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ACCOUNTING INFORMATION AND COMMERCIAL BANK LENDING DECISION IN NIGERIA: AN EMPIRICAL ANALYSIS OF SELECTED BANKS IN PORT HARCOURT

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AUSTRACT

Accounting information on lending decisions has become an **issue of major** economic significance in recent years. This has led to rcsurgence of interest in analyzing the phenomenon and diverse forms that accounting information assume in the influencing lending proposal and credit management in banks. In this study, an empirical analysis of the role of accounting information on **commercial banks lending was undertaken. It was revealed that accounting information is indispensable in commercial banks lending decision and the** there is need for the Nigerian Accounting Standard Board (NASD) to distinguish between the different categories of business units in setting standard and that both current cost and historical cost should be compared while preparing financial records for ample reliability.

INTRODUCTION

The competitive nature of business environment in recent times calls for judicious use of resources by any business entity. Danks as financial intermediaries assist in channeling funds from surplus economic unit to deficit units 10 facilitate business transactions and economic development. The funds involved in this intermediation process are largely owned by third parties. It is only proper that such funds be efficiently managed to sustain the confidence of depositors and shareholders in the banking system. This will in tum ensure the continued soundness of the system itself and thereby, minimize the risk of bank failure (Ojo, 1991).

Dank lending provides the main avenue for banks profitability. But the exercise is a part of asset and liability management, which is a primary focus of bank fund management. It deals with the acquisition of funds (liability management) and the allocation of funds (assets management), the basic objective being the attainment of high profitability consistent with liquidity, solvency and regulatory constraints, (Nwankwo, 1991:41). The bank is then viewed as a set of inter-relationships that must be identified, co-ordinated and managed as a system if the decisions made are to be consistent with these basic objectives. Accounting information provides the yardstick for measuring these performances. Information communicated by accounting records serves as a basis for corrective actions when outcomes deviate from pre-determined goals. Such information provides explanations of performance to .stake holders like shareholders, depositors, creditors, potential investor, and regulatory authorities. This underscores the need to investigate the effects of accounting information on the present day Commercial Banks lending decision in Nigeria.

CONCEPTUAL FRAMEWORK

The impact of accounting information on banks lending decision in Nigeria can be regarded as qualitative in nature. Basically, the degree to which accounting information influences bankers' lending decisions does not lend itself easily to any quantifiable statistical analysis. But the fact that bankers, as professional are always committed to the process of analyzing financial report of the loan applicant to ascertain the measure of the security which the loan will enjoy suggests the need for reliance on accounting information and statistical tool for proper evaluation. Accounting, therefore provides the tools of identifying, measuring and communicating economic and financial information to permit informed judgment and decisions by the users of the information (Felitharn, 1972:26, Frederick, 1984:76, Cyvert, and Ijiri, 1976:126).

Accounting information for management decision making is drawn from three fundamental areas; financial, cost and management accounting. Financial accounting covers the classification and recording of actual transactions of the entity in monetary terms in accordance with established concepts, principles, accounting standards, and legal requirements and as possible view of the effect of those transactions over a period of time at the end of that time (Lucey, 1984:81). Cost accounting is that part of management accounting which establishes budgets and standards, costs and actual cost of operations; process departments and products and analysis or variance, profitability or social use of funds. Management accounting is the process of identification, measurement, accumulation analysis, preparation, interpretation, and communication of information that assists executive in fulfilling organizational objective (Hom gren and Sundem, 1987:4).

FINANCIAL STATEMENT AND THEIR INFORMAnON CONTENT FOR MANAGEMENT DECISION-MAKING

Accounting information is contained in financial statements, which consists of profit and loss accounts (income statements) balance sheet, value added statement, cash-now statement, and historical financial summary (Scott, 1996:34). The income statement shows the result of operation of the organization during a particular period. This statement discloses to management the level of its performance in the use of the resources provided by owners. Thus, management can know whether it is utilizing economic resources in the proper manner by reference to the following key variables: (I) level of sales/revenue, (2) level of cost and, (3) net operating result (i.e. Net Income).

Balance sheet shows the assets, liabilities and shareholders' interest at a particular point in time. It can also inform management on the adequacy or otherwise of working capital; the period of the maturity of debt (if any); the composition of structure of the capital provided to the organization; the liquidity position of the organization by way of adequacy of working capital; and the firm's total assets base and the composition of division of the assets (through the use of ratios) between owner(s) and creditors. The balance sheet has certain limitation which wholly relied upon could mislead the management. The balance sheet shows the value of the assets at the historical cost and not on the current value.

Lending policies of commercial banks depend to a great extent on the accounting information of the borrowers. The basic principles of lending such as; safety, stability, purpose and profitability are built on satisfactory information on the borrowers. The borrower integrity, experience, capital resources, source of repayment and security are variables which accounting information provides. When assessing financial needs (for example), it is necessary to take into account the prospective profits of an enterprise, the structure of its balance sheet, and also its cash flow potential (Osayameh, 1986:14).

SOURCES OF CREDIT INFORMATION

Credit information on potential borrowers forms a vital part of the decision making process. It is complementary to the historical and investigational information on the borrower, which, if well carried out, would reduce the risk element in a lending proposition (Osayameh, R.K.O., 1986:37). Accounting information on the following areas can provide the necessary source of credit information: (I) banks-offer a ready source of credit information through their customer's references before an account is opened, bank would take necessary steps including taking of references. Thereafter, free-Dow of information continues during the currency of the banking relationship, (2) trade source,-which show the ways and means the company pays its supplies, the level of discounts taken and the general assessment of the integrity and business capabilities of its management, and (3) major customers-also offer a good source of credit information as most producers in the world over operate a network of wholesale distributors and accredited retailers to market their products. Information on defective products, quality of products and promptness in adjusting to adverse public comments on defective products.

The analysis of the financial statement also offer a reliable source of credit information. This source is undertaken in order to have a proper understanding of the operational pattern of the organization in the light of trends and economic circumstances. Since changes in financial affairs do not just happen, analysis of accounting information will normally show the result of the human and economic factors which prevail. Banks portfolio in business financing has increased tremendously over the years. The occurrence of banks expansion, financial crises contraction and expansion are all regular happenings which have their roots on lending activities. The present day lending officer has to do more analysis of financial stalements to assess companies' present level of operations, sources, and application of funds, linancial requirements and repayment potential with the use of quantitative and qualitative techniques, which have their root in accounting information.

METHODOLOGY

This study tried to find out the effects of accounting information on the present day commercial banks lending decision in Nigeria. To guide our investigation, we formulated and test one null hypothesis. This is stated as: there is no significant difference between the accounting information and commercial bank lending decisions". We identified nine (9) banks, these are Guarantee trust bank First bank Pic, Untied bank for Africa Pic, Afri bank, Union bank Pic, Orient bank, New Nigeria bank, Society General bank, and Trade bank. These are banks that are represented in the stock exchange in Port Harcourt.

The sample was limited to large quoted banks in the stock exchange in Port Harcourt in order to increase the probability that the loan officers surveyed would rely more on the types of information included in the accounting information when making typical lending decisions. Lending officers at small banks and other credit institutions might depend more on personal knowledge of a loan applicant rather than on the applicants published accounting information when making lending recommendations. Questionnaires were issued to 9 loan officers of these banks. The structure of the questionnaire emphasized the critical financial reporting issues to which the individual information item relates. A total of forty-two (42) information items covering variable in assets, liabilities, sequent reporting, interim reporting and lending information were used. These items are contemporary financial reporting issues. See Appendix Ill. The respondents were requested to evaluate each information item independently, using the prescribed scale. This is shown in appendix I and II. To provide a concrete and familiar framework, within which respondents could formulate their indispensability judgments, the bankers were instructed to evaluate each information item within the context of making a typical decision to extend a loan of moderate size to an enterprise. They were also asked to treat the items as if they were obtained from the annual report, which accompanied loan application. The study relied on primary source of data collection.

DATA ANALYSIS

Empirical data obtained from our questionnaire responses enable us to ascertain if accounting information used by Commercial Banks is indispensable in the lending decisions. The data obtained in presented in table I below:

A cursory look at table I above shows that 9\ out of 378 or 24.1% of the responses obtained from 9 Commercial Banks loan officers on 42 basic accounting information (see Appendix I), that impact on bank lending is highly indispensable. 101 out of 378 or 27% of the responses show that accounting information is fairly indispensable. 92 out of 378 or 25% of the responses show that accounting information is slightly indispensable, while 96 out of 378 or 25% of the responses show that accounting information is indifferent in loan decision. Since the highest number of responses (101 or 27%) agree that accounting information is fairly indispensable in loan decision by Commercial Banks in Nigeria, we conclude based on this result that accounting information is fairly indispensable in loan decision by Commercial Banks.

TARLE I: INDISPENSARtLlTY OF ACCOUNTING INFORMATION RY COMMERCIAL BANKS IN THEIR LENDING DECISIONS

Respondent Banks	Highly ludisnensable	Fairly Indispensable	Slightly Indispensable	Int.liffert'1l1	Total Responses
I	12	10	5	15	42
2	8	13	9	12	42
3	9	12	9	12	42
4	14	10	8	10	42
5	II	12	11	8	42
6	10	8	16	8	42
7	11	10	12	9	42
8	12	12	9	9	42
9	4	12	13	13	42
TOlal	91	101	92	96	374
Percentage Response	24%	27%	24%	25%	100%

Source: FIeld survey 2001

To lest if this decision was statistically significant or whether it was due to sample error, T-test statistic was used. The mean response of each decision variable of the 42 items earlier identified was used in the computation. The T-test statistic is computed using the forrnular:

$$T = \frac{x-u}{\frac{s}{\sqrt{n-1}}}$$

where x = Sample mean
u = Population mean
s = Sample standard deviation and
n = Number of sample items

$$S = \sqrt{\sum\left(\frac{x-\bar{x}}{N}\right)^2}$$

See data generated from questionnaire responses at appendix 4(a) and 4(b).
We restate the hypothesis as follows:

Ho: x = 4
Ha: x < 4

Using the respondents' evaluation criterion and scale construction provided in Appendix 2, we used 4 as the cut off point.

The number 1,2,3, and 4 were dominant in the distribution, which represents the responses of the target population. They also appear to have the same frequency. To make the calculation less difficult, it was necessary to find a consisting (mean) and standard deviation for the distribution. This process was performed using the responses recovered from a representing questionnaires item. Sample items are designated X in the standard deviation forrnular and is derived as follows: 1(5), 2(5). 3(5), 4(5), = 20. Where 5 is the assumed frequency. The summary result is given as follows;

U = 4, N = 9, S = 1.12, t = 75.4085.

Since the critical *t* value of 2.896 (at df.8, one tailed test at 0.01 level of significance) falls within the acceptance region. The decision is to reject Ho and accept Ha. Hence, we conclude that accounting information is indispensable in commercial banks' lending decision.

CONCLUDING REMARKS

Based on the finding of this study, we conclude that:

1. Accounting information supplied by the business units in Nigeria is indispensable in loan appraisal.

2. There is a positive and significant relationship between accounting information and commercial banks' lending decisions.

3. Accounting information can help management (small-scale enterprises) and Commercial Bankers to achieve the following: plan effectively and focus attention on deviation from plans, direct day-to-day operations and arrive at the best solution to the operating problems faced by the organizations.

RECOMMENDAnONS

Based on the conclusion of this study, we recommend as follows:

1. The Nigerian Accounting Standard Board (NASB) should distinguish between the different categories of business units in setting standard.

2. There is need to combine both current cost and historical cost while preparing financial records as total reliance on historical cost accounting has proved unreliable.

3. The accounts department of banks should be staffed by competent employees to handle the accounting aspect of the work effectively.

4. Currently, most banks have internal audit unit, which inspects the overall operations of the banks. There is need to recruit competent personnel in this unit, so as to ensure efficiency of this assignment.

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APPENDIX 1

INFORMATION ITEMS ON LENDING DECISIONS OF COMMERCIAL BANKS

ASSETS:

I. (i)	Property, Plant and Equipment (PPE)
2. (ii)	Accumulated depreciation of PPE
3. (iii	Inventories
4.(iv)	Marketable equity securities
5(v)	PPE held for disposal
6 (vi)	PPE acquired in Exchange of securities
7.(vii)	Cash on hand
8.	Demand and time deposit
9.	Accounts and notes receivable and related unearned discount.
10.	Allowance for doubtful accounts and notes receivables
11.	Repayments
12.	Refundable deposits
13.	Advanced to unconsolidated subsidies
14.	Sales revenue
15.	Net income
16.	Dividend payment
17.	Earning per share
18.	Current assets
19.	Current liabilities
20.	Cost of goods sold
21.	Material profits from activities other than usually undertaken by the company.
22.	Information in lease obligation
23.	Information on revenues
24.	Material elTect caused by a charge in the basis of accounting
25.	Material loss from activities other than the ones usually undertaken by the company.

SEGMENT REPORTING

26. Identifiable assets associated with each industry segment
27. Revenue associated with each industry segment
28. Operating income associated with each segment
29. Operating loss associated with each industry segment
30. Amount of capital expenditure associated with each industry segment
31 ; Long-term liabilities associated with each industry segment.

INTERIM REPORTING

32. Sales revenue
33. Net income loss
34. Dividend payment

35. Savings per share
36. Current assets
37. Current Liabilities
38. Others
39. Cost of goods sold
40. Material profits/lost from activities not usually undertaken by the company
41. Information on lease obligations
42. **Inforination in reserves**
43. Any material effect cause by a change in the basis of accounting.

APPENDIX II
RESPONDENTS INDEPENDENT EVALUATION AND THE SCALE CONSTRUCTION

Indispensability	Lending Decision	Loan Rating
High Indispensability	6	
Fairly Indispensability		5
Slightly Indispensability	4	
Indifferent		3
Slightly dispensable	2	
Fairly dispensable	J	
Highly dispensable	a	

APPENDIX 3
(UESTIONNAIRE ITEMS AND FINANCIAL REPORTING ISSUES

SlNo	Financial Reporting Issues	No Of Questionnaire Items
I.	Replacement & Historical Cost	26
2.	Accounting	5
3.	Segment Reoortinz	6
4.	Interim reporting	5
	Others	
	Total	42