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IMPACT OF FINANCIAL STATEMENT ANALYSIS ON BANK'S CUSTOMER PATRONAGE OF SELECTED BANKS IN NIGERIA

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Abstract

The performance of Deposit Money Banks (DMBs) in Nigeria is determined by many variables. Among the variables is financial statement or report of the banks which enable many users to make decision about the banks. This paper examined the impact of financial statement analysis on banks' performance of selected banks in Ilorin, Kwara State, Nigeria. Quantitative methods were utilized in the gathering and analyzing data. 86questionnaires were drawn from four (4) Deposit Money Banks in Ilorin Metropolis. The banks' managers and senior staff were the selected participants. Regression analysis was the statistical tool used to test for the hypotheses of the study. The study revealed that there is positive impact on the performance of Deposit Money Banks and financial statement at 5% level of significant. Therefore, it was concluded that Financial Statement analysis have positive and significant relationship with bank performance. It is recommended that Deposit Money Banks (DMBs) should continuously prepare their financial statement.

Keywords: Financial statement, Performance, Inducement, Investment and Published

Introduction

A financial statement is required by law to be published so as to enable the individuals to evaluate the performance of the activities of a business organization. Organizations owe a duty to fully disclose matters concerning their operations so as to aid investors in making investment decisions. Financial statements of an organization summarize the financial position and operating results of a business (balance sheet and income statements). Financial statement provides accounting information to many parties to enable them assess their ability, whether they should buy, hold or sell their investments. These records are intended to show the strength, progress, profitability, management effectiveness and stewardship. Many investors use them to gauge their financial positions at various points in their lives in order to judge their progress towards their financial goals and organizational performance.

The published financial statement serves as a means of conveying business information to the equity investors, group of organizations, the employee groups, the government and its agencies as well as the general public in a simple, clear and understandable form for proper utilization. It gives a concise and genuine picture of an enterprise's profitability trend and its financial

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position. The information contained in the published financial statement acts as a basis for which shareholders make investment decisions. The preparation financial statement is based on accounting standards, policies and conventions (generally accepted accounting principle). Some organizations cannot make good use of the financial information disclosed to get the best out of their investment. And most times, some companies find it difficult to make their financial statement available to the shareholder at any point in time.

Objective of the Study

The main objective of this study is to examine the impact of financial statements on performance evaluation in the banking industry by using selected banks (Guaranty Trust Bank Plc, United Bank for Africa, Unity Bank Plc and Sterling Bank Plc (Ilorin branches) as case study. The specific objectives are to:

(i) To determine the relationship between financial report and performance of the bank.
(ii) To ascertain the extent published financial statement induced more people to invest in the bank

Statement of the Hypotheses

Ho_1: There is no significant relationship between financial report and performance of the bank.
Ho_2: There is no significant relationship between financial statement and people inducement to invest in the bank

Literature Review

Meaning of Financial statements

Financial statement is a financial data about the economic activities of a business organization. It is the accounting record of an organization showing financial (monetary) transactions from time to time. Financial statements enable the managers or accountants to communicate about the financial conditions of their organization to outside parties. Financial information is required to make prediction, comparison and evaluation of a firm's earning ability. It is also essential to help in economic, investment and financing decision-making. Therefore, the financial information of an enterprise is confined in the financial statements and shows the financial strength and current performance of an enterprise. The key characteristics of financial information based on relevance and reliability in making investment and dividend decisions. The users of financial statements include managers, investors, lenders, financial analysts, and government agencies.

According to Fabozzi and Peterson, (2003) financial statement is seen as a parameter for evaluating the performance of a business enterprise and as a measuring tool to both the management and decision-makers and possible sale of shares by shareholders when actual results deviate from the target objectives. Financial statements refer to such statements, which contain financial information about an enterprise. It is the final product of accounting work done during the accounting period-quarterly/half-yearly/annually (Bernstein and Wild, 2000). Financial statements are prepared in monetary terms. Some people refer to them as 'Annual Accounts', when they are prepared on a yearly basis to give a 'true and fair view' of the affairs of the company (Segun, 2013).

Financial statements, according to Nigeria Accounting Standard Board (2009), are the areas of communicating to interested party's information on the resource obligations and performances of

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the reporting entity. Financial statements are source documents of accounting information and are referred to as the final accounts. Segun (2013) summarizes the basic features of financial statements as; always relate to past period and hence they are called historical document, expressed in monetary terms and indicate profitability of the business through income statement and financial position through the statement of financial position.

Gee-Jung (2009) accounting information has an ability to capture or summarize information that affects equity value. Financial statement helps the management to make decisions that are necessary for the continuity of the business. It also provides information about the financial strength, performance and changes in information position of an enterprise that is useful to wide range of users in making economic decisions. Generally Accepted Accounting Principles (GAAP) allows considerable flexibility in usage of accounting records. Companies uses different accounting ratios, such ratios include:

Liquidity Ratio: Liquidity Ratios are also called Short-Term Solvency Ratios. Liquidity means the extent of quick convertibility of assets in to money for paying obligation of short-term nature. To measure the liquidity of a firm, the following ratios are commonly used: Current Ratio and Quick Ratio (or) Acid Test ratio.

Current Ratio: Current Ratio establishes the relationship between Current assets and current liabilities. It tries to measure the ability of a firm to meet its present commitments. In order to calculate this ratio, this formula is used:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The two basic components of this ratio are current assets and current liabilities. Current asset normally means assets which can be easily converted in to cash within a year's time. On the other hand, current liabilities represent those liabilities which are payable within a year.

Profitability Ratios: This ratio explained the profit earning capacity of any business activity. However, profit earning may be judged on the volume of profit margin received from any activity and by subtracting costs from the total revenue accruing to a firm during a particular period. Therefore, profitability ratio is used to measure the overall efficiency or performance of a business. The following important profitability ratios can be found: Gross Profit Ratio, Operating Ratio and Net Profit Ratio.

Gross Profit Ratio measures the relationship between gross profit and net sales. Gross profit is calculated by subtracting cost of goods sold from net sales. It is calculated by dividing the gross profit by sales and usually in percentage.

$$\text{Gross Profit} = \frac{\text{Gross Profit Ratio}}{\text{Net sales}} \times 100$$

Net Profit Ratio is also termed as Sales Margin Ratio (or) Net Profit to Sales Ratio. Net profit Ratio is used to measure the relationship between net profit (either before or after taxes) and

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sales. This ratio reveals the firm's overall efficiency in operating the business. Higher Net Profit Ratio indicates the standard performance of the business concern.

$$\text{Net Profit Ratio} = \frac{\text{Net Profit after Tax}}{\text{Net Sales}} \times 100$$

Concept of Performance

In general, performance is expressed as vital determinant factor that is widely used in measuring the success or failure of organizations. Nowadays, performance evaluation focused on work, people and organizational structures. However, Gavrea, Ilies and Stegerean (2011), also confirmed that defining organizational performance has been very challenging to researchers because of its many meanings. Gavra, et al (2011), further noted several other definitions of performance as highlighted by Lebans and Zuske (2006), this involved defining performance as a set of financial and non-financial indicators which offer information on degree of attainment of objectives and results. It not overstatement to say that for an organization to effectively and efficiently realize its goals and objectives, human asset should be measured as a useful factor contributing to an organization's performance. Therefore, the performance of an organization can be measured in terms of turnover; productivity, quality, customer satisfaction, financial accounting category which can be measured in terms of return on assets (ROA), return on equity (ROE), profits and the financial market category which can be measured in terms of stock prices or the measure of the ratio of the market value of the firm's assets (Rogers and Wright, 1998).

Theoretical Review

Positive Accounting Theory (PAT)

This theory explains why accounting is what it is, why accountants do what they do and what affects these phenomena have on people and resources utilization (Mutai, 2014). Abdulrazak (2013) argues that PAT is the reason for the choice of accounting methods, techniques and policy decisions. The organization is described by PAT in the form of collection of contracts that are necessary to help self-seeking individuals agree to cooperate such as employee contracts and supplier contracts etc. (Mutai, 2014). Information in the financial reports can be distorted based on the management motive in several ways (Oluoch, 2014).

Personification Theory

This is what is refers to as personal account as it imputed personalities into accounting records, so that they were treated as living persons. It follows the general rules of debiting him that receives; crediting him that gives things in value. Personification took three forms; the attribution of human qualities to inanimate objects, the fiction that each account was a branch of the owner's personality (e.g. Abike) and account represented who received and gave up value for the proprietor of the business. However, accounts of a business is classified into personal accounts, or accounts of persons outside the business (e.g. debtors, creditors) and impersonal or real accounts, or accounts for objects owned by the owner.

Empirical Review

Many studies have examined the quality of information on financial statement in various contexts such studies are: Owusu- Ansah (1998); Ho and Wong (2001), Joshi and Ramadhan (2002); Bernstein, Leopold and Wild (2009); Nasir (2003); Girmachew (2010); Akhtarudd in (2005) and Campell (2008). Each of these studies has been distinguished by differences in

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research background, differences in definition of the explanatory variables, differences in financial statement index structure and differences in statistical analysis. Cerf (2000) studied the relationship between extent of financial statement and company attributes. Random sample of 527 listed and unlisted organizations were sampled on minimal standards of financial statement. The result reported that there is a positive relation between disclosure and asset size, profitability, and shareholder number.

Barrett (1976) examines the extent and quality of corporate financial disclosure in seven countries over a ten-year period from 1963 to 1972. The result shows that there is only a little difference in the extent of disclosure of large British and American firms; the result is in line with discoveries of Cerf (2000).

Francis and Schumacher (2002) investigate the corporate reporting practices in Nigeria. The result revealed that accounting reports have been found deficient in the sense that they lack vital information. Ofoegbu and Okoye (2006) investigate the extent to which Statement of Accounting Standards are complied with in Nigeria. They analyzed the annual reports of 41 companies publicly quoted at the Nigerian Stock Exchange. It is discovered that there is a mixed result of compliance with disclosure requirements. Umoren (2009) using a sample of 90 listed companies that cut across 25 industries on the NSE. The study revealed that financial statements supported improvement of organizational performance.

Methodology

Structured questionnaire was used as a data collection instrument to give respondents hint of what is expected. The research employed survey method for the study; the method was adopted because it provides the researcher with the opportunity to get direct and reliable information that are pertinent to the objective of the study. The sample size includes the functional heads and all the senior staff of the branches of the Guaranty Trust Bank Plc, United Bank for Africa Plc, Unity Bank Plc and Sterling Bank Plc Ilorin branches, Kwara State. Questionnaire was structured to show the respondent's bio-data information and the objectives and research question of the study. The data collected were analyzed using the descriptive and inferential statistics (tables, frequency, and simple percentage) to draw up conclusions on data obtained from the study. The regression analysis technique was used to test the hypotheses.

The instrument used in collecting data for this study was questionnaire and seventy (90) copies of the questionnaire were distributed and (86) copies of the questionnaire were returned which were properly filled by the respondents and that represents 95.6% return rate.

Results

Table 1: Demographic characteristics of Respondents

Variables	Frequency	Percentage
Gender		
Male	31	36.05%
Female	55	63.95%
Total	**86**	**100**
Age		

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Age 18 – 25 years	11	12.79%
Age 26-30 years	63	73.26%
Age 31-more years	12	13.95%
Total	**86**	**100**
Length of service		
Below 5 years	28	32.56%
6-10 years	43	50.00%
11 years and above	15	17.44%
Total	**86**	**100**
Marital status		
Single	41	47.67%
Married	45	52.33%
Total	**86**	**100**

(Source: Author field work, 2020)

The table above represents the bio-data of the respondents. The Male gender indicates 36.05% the Female gender indicates 63.95%. Respondents12.79% represent the age brackets 18 – 25 years, respondents 73.26% represents age bracket 26-30 years while respondents 13.95% represents age brackets 31 or more years and respondents claimed 32.56%, they have been working in the bank below 5 years, 50% of the respondents for 6-10 years and 17.44% of the respondents for 11 years and above and 47.67% of the respondents say they are single while 52.33% of the respondents said they are married.

Table 2: Financial Statement Report and Bank Performance

	Does Financial Statement Report enhance Bank Performance	**Yes %**	**No %**
1	Using of accounting standard and policies	82(95.35%)	4(4.65%)
2	Using of financial statement position	86(100%)	0(00%)
3	Using income statement	86(100%)	0(00%)
4	Using cash flow statement	86(100%)	0(00%)

(Source: Author field work, 2020)

The table above shows responses to the various financial statement reports by the bank 82(95.35%) of the respondents said they use statement of accounting policies while 4(4.65%) of respondents did not and majority of the respondents say they use statement of financial position, income statement and cash flow statement by (100%). The implication of this table is that statement of financial position, income statement and cash flow statement are the most commonly used financial statement in banks

Table 3: Published Financial Statement and people inducement to invest in bank?

Does published financial statement induce more people to	Strongly Agree **%**	Agree **%**	Uncertain %	Strongly Disagree **%**	Disagree **%**

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	invest in your bank					
1	Customers aware of your published financial statement	68(73.1%)	18(26.9%)	0(00%)	0(00%)	0(00%)
2	Get customers through financial statement of your bank	71(82.56%)	15(17.44%)	0(00%)	0(00%)	0(00%)
3	Make profit through this investment as a result of published financial statement of your bank	56(65.12%)	34(34.88%)	0(00 %)	0(00%)	0(00%)
4	More customers encouraged to invest in your bank through published financial statement	19(22.09%)	28(32.56%)	36(41.86%)	2(2.33%)	1(1.16%)

(Source: Author field work, 2020)

The table 3 shows response to how published financial statement induces more people to invest in the bank. 100% respondents are agreed that their customers are aware of published financial statement, get customers through financial statement and more profit. Respondents 22.09% and 32.56% agree that customers are encouraged to invest in the bank because of published financial statement, while 41.86% of the respondents were uncertain and 2.33% and 1.16% of the respondents disagree. This implies that majority of the respondents agree that published financial statement induce more people to invest in their banks.

Test of Hypotheses:

Analysis of research hypothesis 1

H_{01}: there is no significant relationship between financial report and performance of the bank

Table 4: Regression Coefficients

Model	**Unstandardized coefficients**		**Standardized coefficients**	**T**	**Sig.**
	B	**Std. Error**			
(Constant)	1.562	.204	.503	6.320	000
Financial report	.452	.051		6.220	000

Dependent variable: Performance of the bank
(Source: Author field work, 2020)

Interpretation of Hypothesis One

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The analysis shows that significant value .000 is less than 0.05. Therefore, null hypothesis is rejected and it means that financial report has significant relationship with performances of banks.

Analysis of Research Hypothesis 2

(i) H_{02}: there is no significant relationship between published financial statement and people inducement to invest in the bank

Table 5: Regression Coefficients

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	**Std. Error**			
	1.482	.154	.402	7.223	000
(Constant)		.046			000
Financial statement	.428			8.253	

Dependent variable: investment in the bank
(Source: author field work, 2020)

Interpretation of Hypothesis Two

The analysis shows that significant value .000 is less than 0.05. Therefore, null hypothesis is rejected and it means that financial statement has positive effect on people inducement to invest in the bank.

Conclusion

Statement of financial position, income statement and cash flow statement are the most commonly used financial statement in banks for bank performance. Also, published financial statement induces more people to invest in banks.

Recommendations

It was therefore, recommended that financial statement should be well prepared and published since it has positive relationship with performance of banks.

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