CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In mobilizing savings and allocating scarce resources between competing ends, commercial banks and other financial institutions occupy a very important position in the Nigerian economy: In contemporary Nigeria, banking is one industry which has witnessed unprecedented upsurge in activities as a result of reforms in the economy by the federal government. In the past years, there were about 89 banks with 3,389 branches located in both rural and urban centres nationwide. These banks were characterized by structural and operational weaknesses such as:

- Low capital base; Dominance of a few banks
- Insolvency and illiquidity
- Over dependency on public sector deposits and foreign exchange trading.
- Weak corporate governance; A system with low depositor confidence
- Banks that could not effectively support the real sector of the company at 24% of GDP, compared to Africa average of 78% and 272% for developed countries, Morgan (2010; 10).
The recapitalization and consolidation exercise in the banking industries by the former Central Bank of Nigeria Governor Professor Charles Soludo has necessitated the need for different organization to engage in corporate consolidation (Mergers and acquisition). The concept of recapitalization refers to the current trend of compelling all commercial banks to raise their capital base from 2billion to 25 billion naira by the Central Bank of Nigeria on or before 31st December, 2005.

The effect of the recapitalization exercises are to

- Facilitate evolution of a strong and safe banking system;
- Improve transparency and accountability in the sector;
- Drive down the cost structure of banks and make them more competitive and development oriented;
- A new banking system that depositors can trust and investors can rely upon usher in a new economy.

The ability of the commercial banking system to perform its tasks efficiently and in harmony with our needs and economic goals depends in large measure an efficient management. There is too much at stake to do otherwise. However, the efficiency of a commercial bank as well as its
overall success depends to a great extent on the quality of information available to its management in its decision making process. Effective planning and control of an organization requires good information system. Logical decision making requires an understanding of the circumstances surrounding an issue and knowledge of the alternatives available. The more pertinent and timely the information the better the resulting decision.

The accounting function helps in the accumulation of accounting data, which help management in the planning process. Benjamin C. [199: 6] define “accounting as process of measurement and communication in which the major responsibilities are recording, analyzing, reporting and interpreting financial information of an economic entity” Accounting is more than this; however, it permits informed judgements and decisions to be made by the users of the information. Perry, F.E (1973: 2) describe the users of accounting information as “Owners and prospective owners of a business enterprise, bankers and suppliers of credit and government agencies”.

Other users are employees who require information about the financial results of the enterprise activities on which their
remuneration will be based and the management which has responsibility for the survival of the enterprise on behalf of the owners.

It must be noted that lending is probably the most important service provided by commercial banks, advances are the most important assets held by banks, and bank lending provides the bulk of bank income. Over the years, commercial banks loan to the private sector have increased significantly.

Obviously, inflationary presumes had much to do with this phenomenal increase, but the gain are very large, even when aptitude for the rise in prices.

Although, the Structural Adjustment Program led to stiff competition in the banking industry, it equally made new opportunities manifest in all sectors of the Nigerian economy.

In order to maximize available lending opportunities in the economy, commercial banks requires adequate accounting information to evaluate the probability of loan repayment, estimate the potential loss if the borrower does not pay, and decide on, the terms of the financing if a loan is to be made Konter, O'Donnell (1989: 12) The information often required are those that deal with solvency, liquidity and
profitability of the firm seeking credit. Gohen Gerald (1998: 4) states that, the evaluation procedures involve three related steps:

(i) Obtaining information on the applicant,

(ii) Analysing this information to determine the applicants credit-worthiness and

(iii) Making the credit decision.

This study is specifically aimed at the relevance and predictive power of accounting ratios in taking lending decision. This is based on the assumption that financial statements are provided or made available by the credit seeker.

1.2 STATEMENT OF THE PROBLEM

Credit management is the core of the entire operations of the banking industry. However, “the numerous and varied risks in lending system form many factors that can lead to the non payment of obligations when they are due”, Edward Lee (1976: 9). In fact the prompt repayment of loan and interest thereon determine the profitability of a bank. Many problems are encountered in commercial banks lending, some of these which this study is concerned with are:
1. Because of the high rate at which loans go bad.
2. Due to ineffective regulations guiding against loan defaulters in Nigeria.

In the recent years, lending officers complain bitterly about the rate at which loans go bad. Some bank chief executives do give out loans to their clients and relatives on the ground of trust, which if it goes bad boomerangs on the bank and its operations, e.g. Oceanic bank, Intercontinental bank, Union bank and others.

Existing literature in banking recognize the importance and relevance of accounting information in bank lending decision making. The relationship between accounting information and bank lending system form the fact that financial statements are among the most important sources of credit information available to bank lending officers.

1.3 OBJECTIVES OF THE STUDY

In a developing country like ours the role of banks is more pronounced in the sense that apart from performing their traditional banking functions, they also pay a developmental role of ensuring the overall growth of the economy. The primary aim of this research is to investigate and evaluate the accounting information in the lending
decision of Nigerian commercial banks. It is also aimed at empirically examining the extent to which accounting information is utilized by lending officers. More specifically these work intends to investigate the following issues:-

(i) Whether Nigerian commercial banks request for accounting information from firms in quest for loans

(ii) The extent to which they utilize accounting ratios in amending credit applicants.

[iii] The quality and reliability of information derived from computed ratios

iv) Whether Nigerian commercial banks lend on the basis of accounting information or on the basis of collateral security offered.

Further, this work will aim to

(i) Make recommendation in line with the findings and

(ii) Provide a spring board for further research on the project topic.

1.4 RESEARCH QUESTIONS.

The research questions are as follows;

- To what extent do Nigerian commercial banks rely on accounting information in their lending decision?
- How can a lending officer assess the credit worthiness of a firm seeking a loan?
- Should a bank lend on the basis of pro-positions or on the basis of collateral securities?

1.5 HYPOTHESES OF THE STUDY

In line with the problem statement and the objectives of the study, the following hypotheses are formulated.


H₁. Accounting ratios are useful tools to a lending officer on determining the credit worthiness of a prospective borrower.

H₀. Accounting ratios are not useful tools to a lending officer on determining the credit worthiness of a prospective borrower.

H₁. Should a bank lend on the basis of pro-positions or on the basis of collateral security.

H₀. Banks should not lend on the basis of pro-positions or on the basis of collateral security.
1.6 SCOPE OF THE STUDY

This study is intended to cover twenty five (25) commercial banks disclosed by the directory of Nigerian banks as having their head office addresses in Lagos state. The choice of Lagos is influenced by the fact that it has a lion share of bank head offices, there are clustered within a twenty kilometers reduce thereby making them easily accessible for study at a minimum cost. In fact, of the twenty five banks operating in Nigeria as at December 2010, all of them have their head offices in Lagos.

1.7 LIMITATION OF THE STUDY

One complication in the tasks of relating accounting information to decision making is the fact that accounting information describes many different sets of data and information. It is possible to consider that any data or information which is obtained from or created in the accounting systems of a firm is accounting information whether cost aimed in a financial statement, a special report or verbal statement.

However, for the purpose of this study, that interpretation is too broad to be useful. Thus, this work intends to concentrate on accounting ratios because they are
sets of data, which are quite relevant to bank lending. Also, this study pertains to lending to corporate business organization rather than persons or entities that are not statutorily allowed to publish their financial statement.

1.8 SIGNIFICANCE OF THE STUDY

The primary objectives of accounting information is to aid the manager in making timely and formal decisions “providing vast amounts of data is not in itself helpful, in fact, it may confuse and hinder more than it helps; Perry et al.[1989;12] This study is one of the most numerous efforts directed towards evaluating the impact of accounting information on the lending decisions of Nigerian commercial banks. Firstly, credit manager who deserves to sharpen their decision making ability on loan request will find this study very useful. Secondly, it is hoped that this research will not only serve as an invaluable literature for further researchers but also generate ideas which will have policy implication for Nigerian commercial banks in extending credit facilities to their clients.
1.9 DEFINITION OF TERMS

The following terms used in this study are defined for purpose of clarification.

COMMERCIAL BANK

A bank which undertakes all kinds of ordinary banking business Hanson (1978: 81).

MANAGEMENT INFORMATION SYSTEM

Some tangible or intangible entity that reduces about some state or event Mayo (1989: 44).

ACCOUNTING INFORMATION

Data organized for the special purpose of decision making. Osisioma (1990: 52)

ACCOUNTING RATIOS


COLLATERAL SECURITY:

Any property, negotiable interest or documentary evidence of a claim against or ownership in property conveying title to the holder as a pledge for the repayment of money lent.
FINANCIAL STATEMENT:

May be referred to as overall general purpose entity statements that present the financial position and operating results of an entire business at the end of the annual accounting period or for a shorter period, Kennedy and Macmillan (1968: 6).

ANALYSIS

The resolution or suppuration of data into their elements or component parts, the tracing of facts to their source, Osisioma (1990: 306).

LOANS

A generic term that embraces all types of credit facilities like advances, overdraft, commercial papers, banker’s acceptance and bill discounted.

DECISION

Making a choice between two or more alternatives

LENDING

Is the extension of credit to worthy borrowers?

CREDIT

Is the ability to obtain goods, services, or money on exchange for promise to pay in future?
REFERENCES


CHAPTER TWO

A REVIEW OF RELATED LITERATURE

2.1 A BRIEF HISTORY OF THE BANKING INDUSTRY

In the last decade, the banking industry in Nigeria has undergone a rapid transformation and phenomenal growth which make it the most viable and the fastest growing sector in the economy. Indeed, the 80's will turn out to be the most important decade in the development of the banking industry. Olisambu (1991:7), Decoster, D [1990: 23] Highlights of the impressive growth in the number of banks operating in the country.

Owing to the recent developments in the banking industry necessitated by the economic corruption and bankruptcy in the CBN as a bid towards sanitizing the industry came up with measures aimed at bringing succor to investors and depositors in the banking industry by fixing the minimum capital requirements for commercial banks at N25 billion.

The management of commercial banks in a bid to raise this amount went into mergers and acquisition which resulted in some big operators in the banking sector requiring the smaller operators thereby planning the total
number of commercial banks in the economy to 25. It is evident that over the years starting from 1980, the number of banks in Nigeria has increased significantly.

In 1980, there were more than 26 licensed banks in the country, 20 of these were commercial banks while the remaining 6 were merchant banks. [But by the end of 2006, 25 commercial banks operated. For the decade (1980 till date]

This growth trend in the banking industry has brought about a serious challenge of survival of the fittest, a competitive situation whereby banks could only survive through effective and efficient management of their human and material resources, Soludo C.C [2004] aptly summarizes the situation facing the banking industry thus

“Competition has interrupted, there has been increased innovation and sophistication in product design and delivery, while the new changes have enhanced the opportunities for business and profits, and they have also engendered challenges and problems calling for policy actions”.

The importance of the banking sector understands its sensitive nature as the custodian of loan able funds and the allocation of scarce commodities such as foreign exchange
Accordi

gter Soludo et al. (2004: 7) “In popular

gargon, banking sector has become one of the most critical

ectors and commanding heights of the economy with wide
nlications for the level and direction of economic growth

and transportation and on such sensitive issues as the rates

of employment and inflation which directly affect the lives of

our people.

As a matter of fact the banking industry has become the

medium for implementing a number of sensitive government
olicies and programs. Thus, the overall efficiency in the
conomy as a whole is affected by the level of efficiency in the
anking sector. There is no doubt that governs our stage of
omic development and the crucial role the banking
ustry has so far played in the implementation of the
tructural Adjustment Program. The continuing development
of the industry becomes of strategic importance to the well-
being of the nation as a whole.

Existing literature in accounting recognizes the importance
of accounting information in business or management
decision making. The Central Bank of this study is to
vestigate and evaluate the extent to which Nigerian
ommercial banks utilize accounting information in
performing their lending functions. We have decided to beam our searchlight on lending because it is one of the most intricate services offered by banks.

**EXTENSION OF CREDIT AND THE BASIC PRINCIPLES OF LENDING**

Credit is a wide term used in connection with operative or states involving lending, generally at short term. To give credit is to finance directly or indirectly, the expenditure of others against future repayment Adekanye et al (2006:5) states that “the primary function of commercial banks is the extension of credit to worthy borrowers. In making credit available, commercial banks are rendering a great social service through their actions, production is increased, capital investments are expanded and a higher standard of living is realized.

Most writers in banking are of the view that of the traditional activities passed by the commercial banks, lending is the principal profit manner However, in contemporary banking in Nigeria, foreign exchange business could be seen as the lucrative source of profit for commercial banks due to the shortage in the supply of foreign currencies as related to the high demand on them.
Nevertheless, approving loans and advances absorbs a large proportion of the efforts of all branch managers and their staff not to mention the work done by staff in supporting departments in regional or head offices. Through lending, commercial banks therefore, act as intermediaries between depositors of money who cannot use the money themselves and people who can use the money but cannot provide it on their own. In this way banks bring together money from different sources and lend it out to those who will make profitable use of it.

In Nigeria, the rapid expansions in industrial and commercial activities have equally led to a high level of credit to private and public sectors of the economy. In explaining the magnitude of aggregate credit by the bank sector to the economy in 1989 for instance, Horngress (2000:18) states that commercial banks to the government and the private sector stood at N30. billion and N22.3 billion respectively while merchant banks credit to the government and the private sector amounted to N90.7 million and N7.1 billion respectively. It is expected that by the time the Structural Adjustment Program turns the economy round the aggregate
credit to the economy by the banking sector would have tripled

2.2.1 THE BASIC PRINCIPLES OF LENDING

The economic growth of a developing country such as cannot be divorced from the enviable lending role performed by the banking financial and quasi-financial institutions. In most development countries of the world, the lending functions have become so paramount that it has persistently been integrated into government policy formulation the national economic development processes. For instance, banking system has been an integral part of the on-going structural reforms and it has played a lending role in the management of policy changes Adekanye (1996: 13).

Lending could be in the form of overdraft and/or term loans with varying degrees of disbursement, moratorium and interest a principal repayments. It is pertinent to note that bankers in their dealing with customers are not charitable organization, thus, they exist to make profit by extending credit in line with some economic criteria. Adekanye [2000;180] in supporting this view contends that it is a well
known fact that banks are business established mainly to make profits and not as charitable organization.

Therefore, any facilities granted are expected to yield some profit to the bank. A bank does not just extend credit to customers because it is sought for, rather it is based on certain yardsticks which include the purpose for which the loan is required. The feasibility of the project the capacity or experience of the proposer or customer successfully prosecute the business or project the integrity of the borrower and the security offered for the facility.

Invariably, what is being advocated for is the exercise of case and prudence in banks lending activities In this regard, Adekanyue et al asserted that when a bank manager or lending officer is approached for a loan or overdraft facilities, he should obtain satisfactory answers to some basic question such as:-

(i) How much does the customer want to borrow?

(ii) Why does the customer want bank facilities, In other words; what does he want it for?

(iii) Is the customer business financially strong enough to keep going if his plans suffer a set back?

(iv) For how long does he want it?
v) How does he intend to repay?

(vi) What security can be offered?

(vii) What is the assessment of the customer?

With the analyses of the customers financial trend there is no hard and fast rule on how banks should dispose off their funds. It is more or less dependent on the perception of the bank in relation to the activity concerned. 

Adewunmi (1984:27) gave evidence to this view when he asserted that ‘one can not generalize with any measure of authenticity about lending principles in the banking industry, this is because each bank lending practices is more variant rather than a replica of other banks”

A banking author of great expertise in the practical aspect of banking advises against following lending rules and regulations rigidly. He compares the principles of lending to economic laws in that certain facts and other things being equal, a prescribed course should follow “They are neither independent nor unbreakable”

Thus, the principles must be weighed carefully and with an open mind According to Anthony. R et al (1999:12), effective lending in a developing economy may be defined as that quantum of lending which maximizes the banks
objectives of liquidity profitability and the economy’s objectives of development.

This definition reiterates that banks must maintain liquidity of funds against instant and contingent withdrawal profitability against declaration of dividends to shareholders and mobilize enough funds for investors to develop the economy.

It therefore become necessary to know the competence of the people associated with a business desiring loan facilities since this would determine whether or not the business desiring facilities has a bright future. This could be done in a situation where the lending officer is able to interpret the financial data of borrowing customers in determining the solvency and ability of such customers to service any facilities granted. Besides, he has to be reasonable up-to-date about the political and economic developments that are likely to affect the business of the customers. Complementing this view, Scapens.R. (1985:61) states that “when a lending officer lacks the competence for analytical appraisal or allows himself to be misled or carried away by consideration outside the normal cannons of good lending, he is likely to make wrong judgments in selecting his
risks”. He went further to assert that a lending officer must be upright, fearless, and dynamic and must not allow his personal social relationship to becloud his judgement. His judgement must be based on well examined premises which are established from facts about the borrower’s business. The personality behind it and the current projected, economic and political environment. Assessment of risk is based on the applicant’s character, capacity, and collateral security and co-signs that the applicant could provide.

Okafor F.O (2000: 9) supporting this view pointed out that the ability of an individual business or government unit to obtain credit depends on the prospective creditor’s faith in the ability and willingness to pay. In general, the borrower’s ability depends upon property and business acumen, his willingness and upon is integrity. He argued further, that there are certain element which lending officers consider in determining whether to extend credit and if so how much. The basic factors are called the four C’s of credit; character, capacity, capital and collateral. He concludes his opinion by adding that basic factors are in fact aimed at aiding the successful performance of the lending function.
2.2.2. CHARACTER

Fox R K. (1999: 18) simply referred to character as being associated with reputation. Although all the aforementioned factors are important in their own rights, but thus, much emphasis have been placed on the efficient assessment of the character of the individual or business organizations concerned. To this end, an excess of one factor effects a deficiency in another or except character. He argued further that the deficiency in amount of capital commitment desired by a creditor can be offset by evidence of unusual capacity on the part of the borrowers, but deficiency in character cannot be offset by the excess capital.

The character of the borrower must be free of any doubt as to their integrity, It contend that if any questions as to the integrity or honesty or intentions of the borrower arises, the creditor should not approve the loan, rather he should check on the moral standing and state of the business before beginning negotiations. Thus, if he feels is necessary since banks that associate with people of less than acceptable character damage their own reputations far beyond the profit obtained on the transaction.
2.2.3 CAPACITY

Edward et al (1990: 30) summarily described capacity as ability of the customer to pay, he asserted that a customer is credit worthy if he can produce an impeachable evidence of his ability and willingness to repay his loans as agreed. But then, it is also a known fact that banks are interested not only in the borrower’s ability to repay but also in his legal capacity to borrow. Usually, loans are not extended to minors since they can disaffirm at a later date unless the process of the loan are used for necessary purposes. In the case of limited liability companies, ‘the memorandum and articles of association, certificate of incorporation and a resolution authorizing the directors to borrow a stated amount are required to determine their legal capacity in order to avoid bad loans, with partnership the partnership deed is desired to certain the rights and obligations of the partners. Normally, the acts of a partner in binding on the other sere there is agreement to that effect.

2.2.4 CAPITAL

This measure the property risk, the type and value of the debtor’s capital affects his ability to obtain credit. Capital serves to the creditor against undue losses especially during
period of liquidation. An examination of the assets is to
determine the stability of their value and liquidity.

2.2.5 COLLATERAL

Collateral security required by lending institutions
merely act as an insurance against unforeseen circumstances
which may render the proposed loan repayment plan difficult
or impracticable. Besides, due to our peculiar dynamic and
depressed economic situation much has affected individuals
and corporate business organizations generally, collateral
security consideration for bank lending have become a
necessity. The most appropriate time to obtain collateral
documents from the customer is prior to drawing down the
facility. It becomes rather difficult to get them if draw-down is
allowed before submission of documents hence the bank may
be left unsecured

2.6 CONDITION

Although some writers have refused to include condition a
necessary factor to be considered in the extension of credit,
but then, it is very discernible that the extension of credit to
a customer might be influenced by the consideration of the
environment within which the business units and individuals
corporate economic condition. Borrowers can have good character, an apparent ability to create income and sufficient assets but economic condition may render the extension of credit unwise. This becomes more important. The longer the period the loan takes to mature on, there is a greater possibility of an economic down turn before the loan is being repaid.

2.3 MANAGEMENT INFORMATION SYSTEM

According to UMA computing terminology management information system (MIS) is defined as “computer system which collects and presents management information relating to a business in order to facilitate its control. A management information System is therefore a system of disseminating information which will enable managers to do their jobs.

2.3.1 CHARACTERISTICS OF GOOD INFORMATION SYSTEM

It should be cost effective

Information produced should be timely

It should be user friendly

It should be communicated through a well defined organizational structure
It should be qualitative
It should be concise and unambiguous
Individual functions and responsibilities must be clearly defined.

2.3.2 TYPES OF MANAGEMENT INFORMATION SYSTEM

Although, there are so many types of management information system available in an organization only three particular types deserve special mention.

• DECISION SUPPORT SYSTEM:

These are used by management in making decision which are instructed. Complex decisions are often very poorly defined with high level of uncertainty about the nature of the problems. The decision support system combines conventional data access with a wide range information gathering and analytical tools. Their objectives are to see the environment, allows the manager to consider a number of alternatives and evaluate them.

• EXECUTIVE INFORMATION SYSTEM

It is information, system that gives the executive a straight forward means of assess to key internal and. External data. This system has been made possible by the
failing cost increasing sophistication of micro computer and network technology.

- **EXPERT SYSTEM:**

  Expert system describes computer program which allow users to benefit from expert knowledge and information and also advice. The master reference file holds a large amount of specialized data, for example on legal engineering or medical information or tax matters. The user keys in certain fact areas of information to produce a decision about something an expert needs to do.

### 2.4 MANAGEMENT ACCOUNTING INFORMATION SYSTEM

As the name implies, it involves the provision of information for managers to use. Managers use information that financial accounting systems and cost accounting systems on their own do not provide, it is therefore instructive to posit that:

- Managers use more detailed information to help them run the business.
- They also need forward looking information for planning.
- They will want data to be analyzed differently, to suit their specific requirements for information.
This information is used by managers for a variety of purposes such as:

- measuring profits
- planning for the future
- controlling the business
- To make decisions.

2.4.1 Setting up a Management Accounting System

The following factors should be considered when setting a management accounting system.

(a) **The Output Acquired:**

This implies that information needs of managers if a particular manager finds pie chart, most useful, the systems, should be able to produce them. If another manager needs to know what tune of the day equipment failures occurs, this information should be available.

(b) **The Sources of Input Information:**

It is too easy to state that the output required should dictate the inputs made. However, the management accounting systems could only require this information if suitable production technology had been installed.
2.5 **THE RELEVANCE OF DECISION MAKING TO BANK LENDING**

Decision making is a function that pervades all organizational levels in any business enterprise. In a rapidly changing economic environment, the careful evaluation of decision alternatives is mandatory not only to provide a competitive edge on the case of scarce resources, but also to survive. In lending, decision making ensures a more complex dimension because repayment of the loan granted and the rest due on it is subject to a multiplicity of factors or variables which are often unpredictable. For instance, variables such as economic conditions, government policies, workers strikes and natural disasters such as flood and storm cannot be predicted but they could determine whether a loan will be or not.

A lending officer cannot avoid making decision on request for advances even if the decision is to do nothing. According to Thompson (1981: 5) a decision can be defined as the selection of a particular alternative from a set of two or more feasible alternative courses of action for rendering a particular problem. This activity is only the last step in a service interrelated activities that could be called the decision
making process. A good lending decision will be both effective and efficient. In effective lending decision, accomplishes the goal the lender seeks. Such goals could be the minimization of loan defaults and the prompt repayment of money lent. An efficient lending decision is that which consumes the minimum amount resources necessary to achieve the goal of the lender.

2.5.1 STEPS IN LENDING DECISION

There are no hard and first rules that must be strictly adhered to before a lending decision can be made, but generally decision makers follows consciously or unconsciously certain general guidelines when making decision

(a) PROBLEM IDENTIFICATION

This involves the specific objectives to be adhered with the system. The stage is meant to identify the problem that the existing system is having or may have in the future which must be presented. Before any decision can be made a problem must be present. One of the most important problems facing a lending officer is how to analyze and interpret the financial statements submitted by loan applicants so as to minimize the incidence of bad debts.
• **FEASIBILITY STUDY**

This involves a brief interview of the existing system and the identification of a range of possible alternative solutions one will usually be recommended on the basis of its costs and benefits.

• **SYSTEMS INVESTIGATION**

Is a fact finding exercise which investigates the existing to assess its problems and requirements and to obtain details of data volumes, response items and other key indications.

• **SYSTEM ANALYSIS**

After the existing working of the existing system has been documented they can be analyzed. This will involve examining, why current methods are used, what restricts the. Effectiveness the system and what performance is required from the system.

• **SYSTEM DESIGN**

This is a technical phone which considers both computerized and manual procedures addressing in particular inputs; outputs program design, life design and security.

A detailed specification of the new system is produced. At this point, information is gathered to determine the cause
of the problem and consider alternatives. The aim of evaluating alternatives is to enable the decision maker choose the best course of action that satisfies his goals. The implication here is that of every problem, there are many approaches available;

- **SYSTEM IMPLEMENTATION:**

  This development comes through design to operations, program testing, file conversion or set up, acquisition and installation. The effective manager makes sure that he or she has communicated the decision organized support for it and any resources to implement it. The manager also designs a feedback system to ensure that he or she will be alerted if the decision is not being implemented, (control system) and can respond if the desired results do not flow from the chosen alternative.

The supporting function of data collection can be illustrated with the figure below.
In order to apply the decision making process to lending, one could argue that lending officers define problems, evaluate alternatives choose one alternative that satisfies a utility function and implement that alternative. In going through these stages, lending officer requires relevant accounting information to make a good decision.

Before a decision could be seen as the correct choice, two questions must be asked viz:-

(i) Does the decision contribute towards the attainment of stated objectives? Implied on this question is the recognition that a course of action is but a means to an end and if proposed solution to the problem does not further the stated objectives, it should not be adopted.

(ii) Does the decision offer the maximum degree of economic effectiveness? This means decision selected should represent the maximum obligation of available resources.

2.5.2 ACCOUNTING INFORMATION AND BANK LENDING

The Nigerian banking industry is under severe pressure in several sources who are questioning both the composition and the risk level of today’s loan portfolio. Bank management regulatory authorities and outside observers of the industry are becoming increasingly concerned about widespread
delinquencies, narrower margins of profit and greater loan write offs. Recently, these attacks bank intensified because of increased vulnerability that the loan portfolio forces in a poor economic environment.

Every business organizations, needs adequate, timely relevant information to enable its survival. Similarly, bankers need reliable and accurate information to properly serve their customers, and management information system can provide precisely three especially in the management of bank loans. Okafor F.O[1988:20] are of the view that accounting is a system for transmitting information about some economic activity to destinations inside and outside of the activity concerned.

Therefore, the accounting process may be described as one of the data information system. Generally, we could say “data” are the inputs and information the outputs of the process. Information as used in this context may be defined as “words” and figures recorded or unrecorded experience which will reduce the level of uncertainty in making a decision. Uche Modum et al (1995: 10) Thus, one function served by a firm’s information system in lending, the accounting information sub-system is uncertainty avoidance.
Adams et al (1986: 24) argues that accounting system of firms are important sources of information for business decision making. The information which system provide for decision making can be grouped in three classes. Financial statements, quantitative reports one selected aspects of operations and special analysis. He equally draws attentions to the role played by information which is not a product of the accounting system, but has an impact on decision.

He stated that in many respects, the effects of non accounting information on decision can be analyzed in the same framework as accounting information. The importance of non accounting information here is that it may determine the effects of accounting information on decisions. Therefore, if non accounting information is perceived on having special relevance for decisions undergoing evaluation, the impact of accounting information will be reduced.

The decision making process helps the management to have a good understanding.

2.5.3 A SIMPLE MODEL OF INFORMATION AND LENDING BEHAVIOUR

Among the most difficult problems facing a banking firm is the existence of uncertainty concerning various aspects of
its activities. The bank foresees uncertainty about the repayment of matured loans due to the existence of default risk), and possibly also about the granting of new loans. The bank will be interested in information concerning general market conditions “environment in which it operates) as well as the specific information about its individual customers.

In depicting a simple model of information and lending behaviour we shall rely on the work of the information and lending behavior. They contend that the more information a lender has on a particular loan, the more accurate will be its estimate of the frequency distribution of expected returns from loan. They argue that the traditional view that lenders tend be conservative might be interpreted then to mean that with relatively little information they over estimate the dispersion of possible, returns and/or underestimate the mean return.

In other words, the acquisition of additional information would decrease the estimate dispersion and/or increase the estimated mean return. In other to simplify the analysis more, that instead of a distribution of various possible returns there are only two possibilities, default with complete loss and non default with complete repayment of principal
and all interest charges. With this assumption information affects solely the return or alternatively it affects only the estimated probability of default. They explained further that if P is the subjective evaluation of the default probability for a given loan, Q is the quantity of information gathered by the lender about the loan and L is loan size, it is assumed that there exists information with the following specifications of F

\[ O \leq f \leq 1 \]

\[ F_Q = \frac{rf}{R_q} \leq O \]

\[ F_1 = \frac{F}{L} \geq O \]

**Figure 2**

**Information function**

The information function as drawn in figure 2 assures a probability of default of one with no information, implying that no lender will consider a loan without some information.
about default risk. The work of this is quite relevant to this study, in the sense that it provides an insight into the behavior of lending officers when faced with a loan request. But it is deficient because it does not state the type of category of information which influences lending behavior.

**2.6 ACCOUNTING SYSTEM AS A MANAGEMENT INFORMATION SYSTEM**

Horngren (1982: 4) is of the view that in any business organization, the accounting system is the major quantitative information system. He states further that it provides information for the three broad purposes as follows:

(i) Internal reporting of managers for use in planning and controlling.

(ii) Internal reporting to managers for use in making non-routine decision and in formulating major plans and policies.

(iii) External reporting to stock holders, government and other outside parties. Manager’s contribution is quite relevant because it highlights not only the centrality of accounting in the information system of all business organization, but also draws attention to
the users and benefactors of such information so derived.

However, Adams and Wagner, et al (1988: 72) stated that an organization information system can be divided into two the formal portion (of which computerized data can be a part) and the informal position. The formal position can be divided into the areas of the firm’s activities. It measures for instance; there are three major areas of information system. The financial information system, the personnel information system and the logistics system.

They went further commenting on computer based information systems - that wide spread of computer in credit management provides certain essential up-to-date information for analysis. All of the information on proper can be placed in computer storage readily accessible to the credit department indeed; the computer can provide a vast way of detailed information.

It is worthy to note that with increasing competition and need for reduce the waiting time of their customers. Most Nigerians commercial banks (especially the new banks) are computerized to some degree. Although much of what comprises an organization system is not computerized, the
part that is, is often significant. In fact, it may be of greater importance than its proportion to the total information system. In view of the great importance of information to bank lending and nearly all the activities of a banking organization, the right type of management information system must be designed to the right type of information to the right quarters and at the right time. In developing a management information system, designer must be aware of the process of managing a business. This is to make the information understandable and effective in assisting the manager and induce him to take appropriate actions. These however, reveals that decision makers do not generally lack information but experience information overload. Management information problem may thus be seen as not that of lack of relevant information or that of getting the information, the say they need but lack of being overwhelmed with information.

2.6.1 CHARACTERISTICS OF ACCOUNTING INFORMATION

The vow that information should possess certain basic properties is largely shared by Osisioma, In specific terms, accounting information system should have following properties.
1. **Relevance**: The quantity and quality of information provided must be appropriate and relevant for its intended purpose. Each statement should be produced to fulfill a specific need. Thus, it should contain only data directly relevant to that need and extraneous matters should be omitted.

2. **Timeliness**: It must be timely because without that quality, the desired information becomes ancient history by the time it comes to the manager’s desk.

3. **Objectivity**: It must be specific and objective as to items, facts, and where possible the effects of reported facts.

4. **Clarity**: Accounting information must not be ambiguous; it must be concise and consistent.

5. It should direct attention to problem areas thus facilitating the operation of management by exception. In other words, it should be instructive by indicating to the user the best course of action or choice of alternative.

6. **Verifiability**: Information contained in a report must be supported by evidence which can be inspected.
Thus, an independent person working with the same data must arrive at essentially the same result.

7. **Cost effectiveness**: Information needed must be obtainable at an affordable cost. In a word, the cost of the information should not outweigh its value to the user.

**2.7 AN OVERVIEW OF ACCOUNTING RATIOS**

Accounting information derived from financial statement of the customer is very important in evaluating the performance of firm for lending purposes.

A ratio is the relationship that one number means to another number. Accounting ratios includes liquidity ratios, profitability ratios and coverage ratios. These ratios are not in themselves rather they are computed as a means of evaluating the financial position of the firm supplying the statements. Perry, et al (1984: 40) explains that:

Ratio indicates a quantified relationship between current sets and current liabilities. This relationship is an index or yardstick which permits a qualitative judgement to be formed about the firm’s ability to meet its current obligations. It indicates a quantifiable relationship which can be used to make a qualitative judgement. The final stage in
the accounting is an interpretation of one. It is necessary to analyze the accounting reports and to assess the significance of the information they contain. Accounting ratios provides the means of testing and interpreting the key features of a business or represented in the final accounts and making comparisms with other firms in the same accounting policies and procedures for a commendable length of time.

2.7.1 IMPORTANCE OF RATIO ANALYSIS

This is very important in the sense that

- It reduces bad figures in the financial statement into meaningful ‘Ratios’ thereby focusing attention on the salient failures of the Statements.

- It reveals company’s financial performance and provides basis for comment on its financial capabilities.

- It helps to establish changes and trends inherent in financial statements and identify the underlying causes behind apparent changes and trends in company performances.

- It provides a good basis for assessment of managerial performance and efficiency.

- It establishes good basis for comparison between past, present and future performance of an enterprise.
2.7.2 CLASSIFICATION OF RATIOS

1. According to Origin or type of account
   
   (a) Profit and Loss ratios: These are ratios derived exclusively using data obtained from the profit and loss account, eg stock turnover, net profit margin, fixed interest cover etc.
   
   (b) Balance sheet ratios: These are ratios derived from balance sheet information eg. Current ratios, acid test ratio, proprietary ratio, gearing ratio.

   (c) Combined ratios: These ratios require information from both Profit and loss account and the balance sheet eg debtors turnover, creditors payment period, ROCE, EPS, DPS etc

2. According to Uses
   
   (a) Liquidity or short term solvency ratios
   
   (b) Long term solvency and stability ratios

   (c) Profitability and efficiency ratios

   (d) Investors or stock market ratios

- LIQUIDITY/SHORT TERM RATIOS

   These are ratios used in judging the ability of an enterprise to meet its short term maturing obligations. Ratios under this category include:
I) Current Ratio: $\frac{\text{Current Assets}}{\text{Current liabilities}} = 2:1$

This ratio indicates the extent to which assets that will be converted into cash within a year cover claims of short term creditors. The higher the ratio the greater the margin of safety for short term creditors.

(ii) Acid Test/Quick Ratio: $\frac{\text{Liquid Assets}}{\text{Current liabilities}} = 1:1$

The ratio shows the extent to which cash and assets most readily convertible to cash can meet the demand of short term creditors. A ratio of 1:1 is normally considered appropriate.

(iii) Stock day’s ratio: $\frac{\text{Average stock} \times 365}{\text{cost of sales}}$

Where average stock $= \frac{\text{Opening + closing stock}}{2}$

The ratio indicates the average number of days in a financial year for which stocks are held before being sold. The lower the ratio the better.

(iv) Stock Turnover $= \frac{\text{Cost of sales}}{\text{Average stock (x times)}}$

This shows the rapidity with which a business is able to turnover (sell) its stocks. The higher the ratio, the more efficient the inventory management of the enterprise.
(v) Debtors collection period  = $\frac{\text{Average trade debtor} \times 100}{\text{Credit sales (days)}}$ 

It indicates the average days in a financial year for which creditors balances remain uncollected.

(vi) Debtor’s Turnover  = $\frac{\text{Credit sales}}{\text{Average trade debtors (days)}}$ 

This shows the rate at which debtors settle their account the higher the ratio the better.

(vii) Creditor’s payment period  = $\frac{\text{Average trade creditors} \times 365}{\text{Credit purchases (days)}}$ 

This ratio reflects the average length of time for which creditor’s balances remain unpaid.

(viii) Creditor’s Turnover  = $\frac{\text{Credit purchases}}{\text{Average trade creditors (times)}}$ 

It indicates the average number of times in a financial year that creditors balance is rolled over. The cover the ratio the more the enterprises.

(ix) Working capital cycle/cash operating cycle
LONG TERM SOLVENCY AND STABILITY RATIOS

These are ratios concerned with the ability of a company to meet its long term obligations. They show the degree of safety from failure in the long term. Under this category, we have:

I) Proprietary ratio  \( \frac{\text{Shareholders fund \times 100}}{\text{Total tangible asset}} \)

It indicates the percentage of total assets financed by the owners of the company and in effect the degree of protection to unsecured creditors in the event of liquidation.

Gearing/leverage ratio =

\[
\frac{\text{Fixed interest loan + preference share capital)}}{\text{Ordinary shareholders fund} \text{ Or market value of fixed interest loan + preference share capital)}} \times \frac{100}{\text{Market value of ordinary shares}}.
\]

The ratio shows the degree of financial risk a company is exposed to. It is a measure of ownership control risk. The purpose of obtaining debt is to “trade on equity” ie to use funds with real cost after tax at a level that provides additional returns to equity.

(iii) Interest gearing = \( \frac{\text{Fixed interest}}{\text{Profit before interest tax} \times \frac{100}{\text{%}}} \)

It shows the percentage of earnings used in servicing debts.
(iv) Fixed interest cover  = \frac{PBIT}{\text{Fixed interest (\%)}},

This is a measure of liquidity risk that shows the average of times interest expenses is covered by available earnings. A cover of about three times is normally considered safe.

(v) Fixed dividend cover  = \frac{\text{Profit after tax}}{\text{Fixed dividend (times)}}

It shows the number of times fixed dividend is carried by earnings after tax.

(VI) Total liabilities to shareholders fund = \frac{\text{Current liabilities + long term liabilities}}{\text{Shareholders fund (:1)}}

It indicates overall solvency and extent of cover for external creditors.

(viii) Debt ratio  \frac{\text{Total debt/liabilities}}{\text{Total assets}} \times 100

It shows the extent of cover for liabilities by total assets.

- **PROFITABILITY AND EFFICIENCY RATIOS**

These are ratios concerned with efficiency and performance in terms of return. Profitability is the ability to sell goods and services above cost and earn reasonable returns on capital. Ratio under the category include:
(i) Return on capital employed (ROCE) or ROI

\[ \text{ROCE} = \frac{\text{Net profit}}{\text{Capital employed}} + \frac{100}{\%} \]

It indicates overall profitability and efficiency in the utilization of financial resources can be into 2.

(a) Asset turnover

\[ \text{Asset turnover} = \frac{\text{Sales}}{\text{Capital employed (times)}} \]

It shows the efficiency in the utilization of financial resources to generate returns.

(b) Gross profit (margins)

\[ \text{Gross profit (margins)} = \frac{\text{Gross profit}}{\text{Sales}} + \frac{100}{\%} \]

It measures gross profit earned on every naira sale.

3. Gross profit (mark up) = \[ \frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{\%} \]

It measures gross profit earned per naira cost of sales.

4. Expense to sales ratio

\[ \frac{\text{Individual expense}}{\text{Total Sales}} \times \frac{100}{\%} \]

The ratio shows the portion of income generated (IG) in financing certain expenses

**- INVESTORS OR STOCK MARKET RATIOS**

These ratios are normally used by investors to enable them compare alternative investments. These include
I) Dividend per share (DPS) =

\[
\text{Ordinary dividend Issued} \\
\text{No of ordinary shares ranking for dividends}
\]

The ratio shows dividends expressed in kobo attributable to each ordinary share.

ii) Dividend yield = \( \frac{\text{Dividend per share}}{\text{Market value per share}} \times 100 \) 

It indicates actual returns on investment in ordinary shares.

(iii) Dividend cover = \( \frac{\text{Earnings per Share}}{\text{Dividend per share (times)}} \)

It shows the number of times ordinary dividend is covered by available earnings. It is also an indicator of a company’s dividend policy.

(v) Earnings per share =

\[
\text{Profit after tax—preference dividend issue} \\
\text{No of ordinary Shares ranking for dividend}
\]

(vi) Earnings yield = \( \frac{\text{Earning per share}}{\text{Market value per share}} \times 100 \) 

It shows the potential return on investment in ordinary shares a percentage of market value.

(vii) Price earnings (P/E) ratio = \( \frac{\text{market value per share}}{\text{Earning per share (times)}} \)

This is the number of years earning, required to cover the current market price per share. It reflects the markets
approval of the shares future prospects the lower the ratio the shorter the expected pay back period.

By providing answers to the above questions, the ratio analysis is considered a vital, technique to use in satisfying the relevant information needs of the assets of accounting information.

2.7 WEAKNESSES OF RATIO ANALYSIS

Although, accounting ratios enable us to make informed judgement on the probability of continued profitability or reversal of losses. They equally have some weaknesses. Osisioma (1990) argues that ratios deal with only quantitative factors but in financial decision making, even qualitative factors come into play. Other limitations of accounting ratios include e following:

(a) Ratio analysis normally uses financial data that are not adjusted for changes in general price level and this can distort the analysis.

b) Ratio analysis uses historical data and it is questionable whether they can provide a relevant basis for making prediction.

c) Differences in accounting policies and procedures like depreciation and accounting treatment of stock make
meaningful comparison of companies via ratio analysis questionable.

(d) Ratio analysis by itself overlooks the dynamic aspects of the flow of funds through a business organization, which is very helpful in evaluating the efficiency of management.

(e) A ratio has no meaning unless it is compared with a standard ratio in similar firms or industries.

2.8 LENDING PATTERNS/LOAN ANALYSIS

Strahan and Weston (1996) utilized the report of condition and income (the call report) to examine lending patterns by banks especially to small business. The call report includes data on commercial and industrial (CAI) loans. Further analysis, loan less than $1 million were classified as small business loans. In addition, banks were classified according to their assets size small banks had assets less that $300 million and $5 million. Finally, large banks had assets over $5 billion (1996). These classifications are made throughout the remainder of this paper.

By examining 1995 call report data, standard creditors (1996) show that some banks generally hold small business loans than large banks. Large banks account for about 35
percent share of the small loan markets, but they account for about 82 percent share of large loans. On the other hand the majority of bank lending is to small business, small banks account for 35 percent of the small business loan market.

Credit scoring also known as actuarial based lending traits small loans as consumer loans rather than business loans. Credit scoring models assign scores to potential owners by estimating the default probability of their loans based on borrower and loan characteristics data. The models commence that past performance is the best predictor of future behavior and an average borrowers with similar characteristics and background will have similar loan performance (Board of Governors, 1997).

2.8.1 SUMMARY

This chapter started with a brief survey of the banking industry in Nigeria with emphasis on the rapid increase in the number of banks and branches before the merging in 2006 by the governor. We also shed light on the competitive; which the commercial banks now operate on result of the deregulation of the economy. Also, the accounting system which acts as the framework for the generation, accumulation and clarification of accounting data was
adjudged as the major quantitative information system in any business organization. Furthermore, the basic characteristics or properties, which the financial information obtained from such a system should possess were highlighted.

Overall advances in credit scoring and loan along with bank consolidations are likely to increase the efficiency of small business lending. Therefore, the costs of making small business loans decreases while the availability of loans increases.

It is important to note the interactions between these trends. As competition intensifies in the financial industry, banks seek new lending opportunities. Merged banks take advantage of their developments in order to compile effectively for small loans. Although, more data needs to be collected or small loans to assess the long term impacts of accounting information and consolidations. The available evidence indicates that these developments are having a positive impact on bank lending to small business. In addition, these trends are not likely to eliminate some banks or relationship in due to the unique financing needs of many businesses.
This chapter equally took a critical look at the relevant literature on accounting information and its significance in taking lending decisions more specifically it was shown that a lending banker who possesses knowledge of appropriate accounting ratios in specific circumstances, would enhance his decision making ability. Finally, we argued that in spite of the usefulness of accounting ratios as tools for financial analysis they still have some limitations which must be borne in mind by a lending officer who undertakes ratio analysis.
REFERENCES


Nwude, Chuke (1999) Advanced Financial Management (Monograph) UNEC.


CHAPTER THREE
RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter sets out in details the methods used in the generation of data for the study. The presentation is made under the following sub headings viz:- introduction, research design, population description and determination of sample size, questionnaire design, data collection, method of analysis and summary

3.2 RESEARCH DESIGN

The survey method was considered appropriate and preferred to a case study because surveys are generally based large cross. Sectional sample which enable a researcher to assess the characteristics of the defined population and understand the interrelationships between or among variables under study.

A structured questionnaire was therefore designed by the researcher and personally administered to the commercial banks (with head offices in Lagos) which fell within the sample frame The questionnaires were left with the heads of administration for completion It was not possible for the questionnaire to be collected immediately on
administration cause of the tight schedule of work of the officers concerned. Therefore, repeated visits were made for the collection of the questionnaires.

In the process of administering and collecting the questioners, personal interviews were held with the top officials in the various credit departments visited. The discussion centered on various issues contained in the questionnaire especially the extent to which they utilize financial statements to the decision regarding the granting of loans requests from their clients. These oral interviews greatly helped to facilitate researchers understanding of the organization of lending in Nigerian commercial banks.

The data collected from the survey were analyzed through sorting, grouping, cross-tabulation and collection from such procedures.

Through these means, deduction and inferences were made. The analysis of the data was with chi-square because the test was on the relationship between variables. The test adopted the 5% level of significance.

3.3 POPULATION DESCRIPTION

The target population for this research was made up of commercial banks with their head offices in Lagos. In order
words, commercial banks with head offices outside Lagos were excluded from the target population. Apart from being the nerve centre of commercial activities in Nigeria, the choice of Lagos is influenced by the fact that it has a high share of banks head offices. Moreover, these head offices are clustered within a twenty kilometer radius. This makes them easily accessible for study at minimum cost. It is noteworthy that all the major decision concerning lending is taken at the head office for the branches to implement. This explains why questionnaire were not distributed to the branches of the commercial banks studied.

3.4 QUESTIONNAIRE DESIGN

The structured questionnaires used in this study are both open and close ended questions. The questions were carefully worded to client responses relevant to the problem under investigation. This method of questionnaire construction was adopted for its flexibility, compactness and ease of analysis care was exercised by the researcher to ensure that each closed ended questions was followed by alternative responses.
The objective of this approach was to reduce bias to barest minimum. In close ended questionnaires bias occurs either by forcing their respondents to choose from the opinion given or by making him select alternative that he might not otherwise have selected.

The questionnaires was arranged to move from topic to topic in a logical manner, with all questions on one topic being completed before moving to the next. The questionnaire was divided into two sections. Section A dealt with the issues pertaining to the evaluation of the credit applicant while section B focused on the monitoring and amendment of the credit applicant after the loan has been granted. In other words, section A concurred pre-credit activities. Section B dealt on post credit activities However, the line dividing both stages is quite a thin one.

3.6 DATA COLLECTION

The methods of data collection for the study are:

(a) The use of research questionnaires

(b) Personal interview with lending offices

(c) Content, analysis of data in textbooks, journals, periodicals, magazines and articles (both published and unpublished).
The first two methods constitute the primary source of data for this research work. As indicated in section 3.5 above, structured questionnaires were developed and administered on the commercial banks slated for study. They were designed to obtain from the head of credit department in the respondent banks to enable us draw a reasonable conclusion on the project topic.

In other words, primary data collected in this manner were used to validate our hypothesis and in answering the research questions. Due to the short time available to the completion of this study, the questionnaire was collected back personally after repeated date. We made extensive use of the library and took a content analysis of literature on the research topic.

3.7 METHOD OF ANALYSIS.

The statistical method of analysis was adopted for this research. Particularly, the chi-square test was applied to establish the statistical significance of the relations studied. That is to establish whether individual items in the sample are distributed according to expected distribution or pattern.

The chi-square test is given by
\[ X^2 = \frac{(O - E)^2}{E} \]

Where \( X^2 \) is the computed chi-square value

\( O = \) the observed frequency

\( E = \) the expected frequency

\((o-e)^2\) is the square of difference

\( \frac{E}{} \)

Between observed and expected frequency, let measures weather there is inter-dependence between the variables. The chi-square value obtained from the table or critical \( (X^2) \) value will vary according to the degrees of freedom and the level of significance For a contingency table, the degrees of freedom is defined as \((r - 1) (K - 1)\), where \( r \) is the number of rows and \( k \) is the number of columns The chi-squared value obtained will be used to validate the hypothesis That is, we shall reject the hypothesis if the computed \( X^2 \) is greater than the theoretical or critical \( X^2 \).

**3.8 SUMMARY**

In this study, the survey method was applied by the researcher. Structured questionnaires to client pertinent on were designed and personally administered to top offices in the credit department of the commercial banks that fell within our sample frame. The questionnaire probed deeply
into such issues on the desirability of accounting information and the way it is organized for decision making in the banks studied. The type of ratios and their adequacy for lending purpose were also covered. The responses obtained were analyzed in order to answer our research questions and validate hypothesis. The statistical method used in testing our hypothesis was chi-square test $X^2$.

Finally, it must be stated that aspects of research methodology are relevant both to accounting education and to developing its body of knowledge.
CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 PRESENTATION

This chapter seeks to tabulate, analyze and summarize the responses to the questions in section A and section B of the questionnaire administered. As stated earlier, we shall use the chi-square test to test the hypothesis stated in chapter one.

4.2 DATA ANALYSIS

This section contains a detailed analysis of our primary data. To facilitate our analysis tabular formats have been adopted in which responses are summarized and displayed.

Below is a table in summarized form of questionnaire allocations, returns and percentage response.

**Table 4.1**

<table>
<thead>
<tr>
<th>No of Banks</th>
<th>Allocation of Questionnaires</th>
<th>Returns of questionnaires</th>
<th>Percentage of returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>25</td>
<td>25</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: Field work, 2011*

From the above table, it could be seen that the 25 questionnaires administered were all returned. The 100%
return rate could be attributed to the repeated visits made to the offices of the respondents. Respondents were asked to indicate whether they demand financial statements from loan applicant before taking lending decision. This question attracted to responses summarized below in table 4.2

**Table 4.2**

**Demand for Financial Statements**

<table>
<thead>
<tr>
<th>Do you request for financial statements from loan applicants?</th>
<th>Total number of respondents</th>
<th>Percentage of returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Field work, 2011*

From table 4.2; It is clear that all the respondents request for financial statements from loan applicants. We also learnt through oral interview that such financial statements are scrutinized and analyzed to ascertain that when facility is extended, it will be fully repaid within the stipulated time.

Respondents were asked to state whether they insist on independently audited financial statements, the responses obtained are tabulated below.
Table 4.3

Demand for independently audited financial statements

<table>
<thead>
<tr>
<th>Attributes</th>
<th>respondents</th>
<th>Percentage response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>22</td>
<td>88</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field work, 2011

From the above table, it could be seen that 22 of the respondents representing 88% stated that they insist on independently audited financial statements while 3 respondents representing 12% stated that un-audited accounts are sometimes accepted by their banks.

Taking cognizance of the fact that various forms of financial statements are compiled for different purposes, we deemed it necessary to ask the respondents, the basic types of financial statements they request for making lending decisions.
Table 4.4

Types of Financial Statements requested for lending decision

<table>
<thead>
<tr>
<th>Types</th>
<th>No of Respondents</th>
<th>Percentage of Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow statement</td>
<td>22</td>
<td>88</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>24</td>
<td>96</td>
</tr>
<tr>
<td>Balance sheet</td>
<td>23</td>
<td>92</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>40</td>
</tr>
</tbody>
</table>

**SOURCE:** Field work, 2011.

From the above table, it could be seen that 22 out of 25 respondents request for cash flow statement, 24 out of 25 indicated that they request for profit and loss account. 23 out of 25 respondents stated that they demand for balance sheet. In the space left of respondents to indicate the type of financial statements requested if it falls outside the three options, 10 out of 25 respondents specified that they make use of the schedule of fixed assets.

On the significance of accounting information, to bank lending the respondents were given three options to choose from.

Their responses are tabulated below:-
Table 4.5

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Respondents</th>
<th>Percentage response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very significant</td>
<td>12</td>
<td>48</td>
</tr>
<tr>
<td>Significant</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>Insignificant</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100.00</td>
</tr>
</tbody>
</table>

**SOURCE: Field work, 2011**

Table 4.5 reveals that 48% of the respondents regarded accounting information as very significant in bank lending. 40% regard it as significant while the remaining 12% stated that it was insignificant.

For more banks that considered accounting information as insignificant, we gathered from oral interviews with their lending officers, that non-accounting information equally play a crucial role in their lending decision. It was revealed that crucial factors considered include the personality and integrity of the borrower, the type of collateral security pledged, the duration of the facility and central bank of Nigeria credit guideline. Since loan applicant include corporate and non-corporate entities; are considered it worthy to know if the banks vary accounting information
requirements according to the nature/type of clients. Their responses are summarized in table 4.6 below.

**Table 4.6**  
**Accounting Information Requirement and Type of Client**

<table>
<thead>
<tr>
<th>Do you vary accounting information requirements to the type of client?</th>
<th>Total number of respondents</th>
<th>Percentage total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

**SOURCE: Field work, 2011**

The above table reveals that all the respondents vary the type of accounting information demanded according to the type of clients. The respondents stated that the accounting information requirement for non-corporate customers was not expected to be as detailed as that of corporate customers.

From the literature reviewed, we observed that lending decision can be improved by adequate accounting information. Respondents were asked to select from four options that decision they will take if the quality and quantity of accounting information’s provided by a credit seeker does not meet their requirements. A space was left for the respondents to indicate their response if the decision falls
outside the three options given. Their responses are summarized in the subsequent table 4.7.

<table>
<thead>
<tr>
<th>Decision taken</th>
<th>No of Respondents</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application is rejected</td>
<td>12</td>
<td>48</td>
</tr>
<tr>
<td>Application is approved</td>
<td>5</td>
<td>20.00</td>
</tr>
<tr>
<td>Nevertheless</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>Application is assessed on other criteria</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>25</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**SOURCE: Field work, 2011**

According to the result from the above table, 48 percent of the respondents will reject the loan application of accounting information presented is unsatisfactory while only 20 percent indicated that the application will be approved regardless of the inadequacy of accounting information. 24 percent of the respondents indicated that the application is assessed on other criteria. However, 8 percent of the respondents indicated that they would request for more accounting information from the credit applicant and where required information is unavailable the viability of the project
and the collateral security offered are considered. Based on
the above findings, it is rather difficult to draw a definite
conclusion on the decision taken by the respondents when
accounting information supplied by credit seekers does not
meet their requirement. But it suffices to state that
accounting information and other factors determines whether
a loan applicant is rejected or approved. Respondents were
further asked to indicate from the two given options, whether
the lack of reliability of accounting information can prevent
them from lending to a loan seeker.

Their responses are summarized and presented in table
4.8 below.

Table 4.8
Can the lack of adequate accounting information prevent
your bank from lending to a loan seeker?

<table>
<thead>
<tr>
<th>Options</th>
<th>No of Respondents</th>
<th>Percentage response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>20</td>
<td>80</td>
</tr>
<tr>
<td>No</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

**SOURCE:** Field work, 2011

From the above table, it would be observed that 80%
percent of the commercial banks indicated that the lack of
adequate accounting information can prevent the granting of credit to a loan seeker while 20% percent gave a negative response.

Respondents were asked to indicate, from the two given options, whether they compute accounting ratios in assessing loan applicants. Their responses are summarized and presented in table 4.9 below.

**Table 4.9**

<table>
<thead>
<tr>
<th>The use of accounting ratio in assessing loan applicant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you compute accounting ratios in assessing loan applicants?</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

**SOURCE: Field work, 2011**

The above table shows that all commercial banks sampled compute accounting ratios in assessing loan applicants.

Since various broad categories of accounting ratios are computed from financial statement of a business concern, respondents were asked to state the ratios they stress on.
Four sets of respondents were obtained and summarized in table 4.10 below.

**Table 4.10**

**Broad categories of accounting ratios used in bank lending decisions.**

<table>
<thead>
<tr>
<th>Broad categories of accounting ratio</th>
<th>No of Respondents</th>
<th>Percentage of total response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term solvency</td>
<td>13</td>
<td>52</td>
</tr>
<tr>
<td>Short term solvency</td>
<td>23</td>
<td>92</td>
</tr>
<tr>
<td>Efficiency and profitability</td>
<td>25</td>
<td>100.00</td>
</tr>
<tr>
<td>Potential and actual growth</td>
<td>20</td>
<td>80</td>
</tr>
</tbody>
</table>

**SOURCE:** Field work, 2011.

From the table above result on table 4.10 the respondents use all the broad categories of accounting ratios simultaneously. A follow up interview of the respondents showed that commercial banks attach their importance to long term solvency ratios because they are not pertinent to the evaluation of short term credit.

Since the respondents apply accounting ratios, we deemed it necessary to know how useful the ratios are in determining the credit worthiness of credit seekers. Their responses are presented in table 4.11.
Table 4.11

The usefulness of accounting ratios in determining the credit worthiness of a credit applicant

<table>
<thead>
<tr>
<th>Useful</th>
<th>No of Respondents</th>
<th>Percentage total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very useful</td>
<td>13</td>
<td>52</td>
</tr>
<tr>
<td>Useful</td>
<td>9</td>
<td>36</td>
</tr>
<tr>
<td>Not useful</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

**SOURCE: Field work, 2011**

The above result in table 4.11 shows that 52 percent of the respondents considered accounting ratios as very useful while 36 percent indicated that they are useful 12% of the respondents indicated that accounting ratios are not useful in determining the credit worthiness of credit applicant.

Commercial banks are not charitable organizations rather they are set up mainly to ensure an applicable return of their shareholders investment, since lending is one of the avenue to achieve this objective; respondents were asked to indicate the lending policy of their respective banks. Their responses are summarized in table 4.12 below.
<table>
<thead>
<tr>
<th>Lending policy</th>
<th>Respondents</th>
<th>Percentage response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximization of profit</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>Maximization of loan defaults</td>
<td>15</td>
<td>60</td>
</tr>
<tr>
<td>Promotion of national Economic growth</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Any other (please specify)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

**SOURCE: Field work, 2011**

The result presented above reveals that 40% of the commercial banks regarded the maximization of profits as their lending policy while 60% indicated the maximization of loan defaults as their overall lending policy.

Based on the literature reviewed in chapter two accounting ratios should be used with a manner of caution because of their inherent limitations. For instance, ratios compared over a period of time at historical cost will not be properly comparable where inflation in prices has occurred during the period unless an adjustment is made to the ratios to make allowance for price level differences using current values of assets. Also the ratios of different companies cannot be properly compared where each company uses different accounting methods.
Therefore, respondents are given two options whether they rely on accounting ratios in determining whether an applicant is credit worthy or not. Their responses are summarized and presented in table 4.13 below.

**Table 4.13**

<table>
<thead>
<tr>
<th>Attributes</th>
<th>No of Respondents</th>
<th>Percentage response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>15</td>
<td>60</td>
</tr>
<tr>
<td>No</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

**SOURCE: Field work, 2011**

According to the result from the above table, 60% of the commercial banks rely on accounting ratios in determining whether an applicant is credit worthy while 40% gave a negative response to the question.

Through oral interview with the respondents that do not rely on accounting ratios, we were made to understand that they equally rely on the character and capital of the applicant in determining whether he is credit worthy or not.

Respondents were also asked whether they request for financial statement in monitoring the success of the loan
granted to their clients. Below is a summary of their responses.

**Table 4.14**

<table>
<thead>
<tr>
<th>Request for financial statement in monitoring the success of loans granted.</th>
<th>No of Respondents</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

**SOURCE:** Field work, 2011

The result as revealed by table 4.14 indicates that the commercial banks studied are unanimous in their use of financial statements in monitoring the success of the loans granted.

Since the respondents were unanimous in their responses to question 16, we equally ascertained the type of financial statements they consider appropriate in monitoring the success of loans granted. Below in table 4.15 is a summary of their responses.
### Table 4.15
**Financial statement requested to monitor success of loans granted**

<table>
<thead>
<tr>
<th>Attributes</th>
<th>No of Respondents</th>
<th>Percentage response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance sheet</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ratio analysis statement</td>
<td>11</td>
<td>44</td>
</tr>
<tr>
<td>Balance sheet and profit and loss</td>
<td>9</td>
<td>36</td>
</tr>
<tr>
<td>Any other (specify)</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

**SOURCE:** Field work, 2011

The result as presented above reveals that the respondents neither uses balance sheet nor the profit and loss account in isolation rather 36% use both of them together. 44% use ratio analysis statement. Under the option left for them to specify any other type of financial statements they are 5 respondents representing 20% to the total indicated that report from the options given, they also request for the customers cash flow statement and liability report. While the cash flow statement shows the manner in which the cash entering the business has been used, the customer’s liability report is a monthly report showing the
position of the facilities granted to customers and their manner of monthly repayment.

This enables the lending officer to know at a glance whether the client’s is making expected repayment as at when due.

Accounting ratios when compared over a period of time are indication of the duration of change in a firm’s financial position. In other words, they indicate whether a firm financial condition and performance has improved, deteriorated or remained stagnant over a period of time.

Respondents were asked to indicate from the two given options whether they rely on accounting ratios in evaluating the success of loans granted. Their responses are summarized and presented in table 4.16 below.

<table>
<thead>
<tr>
<th>Options</th>
<th>No of Respondents</th>
<th>Percentage of total response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** Field work, 2011.
From the above table, it could be seen that the 25 respondents rely on accounting ratios in monitoring granted loans. Also the respondents were asked to specify the broad categories of ratio they stress in the monitoring of loans granted. Below is a summary of their respondents.

**Table 4.17**

**Categories of ratios stressed in the monitoring of loans granted**

<table>
<thead>
<tr>
<th>Options</th>
<th>No of Respondents</th>
<th>Percentage of total response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term solvency ratios</td>
<td>23</td>
<td>92</td>
</tr>
<tr>
<td>Short term solvency ratio</td>
<td>20</td>
<td>80</td>
</tr>
<tr>
<td>Efficiency and profitability ratio</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>Potential and actual growth ratios</td>
<td>8</td>
<td>32</td>
</tr>
</tbody>
</table>

**SOURCE: Field work, 2011**

The result as presented above reveals that 23 out of 25 of the respondents representing 92% of the total response apply long term solvency ratios while 20 out of 25 respondents representing 80% percent of the total response make use of short term solvency ratios. All in respondents are efficiency and profitability ratios. This represents 100.00
percent of the total response. Only 32 percent of the respondents indicated that they use potential and actual growth ratios. It could be observed from table 4.17 that ratios under the category are used simultaneously.

4.3 TESTING OF HYPOTHESIS

In this section, the hypothesis stated in chapter one is tested at 5% level of significance using the non-parametric chi-square test ($X^2$). The hypothesis follows the same decision rules, viz- to reject it if our computed $X^2$ value is greater than the theoretical or critical value, otherwise we accept it.

4.3.1 HYPOTHESIS ONE

Ho: Null hypothesis

Bank lending is dependent on the extent of reliability of accounting information.

Hi: Alternative hypothesis

Bank lending does not depend on the extent of reliability of accounting information.

To test the hypothesis, chi-square test of independence was used to test if bank lending depends on the extent of reliability of accounting information.
4.4 RESULT FOR TESTING OF HYPOTHESES

HYPOTHESIS I

Ho: Null Hypotheses

Bank lending decision is dependent on the extent of reliability of accounting information.

Hi: Alternative Hypotheses

Bank lending decisions does not depend on the extent of reliability of account information

Response:

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliable</td>
<td>20</td>
<td>80</td>
</tr>
<tr>
<td>Unreliable</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Any other</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field work, 2011.

Expected Frequency = \( \frac{25}{3} = 8.33 \)

\[ X^2 = \frac{(0-e)^2}{\sum n} \]

Where:

\( O \) = Observed frequency

\( E \) = Expected frequency

\( = \frac{(20 - 8)^2}{8} + \frac{(5 - 8)^2}{8} \)
\[ 18 + 1.13 = X^2 = 19.13 \]

**DECISION RULE:**

Reject Ho: if \( X^2 \) calculated is greater than \( X^2 \) critical (table) value. Accept Ho: if \( X^2 \) is less than \( X^2 \) table value and reject Hi:

The calculated \( X^2 \) is 19.13 and critical table value is 80% at 5% level of confidence using 2 degree of freedom. We reject Ho (Null).

Hypotheses \( X^2 \) table value and accept Hi (alternative hypotheses) that is bank lending decision is dependent on the extent of reliability of accounting information.

**HYPOTHESIS II**

Ho: Null Hypothesis

Accounting ratios are useful tools to a lending officer in determining the credit worthiness of a prospective borrower.

Hi: Alternative Hypothesis

Accounting ratios are not useful tools to a lending officer in determining the credit worthiness of a prospective borrower.

This will be answered using
### TABLE B

<table>
<thead>
<tr>
<th>Options</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>20</td>
<td>80</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>No idea</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** Field Survey, 2011

Expected frequency $25/3$

$$= 8.33$$

Degree of freedom $= n - 1 = 3 - 1 = 2$

$$X^2 = \frac{(0-E)^2}{\sum n}$$

where:

\begin{align*}
0 & = \text{Observed frequency} \\
E & = \text{Expected frequency} \\
& = \frac{(20-8)^2 + (3-8)^2 + (2-8)^2}{8 + 8 + 8} \\
& = \frac{18 + 3.14 + 4.5}{25.6} = 25.6
\end{align*}

**DECISION RULE:**

Reject Ho if $X^2$ calculated is greater than critical table value.

Accept Ho if $X^2$ calculated is less than critical table value and reject Hi:

The calculated $X^2$ is 25.6 and critical table value is 80% at D.F. of 2. We reject Ho (Null Hypotheses) because $X^2$
calculated is greater than table value and accept Hi (Alternative Hypotheses) that is accounting ratios are useful tools to a lending officer in determining the credit worthiness of a prospective borrower.

4.5 SUMMARY

In this chapter, the researcher presented and analyzed data on the impact of accounting information on bank lending decisions. It was discovered that all the commercial banks request for accounting information on their financial decisions. One hundred percent of the banks were revealed based on computed accounting ratios. However, only 60 percent rely on them in determining the credit worthiness of loan seekers. The first and second hypotheses were both tested at 5% level of significance. The first hypothesis that bank lending decision depends on the extent of reliability of accounting information was accepted. Also the second hypothesis, that accounting ratio are useful to a lending officer in determining the credit worthiness of an applicant was found to be statistically significant and accepted. In the next chapter, recommendations were made based on the findings before the study is finally concluded.
CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 SUMMARY OF FINDINGS

Based on the analysis and summaries of the responses to the questions in the questionnaire, the findings for this study will be discussed in this section. Equally, the important findings for this study will be discussed in this section. Equally, the important findings resulting from the applications of our major tool of statistical analysis, the non-parametric chi-square test is discussed in this section.

One of the most important sources of information to a lending officer is the financial statements presented by the borrowers. In support of this analysis, we discovered in table 4.2 earlier presented that all the commercial banks studied request for financial statements from loan applicants. However 88% of the respondents opined that they insist on independently audited financial statements while 12% stated that they sometimes accept un-audited account.

Our study also revealed that financial statements such as cash flow statement, profit and loss account, balance sheet and schedule of fixed accounts, are used simultaneously by
the lending officers. This was revealed in table 4.4 based on the responses in table 4.6 it was revealed that the levels of comprehensiveness in the request for accounting reformation varied according to the type or nature of the credit applicant.

The commercial banks demanded more accounting information from limited liability companies than from sole traders and partnerships. Small businesses are often unable to comply with the requirements of the banks i.e. the provisions of the correct form of management accounting information.

Management accounting techniques are clearly vital to the preparations of reliable cash flow forecast but, many small businesses are incapable of producing little more than their historical amounts. The easy way out of this dilemma is for the banker to seek for collateral security or look for other criteria to access the loan seekers.

Other major findings of our study include:

- Obtained a positively skewed response on table 4.5 that accounting information is significant for bank lending purpose. In the same vein, table 4.7 reveals that 48% of the respondents would reject a loan application when accounting
information available does not meet the lending officer’s requirement. 20% indicated that the application will be approved if other conditions are satisfactory while 8% stated that they would request for more accounting information.

- The computation of accounting ratios in assessing loan applicants enriches the decision making ability of lending officers by providing them with decision choice and pertinent information to select from a range of options. If no such information were made available, their decision will be based on the rule of thumb or questionnaire.

The commercial banks studied, compute accounting ratios in assessing loan applicants. This option scores 100 percent responses as revealed by table 4.9. This was also corroborated by the responses summarized in table 4.11 where 52% described accounting ratios as very useful while 36% percent described them as useful.

But the study equally revealed that 60% of the respondents indicated that they rely on accounting ratios while 40 percent stated that they do not rely on them in determining whether an applicant is credit worthy or not.

However, we obtained a 100 percent response that accounting ratios are relied on monitoring granted loans.
Although, the 30 respondents representing 100 percent of the total response indicated that they are efficiency and profitability ratios, other broad categories of ratios such as long term solvency ratios, short term solvency ratios and potential and actual growth ratios are used simultaneously in monitoring the success of loan granted.

Nevertheless, the degree of importance attached to these board categories of ratios differed from one commercial bank to the other:

(i) The lending policy of the commercial banks studied revolves around the minimization of loan defaults and the maximization of profit.

These two options recorded 52% percent and 36% percent responses respectively. This simply means that the respondents do not take the promotion of national economic growth into consideration when fashioning their lending policy.

(ii) Using the non parametric chi-square test, we discovered in the test of hypothesis one that bank lending depends on the adequacy of accounting information. The test was conducted at 5% level of significance.
Consequently, the hypothesis was accepted. Using the same test, the second hypothesis equally stated that accounting ratios are useful tools to a lending banker in determining the credit worthiness of a prospective borrower and consequently accepted.

The test was conducted at 5% level of significance.

5.2 RECOMMENDATIONS

The greatest problem facing lending officers is how to correctly assess loan applicants in order to minimize loan defaults, in order to assess corporate credit applicants, lending officers rely on financial statements and the computation of accounting ratio. The reliance on financial statements would prove total to lending decision because the figures contained in them could be doctored to deceive or hoodwink the lending officer. More importantly, the rate of inflation would also make figures and ratios derived there to be out of tune with the present condition.

Another problem encountered in lending is the unpredictable nature of the borrower on the one hand and the economy on the other hand. For instance, adverse economic conditions could render the payment of a loan facility impossible even when the debtor is genuinely serious
of paying the principal inherent to the lender. At times the debtor may simply not be interested in paying back the loan. How then do the lending officers cope with the problem?

In a research of this nature, it does not suffice to merely identify problems and discuss findings without actually offering recommendations to improve existing situation. The major objective of these recommendations is to improve the lending skills of loan officers by suggesting ways to utilize accounting information in their decision making in order to minimize loan defaults. Based on our findings from the study, we wish to make the following recommendations.

(i) When a lending officer is presented with financial statements how much faith can he put in it? The interpretation of financial statements presented to bank loan officers by borrowers. Both prospective and current is one of the most important elements in the evaluation of commercial loan request. Statements prepared by professional auditors are generally considered more reliable than those prepared by others. Therefore, the lending banker is bound to encounter the greatest problem in the area of un-audited statement.
Since many types of opinions are expressed by professional auditors, the lending officer should recognize the differences between the opinions expressed and the related effect he may expect as to the financial reliability of the statements. A considerable amount of reliance can be placed on audited standards with unqualified (clean) opinions. Audited statements with qualified opinions may be guide reliable but it must be recognized that the statements are affected by the extent or character of the qualification. Hartley (1976)

(ii) From a banker perspective, inflation must be recognized in lending decision since it affects the credit seekers income statement, balance sheet, statement of change in financial position and the probability of ultimate repayment. Therefore, funding officers should use inflation adjusted reports. In other words, they should be conversant with current cost accounting in order to narrow the gap between financial statements and the economic realities of inflation.

(iii) In taking lending decisions, bankers should equally consider other factors which are not necessarily
accounting information. The character capacity, collateral, security offered and the prevalent economic conditions should be given adequate attention in order to ensure safe lending.

(iv) When a loan has been granted, its use must be properly supervised and monitored so as to detect signals of Default, Early enough to take correct steps and avoid forced collection of the loan. Adverse financial trends indicated by accounting ratios, reluctance on the part of the borrower to furnish information and general loss of his cooperation are mainly signs of a loan default.

(v) Finally, bankers should recognize that the impact of Accounting information depends on the skill of lending officers. Inadequate experience and qualification of the user accounting information would lead to the misinterpretation of financial statements. This could lead to unintended consequences for both lenders and borrowers of funds. Therefore, experienced hands should be employed in such a sensitive area of bank lending.
5.3 CONCLUSION

This study attempted an empirical survey and analysis of the impact of accounting information on bank lending decisions in Nigeria commercial banks. The choice of the topic was motivated by the problems of huge loan losses suffered by most banks and, the consequent annual provision for bad and doubtful debts in their profit and loss account. It should be noted that increasing provision for bad and doubtful debt leads to narrower profit margins because it is an experience in a commercial banks profit and loss account. As a matter of fact, most commercial banks especially state owned ones are facing serious financial problems because of their increasing loan write offs. Therefore, efforts were made to know the extent to which accounting information is used in appraising the applications of credit seekers.

From the non-parametric chi-square tests, we made the following findings:

(i) Commercial banks lending depends on the extent of reliability of accounting information on the credit applicant.
(ii) Accounting ratios are useful tools to a lending officer in determining the credit worthiness, of a prospective borrower. In other words, accounting ratios are sufficient to determine whether to lend or not.

I discovered in the study that commercial banks rely on accounting ratios in monitoring the success of loan and in assessing the applicant for a loan.

Based on these findings, certain recommendations were just forward. It is of the view that if they are implemented by Nigerian commercial banks their lending decision will improve significantly.

These are also of the view that findings from a research of this nature can not claim to be comprehensive enough as to have touched all issues pertaining to accounting information and bank lending, it is in the light of the above that we suggest that further researchers be carried out on the impact of accounting information on lending by Nigerian merchant banks.

Commercial banks differ from merchant banks in the sense that the former concentrate in short term lending while later concentrate on long term lending. A comparative study on the impact of accounting information in both types of
banks could serve as a spring bond for future researchers. It is equally pertinent to note that this research concentrated on accounting ratios as one of the categories of accounting information used in bank lending. Other researcher could be based on the impact of budget statements and statement of sources and application of funds, on bank lending decisions. This will fill the gap in this study and try to make up for the limitations of accounting ratio as a tool for financial analysis.

5.4 RECOMMENDATION FOR FURTHER STUDIES

This research work is suggested for further study in the following ways:

1. The impact of budget statement
2. Statement of source and application of funds on lending decision.

This will fill the gap in this study and try to make up for the limitations of accounting ratios as a tool for financial analysis.
BIBLIOGRAPHY


Dear Sir/Madam,

**QUESTIONNAIRE ON ACCOUNTING INFORMATION AND BANK LENDING DECISIONS**

This questionnaire is designed to elicit information on the impact of accounting information on lending decisions in your bank.

I simply solicit for your assistance in completing, this questionnaire to enable me gather relevant information for the survey. The information obtained will be for academic purposes only and strict confidentiality is guaranteed. No individual responses or bank will be identified in analyzing and reporting the results.

Thanks for your Co-operation.

Yours faithfully,
Name of Bank: .................................................................

SECTION A

Please tick ( √ ) where appropriate

1. Do you request financial statements from loan applicant before taking lending decisions?
   a) Yes [ ]
   b) No [ ]

2. Do you insist that such financial statements be independently audited by qualified professionals?
   a) Yes [ ]
   b) No [ ]

3. What are the basic types of financial statement required for making lending decisions?
   a) Fund flow statement [ ]
   b) Profit and loss account [ ]
   c) Balance sheet [ ]
   d) Others (specify) .................................................................

4. Who is responsible for overall credit policy in the trade office of your bank?
   a) The board of directors [ ]
   b) The managing director [ ]
   c) The credit manager [ ]
5 Who takes the final lending decision at the branch level?

a) The branch manager [ ]

b) The credit manager [ ]

c) The branch accountant [ ]

a) Others (specify) .................................................................

6 On what criteria is the appointment of the officers in question (6) based?

a) Qualification [ ]

b) Experience [ ]

c) (a) and (b) above [ ]

d) Others (specify) .................................................................

7. Of what significance is adequate accounting information to your lending decision?

a) Very significant [ ]

b) Significant [ ]

c) Insignificant [ ]

8. Do you vary accounting information requirements according to the nature/type of client’s e.g. sole proprietorship, partnership cooperatives and public limited companies etc.

a) Yes [ ]

b) No [ ]
9. What decision do you take if the quality and quantity of accounting information provided?
   
a) The loan application is rejected  [ ]
   b) The loan application is approved nevertheless  [ ]
   c) The application assessed as other criteria  [ ]
   d) Others (please specify) ..................................

10. Can the lack of adequate accounting information prevent your bank from lending to a loan seeker?
   
a) Yes  [ ]
   b) No  [ ]

11. Do you compute accounting ratios in assessing loan applicants?
   
a) Yes  [ ]
   b) No  [ ]

12. If the answer to question (11) is yes, what board categories of accounting ratios do you stress on?
   
a) Long term solvency ratios  [ ]
   b) Short term solvency ratios  [ ]
   c) Efficiency and profitability ratios  [ ]
   d) Potential and actual growth ratios  [ ]
13 Do you rely on accounting ratios in determining whether an applicant is credit worthy or not?

a) Yes [ ]
h) No [ ]

14 What is your bank’s lending policy?

a) Maximization of profit [ ]
b) Minimization of loan defaults [ ]
c) Promotion of national economic growth [ ]
d) Any other (please specify) ........................................
SECTION B

15 Do you request for financial statements in monitoring the success of the loans granted to your clients?
   a) Yes [   ]
   b) No [   ]

16 If the answer to question (15) is yes, what type of information statement do you request?
   a) Balance sheet [   ]
   b) Profit and loss account [   ]
   c) Ratio analysis statement [   ]
   b) Any other (please specify) .........................

17 Do you rely on accounting ratios in evaluating the success of a loan facility after it has been granted?
   a) Yes [   ]
   b) No [   ]

18. If the answer to question (197) is yes, specify the broad categories of accounting ratios you stress on?
   a) Long term solvency ratios [   ]
   b) Short term solvency ratios [   ]
   c) Efficiency and profitability ratios [   ]
   d) Potential and actual growth ratios [   ]
THE IMPACT OF ACCOUNTING INFORMATION ON
LENDING DECISION OF COMMERCIAL BANKS IN
NIGERIA

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TITLE PAGE

THE IMPACT OF ACCOUNTING INFORMATION ON LENDING DECISION OF COMMERCIAL BANKS IN NIGERIA

PROJECT PRESENTED BY

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UNIVERSITY OF NIGERIA, ENUGU CAMPUS (UNEC)

MAY, 2011.
CERTIFICATION

I, NKAMA, NKAMA O with Reg. No. PG/MBA/09/54158 certify that this research work was actually carried out by me.

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(Student)

MR. R.O. UGWOKO
(Supervisor)

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(Head of Department)

Date

Date

Date
DEDICATION

This research is dedicated to Almighty God.
ACKNOWLEDGEMENT

I am grateful to God Almighty for His protection, goodness and strength.

I owe my indebtedness too, to my Supervisor MR. R.O. UGWOKE and other lecturers in the department of Accountancy for their moral support.

I am most indebted to my parent Mrs. Nkama for her consistent support and prayers, my gratitude also goes to my friends and relatives who through their support and encouragement lead to the conclusion of this work.

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ABSTRACT

Most banks operating in Nigeria today are finding an increasing number of loans in their portfolios that have gone sour. The reasons for this undesirable situation vary as a result of bad loan decision at inception, deterioration later on or simply the effects of the economy. However, literature in the field of accounting has shown that accounting information is helpful in decision making not only in all spheres of business but also at all levels of management. This study, therefore investigates the impact of accounting information on lending decision in Nigerian commercial banks. To this end, two hypotheses were developed and tested at 5% level of significance using the nonparametric chi-square test. Then data used in the tests of the hypotheses were derived mostly through the administration of structured questionnaire to the 25 commercial banks that fall within the sample frame. These data supplemented by personal interviews with the respondents, were used to support the analysis to arrive major findings. Interviews with lending officers were held with a view to: Seeking practical insight into lending in commercial banks which only such interviews could provide: Gather information for refining lending principles and techniques in an effort to make them more applicable in commercial banks. Examine current practices as an aid in judging the relevance of accounting information that were thought to be applicable in banking lending. Following a detailed analysis of the responses to the questionnaire, the major findings of this study are summarized as follows: Accounting information is a necessary ingredient in bank lending decision. Accounting ratios enriches the decision making ability of lending officers, by providing them with pertinent information. The lending policy of Nigeria commercial banks revolve around the minimization of load defaults and the maximization of profit. Finally, other important areas for further research were suggested.

Recommendation: the researcher was of the view that if they are implemented by Nigerian commercial banks their lending decisions will improve significantly.
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