLECTION:** This refers to data collected fresh in relation to this research work. They could also refer to as first hand raw information. These data are obtained through questionnaire administration. The use of the accessibility of the designed respondent. Also as long as they are properly designed, respondents identifies kept confidential, reliable responses are obtained.

**SECONDARY DATA COLLECTION:** These are existing reformation which is useful for the purpose for the specific surveys, it includes readily available data which have been collected and used for other purpose. These sources include magazines, journal, textbooks, newspaper, abstract and annual report etc.

Therefore in course of paper conduct of this research work, important and relevant information will be obtained from the members of staff and management of Dangote, Ilorin. Professional journal will also be used in this regard. Also literature relevant to this thesis of high valve in the theoretical frame work. Discussion with colleagues and member of staff of Dangote, Ilorin will also serve as part of the sources.

### 3.6 INSTRUMENT FOR DATA COLLECTION

The primary data was employed in gathering information from staff of all cadres. Interviews were also conducted with other stakeholders, including customers of the company. The questionnaire consists of two sections. Section A elicits demographic information like gender, working experience, while Section B contained structured items relating to the research questions that necessitated this research.

### 3.7 TECHNIQUES FOR DATA ANALYSIS

Data collected for the testing of the hypothesis were analyzed using simple statistical tools like mean, standard deviation, tables and percentages.

The standard hypotheses of the study were tested with the use of $x^2$ = chi square test statistics which is expressed as $X^2 = \sum(0 - E)^2$ with the degree of freedom of v = k-1

Here, 0 = observed frequency

E = Expected frequency

The maximum response rating for each question is 5% and this gives an expected mean score of 2.5.

In analyzing the responses to the questions, the decision rule applied is that, if calculated mean is greater than expected mean of 2.5, we accept the statement, otherwise, we reject it. With respect to the hypothesis testing, if the calculated value of $x^2$ is greater than the table valve, we reject the null hypothesis and accept the alternative.

# CHAPTER FOUR

# ANALYSIS AND DISCUSSION

## 4.1 INTRODUCTION

This chapter deals with the actual making of decision based on the computation and analytical process under which information collected from questionnaire will be made fifty-two questionnaire were sent out but thirty was returned, the information gathered from the analysis in section A below give insight into the cadre of the respondents. Therefore, the analysis of the study was based on the 30 questionnaire returned.

## 4.2 RESPONDENTS CHARACTERISTICS AND CLASSIFICATION

Having enumerated the questionnaire in previous chapters they will now be analyzed so that conclusions would be reached as to whether to accept or reject the ideals put across based on the response obtained. In doing this, the questions will be picked on after the other.

**SECTION A - BIO DATA OF RESPONDENTS**

TABLE 4:2:1: Gender of respondent

| 1 | Gender group | Number of Respondents | Percentage (%) |
|---|---|---|---|
| A | Male | 18 | 60 |
| B | Female | 12 | 40 |
| | Total | 30 | 100 |

Sources: Researcher’s Survey, 2025

From the table 4:2:1 above, it shows the sex group of the respondents. However the male respondent are 18 about 60% of the total respondent and female respondent are 12 about 40% of the total respondent. Therefore the male respondents are more than the female respondent.

TABLE 4:2:2 Marital status of respondent

| 2 | Marital Status | Number of Respondents | Percentage (%) |
|---|---|---|---|
| A | Single | 12 | 40 |
| B | Married | 16 | 53 |
| C | Divorced | 2 | 7 |
| | Total | 30 | 100 |

Sources: Researcher’s Survey, 2025

The table 4:2:2 above shows the marital status of the respondents. However the single one are 12 about 40% of the respondent, the married are 16 about 53% and the divorced ones are 2 about 7% of the respondents.

TABLE: 4:2:3: Length of work experience

| 3 | Length of work experience | Number of Respondents | Percentage (%) |
|---|---|---|---|
| A | Between 1-10 years | 7 | 27 |
| B | Between 11-20 years | 6 | 57 |
| C | Between 21-35 years | 17 | 17 |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

The table 4:2:3 above shows the length of work experience of the respondents. However, between 1-10 years are 7 about 27% of the respondent, between 11-20 years are 6 about 57% of the respondent and between 21-35 years are 17 about 17% of the respondents.

TABLE 4:2:4: Educational qualification

| 4 | Qualification | Number of Respondents | Percentage (%) |
|---|---|---|---|
| A | WSC/SSCE/NCE | 7 | 24 |
| B | OND/A' LEVEL | 17 | 56 |
| C | BSC/HND | 6 | 20 |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

Table 4:2:4 above shows the qualification of the respondents. However, WSC/SSCE/NCE are 7 about 24% of the respondent, OND/A' LEVEL are 17 about 56% of the respondent and BSC/HND are 6 about 20% of the respondents.

TABLE 4:2:5: Department specification of respondent

| 5 | Department specification | Number of Respondents | Percentage (%) |
|---|---|---|---|
| A | Account/Finance | 13 | 43 |
| B | Personnel | 11 | 20 |
| C | Administrative | 6 | 37 |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

The table 4:2:5 above shows the department specification of the respondents. However, the Account/Finance are 13 about 43% of the respondents, personnel are 11 about 20% of the respondents and administrative are 6 about 37% of the respondents.

## 4.3 PRESENTATION AND ANALYSIS OF DATA ACCORDING TO RESEARCH QUESTION

**SECTION B: TABLE 4:2:6**

1 Which of the following are prepared in your company?

| | RESPONSE | Number of Respondents | Percentage (%) |
|---|---|---|---|
| A | Statement of accounting policies | 15 | 50 |
| B | Statement of comprehensive income | 15 | 50 |
| C | All of the above | 00 | 00 |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

Table 4:2:6 above shows the preparation in the company. However, the company prepares both the statement of accounting policies and statement of the comprehensive income of the financial reports.

**TABLE** 4:2:7

2 Do you agree that the management need information provided by the financial statement in the performance of its information?

| | RESPONSE | Number of Respondents | Percentage (%) |
|---|---|---|---|
| A | Strongly agree | 21 | 70 |
| B | Agree | 7 | 23 |
| C | Disagree | 2 | 7 |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

The table 4:2:7 above shows the management information provided by the financial statement in the performance of its information. However, the strongly agree are 21 about 70% of the respondents, agree are 7 about 23% of the respondents and disagree are 2 about 7% of the respondents.

TABLE 4:2:8

3 Do you think that competent and sufficient hands are employed to prepare financial statement in time?

| | RESPONSE | No | % |
|---|---|---|---|
| A | Agree | 19 | 63 |
| B | Disagree | 11 | 37 |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

Table 4:2:8 above shows the competent and sufficient hands employed to prepare financial statement in time. However, agree are 19 represent 63% of the respondents and disagree are 11 represent 37% of the respondents.

**TABLE** 4:2:9

4 Do you think that sufficient data are available for financial statement in time?

| | RESPONSE | No | % |
|---|---|---|---|
| A | Agree | 10 | 33 |
| B | Disagree | 20 | 67 |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

The table 4:2:9 above shows the sufficient data that are available for the financial statement in time. However, the one's that agree are 10 about 33% of the respondent and disagree are 20 about 67% of the respondent.

**TABLE 4:2:10**

5 Who are the users of financial statement?

| | RESPONSE | No | % |
|---|---|---|---|
| A | Investors | - | - |
| B | Employee | - | - |
| C | Management of the above | 30 | 100 |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

The table 4:2:10 above shows the users of financial statement. However, the analysis shows that the investors and employee respondent represented by 100% agreed that all the above use of ratio.

**TABLE 4:2:11**

6 What are the reasons for preparing financial statement?

| | RESPONSE | No | % |
|---|---|---|---|
| A | Planning | - | - |
| B | Decision making | - | - |
| C | All of the above | 30 | 100 |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

The table 4:2:11 above shows the reasons for preparing financial statement. However, the analysis shows that the planning and decision making both agreed with the reasons for preparing their financial statement.

TABLE 4:2:12

7 How would you assess management ability to interest financial statement?

| | RESPONSE | No | % |
|---|---|---|---|
| A | Strongly agree | 5 | 17 |
| B | Agree | 20 | 66 |
| C | Disagree | 5 | 17 |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

The table 4:2:12 above shows the assess management ability to interest financial statement. However, strongly agree are 5 represented 17% of the respondents, agree are 20 represented 66% of the respondents and disagree are 5 represented 17% of the respondents.

**TABLE 4:2:13**

8 Which of the following techniques do you use in analyzing financial statement?

| | RESPONSE | No | % |
|---|---|---|---|
| A | Statement analysis | 27 | 90 |
| B | Value added statement | 1 | 3 |
| C | Inflation adjustment account | 2 | 7 |
| D | If others, please specify | - | - |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

The table 4:2:13 shows the technique use in analyzing financial statement. However, the statement analysis are 27 about 90% of the respondents, value added statement are 1 about 3% of the respondents, inflation adjustment account are 2 about 7% of the respondents and other use known of the respondent to analyze their financial statement.

TABLE 4:2:14

9 Which of the following statement do you use as a manager?

| | RESPONSE | No | % |
|---|---|---|---|
| A | Profitability statement | - | - |
| B | Liquidity statement | - | - |
| C | Stock management statement | - | - |
| D | Stability statement | - | - |
| E | All of the above | 30 | 100 |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

From the table 4:2:14 above shows the statement use as a manager. However, the above shows that all respondents accept that all the following statement are used as manager.

TABLE 4:2:15

10 Are the inventory in your company adequate to support the project level of sales?

| | RESPONSE | No | % |
|---|---|---|---|
| A | Agree | 26 | 87 |
| B | Disagree | 4 | 13 |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

The table 4:2:15 shows the inventory in the company adequate to support the project level of sales. However, agree are 26 represent 87% of the respondents and disagree are 4 represent 13% of the respondents support the projected level of sales.

TABLE 4:2:16

11. which of the following do you compare your result within analyzing the financial statement?

| | RESPONSE | No | % |
|---|---|---|---|
| A | Post events | 25 | 83 |
| B | Budgeted figures | 3 | 10 |
| C | Leading firm industry | - | - |
| D | Industrial | 2 | 7 |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

The table 4:2:16 above shows the respondent in the industry to compare the result within analyzing the financial statement. However, the post event are 25 represent 83% of the respondents, budgeted figures are 3 represent 10% of the respondents, industrial are 2 represent 7% of the respondents and no on accept leading firm in the industry to compare their result in analyzing their financial statement.

TABLE 4:2:17

12 Do you think that management (most especially the non-accounting ones) caused companies a lot to have by treating of financial advice with levity?

| | RESPONSE | No | % |
|---|---|---|---|
| A | Agree | 30 | 100 |
| B | Disagree | - | - |
| | Total | 30 | 100 |

Sources: Researcher's Survey, 2025

The table 4:2:17 above shows the respondents that financial advice treated with levity by non-accounting ones. However, the analysis shows that all respondents that is 100% agreed that financial advice is treated with levity by non-accounting ones.

**4.3 TEST OF HYPOTHESIS**

H0: Financial statement does not have significant impact on management decision.

H1: Financial statement has significant impact on management decision.

Positive Response Negative Response

| | X | Y |
|---|---|---|
| Question 1, | 36 | 3 |
| Question 2, | 35 | 4 |
| Question 3, | 38 | 1 |
| | 109 | 8 |

**Pearson (r) method**

$$r = \frac{N\sum xY - \sum x \sum Y}{\sqrt{n\sum x2 - (\sum x)^2 \ (N\sum Y^2) \ (\sum Y)^2}}$$

$$= \frac{3 \times 286 - 872}{\sqrt{3 \times 3965 - (11881) \ (3 \times 26 - 64)}}$$

$$= \frac{858 - 872}{\sqrt{(11895 - 11881)}}$$

$$= \frac{14}{\sqrt{14 \times 14}}$$

$$\frac{\underline{\underline{14}}}{\sqrt{14 = -14 = 3.74}}$$

$$= \underline{\underline{3.74}}$$

**HYPOTHESIS 2**

115625

| X81 | Y | $X^2$ | $Y^2$ | XY |
|---|---|---|---|---|
| 34 | 5 | 1156 | 25 | 170 |
| 30 | 9 | 900 | 81 | 270 |
| 35 | 4 | 1225 | 16 | 140 |
| 99 | 18 | 9801 | 324 | 1782 |

Source: field survey, 2025

$$r = \frac{1740 - 1782}{\sqrt{(9843 - 9801)\ (366 - 324)}} = (42 - 42)$$

$$\frac{-42}{\sqrt{42}} \quad \frac{42}{\sqrt{6.48}} \quad = 6.48$$

r = 6.48 is greater than 0.71

Therefore, accept Hi and reject the Ho

The liquidity of a company has no significant impact on returns on investment.

**HYPOTHESIS 3**

$H_1$ the probability level of a company has a significant impact on the rate of return on investment.

| Question | Positive response | Negative response | $X^2$ | $Y^2$ | XY |
|---|---|---|---|---|---|
| 1 | 25 | 14 | 625 | 196 | 350 |
| 2 | 32 | 7 | 1024 | 49 | 224 |
| 3 | 38 | 29 | 100 | 841 | 290 |
| 4 | 10 | 4 | 1369 | 16 | 148 |
| 5 | 37 | 1 | 1444 | 1 | 38 |
| | 142 | 55 | 4562 | 1103 | 1050 |

SOURCE: FIELD SURVEY, 2025

$$r = \frac{5.1050 - 142 \times 55}{\sqrt{(5.4562 - 20124)(5515 - 3025)}}$$

$$= \frac{5250 - 7810}{\sqrt{2646 - 2490}}$$

$$= \frac{-2560}{\sqrt{65885450}}$$

$$+\frac{2560}{2.567} = 0.99$$

**4.4 SUMMARY OF FINDINGS**

From the result obtained on the data analyze, it was discovered that of the financial statement have a significant impact on investment decision.

a. The liquidity level of a company influences the return to be received on investment.
b. The profitability level of a company influence rate of returns as return on investment.

   Before the date was analyzed, it was certified by using test-rates method. The hypothesis formulated were now tested to see if they should uphold from the result been rejected.

Investors in order to critically analyze the financial statement in order to determine the liquidity and profitability level of a company before taking any managers are to ensure that used so that potential investors can be attracted.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATION

## 5.1 SUMMARY

Business entities communicate their information to interested users through published financial statements. These published financial statements are prepared in the form of report and many people think of financial statement as highly technical documents which can be understand only by professional accountants.

One need the art of measuring, interpreting and communicating the information contained in the financial statement. The financial statements present the summary of the activities of an organization over a period. Its main objective is to communicate a disruption of financial condition and operating of a business entity. The financial statements the last in accounting process are the starting point in the study of accounting.

## 5.2 CONCLUSION

It can be concluded from this study that in order to make appropriate investment decisions for adequate understanding of the financial information presented in financial statements, the interested parties to financial statement must have an in-depth understanding of the items contained in the financial statements. For this reason, the interpretation of accounts was considered a major aspect of the study and the items in the financial statements were analyzed and explained for the purpose of those who have little or no knowledge of such statements. The two major financial statements are balance sheets and profit and loss accounts. The former give a true and fair view of the state of affairs of a company at the end of a financial year to ascertain the financial position of the company while the latter shows the results of a business over a particular accounting period.

Based on the findings it can also be concluded that financial statement has an impact on investment decisions as this will portray the strengths and weaknesses of the organization which is of paramount important to the interested parties.

It is further concluded that there is a significant relationship between financial statement and investment decisions as another finding concluded to prove this postulation by asserting that investment decisions depends solely on financial statement meaning that financial statement is a criteria for making investment decisions.

### 5.3: RECOMMENDATIONS

Considering the importance of investment decision by prospective investors, it would be pertinent to proffer some recommendations.

The recommendations are:

- In order to take investment decisions, proper investigations should be made on all financial statements, that is apart from the balance sheet and the profit and loss account, an in – depth investigation should be made on other statement such as cash flow statement, value added statement, report of the auditors, report of the directors, chairman's statement and the five year financial summary all these statements are contained in the published annual reports. This goes to affirm the finding that financial statement has a significant relationship with investment decision
- It is recommended that all interested parties to financial statement require financial ratio analysis for decision making.
- The company should not relent in its effort of the study that deals with the financial positions and operational activities of union company in Nigeria, so as to provide among the other things the basis for making the performance, strength and weakness as a means for making rational decision by the management and the other interested parties.
- The company should continue to keep a good and reliance financial recording transaction for the firm, so that the organization can be able to make an accurate planning and a well reliable decision making for the organization.

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