IMPACT OF FINANCIAL ACCOUNTING INFORMATION ON LENDING DECISION BY DEPOSIT MONEY BANKS IN NIGERIA

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Abstract
The usefulness of financial statements, other sources of financial information and financial information to banks’ lending decisions has been a subject of research interest in recent times. Researches on this area as documented in the literature have reported mixed findings. Thus, this study examined the impact of financial accounting information on lending decision of banks in Nigeria. It employed the survey design and a sample size of 90 respondents was judgementally drawn which comprise of loan assessment and granting officers of fifteen deposit money banks operating in Warri metropolis of Delta State, Nigeria. Data were elicited using a structured questionnaire and its reliability was tested using Cronbach’s Alpha. Descriptive statistics, frequencies and percentages were used for data analysis. The results show that financial statements was the most frequently used accounting information source; profit/loss information was the most important amongst other accounting information; while income statement was the most important in relation to statement of financial position and cash flow statement. The study recommended that bank credit officers should continue to give greater attention to financial statements, other sources of financial information, as a basis of extracting required financial information upon which they make lending decisions.

Keywords: Financial accounting information, financial statements usefulness, financial reporting, bank lending, stakeholder theory and bank lending.

Introduction
Banks act as creditors to companies through the provision of capital which stand them out as key actors in the financial system and by extension the economy. Clearly they are financial intermediaries; this is why according to Dell’ariccia & Marquez (2006), it is most important to understand their operations more deeply. Importantly, apart from demanding collateral security from borrowers, they constitute the major users of financial accounting information (Kim, 2009). Financial accounting information is of immense value to banks and more importantly in market-based economies with regard to creditors and investors. It

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allows creditors and investors to estimate the possible return on their investment and it helps them monitor the use of capital once it is committed (Beyer, Chen, Lys & Walther, 2010). Thus it is worth noting therefore, that analyzing accounting information of companies is a veritable tool for decision makers especially creditors, investors, business analysts and financial managers. The classes of users often times employ these data to assess and evaluate companies’ performance and such data in the form of financial ratios are used when analyzing the financial standing of a firm (Delen, Kuzey, & Uyar, 2013). Banks require updated financial statements to manage loan clients (Kim, 2009).

Growth and expansion objective is at the behest of every firm. For it to be achieved firms require substantial financial capital and this is made possible when they possess good financial accounting information in their financial statements made available to provider of finance or capital. Recognized, companies’ growth and expansion provide enormous benefits to all stakeholders. For instance, customers are provided with more products and services; employees receives more benefits and have better access to career opportunities while shareholders are splashed with gains and increased returns on investment. Drawing from this, Bird & McEwan (2012) argue that both firms and suppliers of credit can achieve better commercial benefits which improve the overall welfare for social communities. Importantly, Billings & Morton (2002) observed that in recent time companies finance their operations more, through debt than equity and access to debt capital therefore, requires some form of signals from companies in the form of financial statements which are the main sources of financial accounting information. Financial statement and financial information play a key role in credit assessment and evaluation stages of commercial loan decision (Libby, 1979 in Gomez-Guillamon, 2003).

In contemporary times, emphasis on accounting information relevance and transparency has increased the need for more understanding whether creditors’ still harp more on the use of accounting information? Some studies have examined the role financial statements play when creditors’ decide to lend. The results have shown implicitly that financial statements are used more frequently than other information sources. In particular they have shown that statement of comprehensive income was the most influencing, followed by statement of financial position, while cash flows is the third most influencing statement. However, with the constancy of change in businesses and business environment, these statements have equally been subjected to change to reflect complexity of transactions and be more value reliant. As such, more focus is expected on the format and presentations of these important financial statements and the information contained therein to make them more useful. The works of Yap (1990) and Alatter & Al-Khater (2007) have investigated the rank order of financial statements usefulness while some other studies have equally assessed the lost of relevance by financial statements. According to Francis & Schipper
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(1999) accounting information has been criticized to have lost significant part of its relevance to its users. Nevertheless critics have increased the number of researches while concerted efforts have been garnered to improve accounting information.

The recent work of Hail (2013) maintained that the overall relevance of statement of financial position has remained stable, but the loss of relevance of income statement is becoming a trending issue. This of course has shown a gap in research worth examining. While it is expected that these three basic financial statements are needed by banks in lending decisions, one of them is assumed to play more important role compared with the others. However, it is unfortunate to note that very scanty research has been carried out regarding accounting information needs in favour of creditors (Allen & Cote, 2005) in particular, developing countries such as Nigeria. It is from the foregoing that this study intends to principally focus on the usefulness of accounting information by determining which of the financial statements is mostly used and important to banks in their lending assessment of loans application made by companies. The lending decision considered in the study was mainly commercial lending which excludes lending such as mortgages, leases, personal loans and lending made by development banks. This is very vital because commercial loans from banks require repayment from firms’ operation. This would only be determined through several information sources, availability of adequate and requisite financial information from these sources.

This study contributes to knowledge by providing further insights on what information source is frequently used, what information is most important and which financial statement is more important than others from the perspective of banks in Nigeria. It adds to the literature relating to the usefulness of financial statements and lending decisions of financial institutions. To this end, the objective of the study was to examine the usefulness of financial accounting information in lending decisions by deposit money banks in Nigeria. To achieve this, the following specific objectives were stated which are to:

i. Determine the most frequently used information source by banks in their lending decisions
ii. Assess the most important financial accounting information which influences banks’ lending decisions
iii. Explore the most important financial statement comparable to others used by banks in lending decisions.

Research Questions
In consonance with the objectives, the following research questions were raised:

i. Which information source is most frequently used by banks in their lending decisions?
ii. Which financial accounting information influences bank lending decisions the most?

iii. Which of the financial statements is the most important comparable to others that influences banks lending decisions

The other sections of the paper includes: section 2 which focused on literature review; section 3 dealt with methodology; section 4 showcased data presentation, analysis and discussion of findings while section 5 was concerned with conclusion and recommendation.

Literature Review
This aspect took cognizance of a sequence of conceptual frame work, theoretical framework and empirical literature review. The reason being that it will provide a robust and insightful synthesis of the important parts that make up literature review with a view to create a methodological understanding of the themes involved.

Conceptual Framework
Financial statements provide the vital medium through which financial reporting is achieved that convey financial information that meet the varied information needs of users of financial statements.

Financial Reporting
The Statement of Financial Accounting Concepts No1 of The Financial Accounting Standard Board (FASB) and IFRS Framework (IASB) both defined the purpose of financial reporting as necessary which provide information that is used in making business and economic decisions. The information according to FASB (1978) should as a matter of fact be relevant and help investors and creditors to evaluate the amounts, timing and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loan. Additionally, IASB (2013) maintain that the information should also include economic resources and, the claims to them. Further, IASB (ibid) aver that financial reporting possess two qualitative characteristics which are relevance and faithful presentation. Relevance is concerned with information that has predictive or confirmatory value of both as it were. Predictive value indicates the ability to predict future outcomes while confirmatory value provides feedback about previous prediction. Faithful representation on the other hand infers that the information should be free from errors, be complete and neutral. The enhancement of the qualitative characteristics invariably would enhance the usefulness of the information (IASB, 2013). Thus for example, when comparability is improved users of financial reporting are made to understand and as well identify both similarities and differences that exist among accounting items. Presentation and careful
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explanation of information in the financial statements on the other hand enhances understandability

**Financial Statements**

Financial statements are the conveyor of financial reporting format as well as the accounting information. According to IAS 1, concludes that three main statements are in use. They are: statement of financial position, statement of comprehensive income and statement of cash flows. Recently, the standard added statement of changes in equity which in many countries traditionally was not a financial statement. The standard also did not prescribe any detailed layout required for the statement of financial position neither did it identify items that should be presented in it. However, IASB (2013) insist that an obligation is requires to separate current and non-current assets, and current and non-current liabilities as separate classifications. From the prescription, Wolk, Dodd & Rozycki (2013) emphasized that the statement has three key components which are assets, liabilities and owners’ equity. The statements provide information which assist greatly to assess the financial health of a company. Walton (2011) on the other hand, infer that statement of comprehensive income provide information in the following sequence: profit and loss account +/- other comprehensive income = total comprehensive income. However, IAS 1 as Walton (ibid) noted made provision for two sections in the statement viz – profit or loss and comprehensive incomes and ensuring that they are separately presented in two pages. The statement equally recognized the presentation of other important facts such as level of revenue and expense generated by a company.

IAS 7 expressed that the statement of cash flow provides a company’s cash flow information, and it indicates the ability of a company to generate cash as well as cash equivalent. IASB (2013) however maintain that this information is further categorized in the statement into operating activities, financing activities and investing activities. The statement of changes in equity is the fourth statement, according to IASB (ibid). The statement is concerned with identification of changes in equity, which shows the reconciliation between opening and closing amounts according to Walton (2011).

The basic objective served by financial statement is to provide important information about a company’s financial position, financial performance and changes in financial position which users need to evaluate and make desired economic and investment decisions. The purpose as it were, is to meet the common users’ needs which often include information that shows a company’s ability to generate cash as well as cash equivalent (IASB, 2013). Noting further IASB (ibid) stressed that IAS 1 also prescribes that the general purpose of financial statements is to meet users’ needs. However, the statement should aggregate information relating assets, liabilities, equity, income and expenses.
(including gains and losses) and cash flow for they are essential to users in making economic decisions.

**Users of financial reporting**
The multiplicity of stakeholders’ interest in a company informed the need for financial reporting of transactions and decisions of a company and its management. The users according to FASB’S Statement of Financial Concepts No 1 (1978) include owners, lenders, suppliers, potential investors and creditors, employees, management, directors, customers, financial analysts and advisors, brokers, underwriters, stock exchanges, lawyers, economists, taxing authorities, regulatory authorities, legislators, financial press and reporting agencies, labour unions, trade associations, business researchers, teachers, students and the public. In some specific form FASB (ibid) notes that creditors, owners and employees do have direct economic interest in particular firms, they are interested in the ability of the companies to generate cash. As such a company is a source of cash to investors, lenders, suppliers and employees by way of dividends, interest, payment for goods and services, wages and salaries. Thus, it is imperative that the users are compensated for their investments. From a narrow perspective, Wolk et al (2013) identify creditors and investors as the two primary users of accounting information. Creditors generally focus on facts as well as numbers in estimating customers’ ability to repay loans while on the contrary, investors are more concerned with information that enable them estimate their return potential on investments.

**Financial accounting information and user groups**
Valuable financial accounting information relating to current financial position, overall performance and changes in financial position are contained in financial statements. The information and their reporting are very vital to creditors as well as investors. Users obtain this information and analyze them for decision making process. It is noteworthy that there is numerous information such as gross profit, profit before tax, current assets, non-current assets but these absolute figures when compared make them more valuable. Such comparison should be in form of financial ratios. Serving the information needs for the future for purposes of facilitating decision process depends heavily on the knowledge of financial ratio. Alexander, Britton & Jorissen (2009) argue that the most frequently used ratios that show a company’s profitability are return on equity, return on asset and return on capital employed. Talebnia, Poorzamani, Yaghoobnezhad & Bayat (2012) opine that annual reports of two consecutive years provides information for ratio calculation while annual reports for more than two years and preferably for longer time frame assist in trend analysis which enable an in-depth exploration of a company’s performance over a longer period of time. The choice of a base year in the analysis is critical as the case with all items in the financial statement which are expressed as an index to that year (Alexander, Britton & Jorisson, 2009). Banks collect financial information
from statements in order to discipline borrowers’ investment decisions and protect any proceeds in case of default (Minnis & Sutherland, 2017).

**Theoretical Framework**

**Stakeholder Theory**

One notable theory in the field of business is the stakeholder theory developed by Freeman (1984). It focused on stakeholders other than just shareholders. This has increased attention on the importance of relationship between a company and its stakeholders. It is concerned with the distribution of financial outputs as each stakeholder seeks compensation for their investment in the entity (Phillips, 2003). The stakeholder framework for this work is about the prescription of the role of accounting in creditor’s decision-making process. It infers that companies release accounting information to serve its stakeholders and reach its goals such as ensuring cash.

**Signaling Theory**

Closely related to stakeholder theory is the signalling theory. The theory believes that to serve the stakeholders, companies need to signal to their associates (Karilainen, 2014). The signal usually focuses on the users’ information needs and it also describes the information and reduce its asymmetry between the parties. Accounting information are reported and transmitted mainly through annual reports. According to Dainelli, Bini & Giunta (2013), annual reports constitute the most reliable way to communicate between two parties. Both the stakeholder and signalling theories state that companies’ signal through accounting information which enable its stakeholders to take specific decisions in terms of their individual interest in the firm’s activity. In this regard, the stakeholder group considered are the creditors specifically the banks that lend both short and medium term loans to firms in Nigeria that predominantly finance their operations through debt than equity. Hence banks are considered a significant stakeholder group that rely largely on accounting information for lending decisions.

**Empirical Review**

Chung, Ghicas & Pastena (1993) investigated lenders use of accounting information in the oil and gas industry. Their objective was to find out what creditor require for consummating actual lending agreements. The results reveal that creditors actually insist in obtaining collaterals before granting loans to companies. The study of Jones, Romano & Smyrnios (1995) which researched into the usefulness of accounting information from the perspective of managers, investors and creditors was particularly interesting. The results show that creditors frequently use cash flow information more. Recent studies have reported that cash flow information is very important to creditors because it assist them to estimate future cash flow of borrowers (Karilainen, 2014).
Gopalakrishnan & Parkash (1995) assessed the perception of accounting information in lending from borrowers and lenders point of view. Results that emanated from the study show that debt-to-equity ratio and tangible net worth covenants contributed to the technical default in loan repayment. On the other hand the ranking results indicated that the top three factors considered in choosing accounting methods are debt covenants, industry conventions and level of income reported.

Yap (1997) investigated the importance of financial statements as a source of information. The study focused on investors and creditors. The results of the study indicate that the most influencing financial statement in considering credit decisions is the income statement, followed by statement of financial position while the third is cash flow statement. It was also established in the results that though the cash flow statement was important, it was not used as a substitute for the statement of financial position and income statement. It was useful in making decisions regarding liquidity, solvency and financial flexibility. Other studies whose outcome emphasized importance of cash flow include Catanach (2000), Billings & Morton (2002), and Minnis (2011).

Kwok (2002) examined the usage of cash flow information and cash flow statements in lending decisions in Hong Kong. The result of the study show that during the lending process, not all the cash flow information required were obtained from the cash flow statements, but from the statement of financial position and other reports. Allen & Cote (2005) also investigated whether the theories about the use of cash flow information by creditors is true in practice. The research outcome reveals that earnings factor considerably dominates information creditors consider in decision making.

Naser, Nuseibeh, & Al-Hussaini (2003) in assessing users perceptions of various aspects of Kuwaiti corporate reporting found that income statement, balance sheet and the cash flow statements were the most important and credible parts of corporate annual reports. Kitindi, Magembe & Sethibe (2007) explored lending decision making and financial information amongst lenders in Botswana. The findings show that financial statement are the most required by lenders in making lending decisions; Notes to the financial accounts, bank statement and Chairman/ Director report rank more important than cash flow statement, income statement ,balance sheet and auditor’s report.

The results of the work of Ohlson & Aier (2009) however, show that income statement is one of the most important sources of information to analysts. The statement as they noted provides analysts with data with which they use in forecasting subsequent earnings in the future. The study of Kim (2009) on financial statements and lending decisions, using descriptive statistics analysis, found that financial statements are important in lending decisions by both small
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and large banks. Minnis (2011) explored how financial statements influence debt pricing. The results of the study show that creditors consider companies with audited accounting information when deciding to offer credit to them.

Sawalga (2012) examined the most important information sources relating to investment decision situations in Iran. The results obtained indicate that to investors, corporate annual reports were the most important for investment decisions. Other information sources included daily share prices, corporate websites, newspapers, magazines, advice from friends, discussion with company staff, stockbrokers’ advice, tips and rumour. The research concluded that investors were more reliant on written information than verbal information when considering their investment decisions.

Karilainen (2014) evaluated the usefulness of financial accounting information in commercial lending in Sweden. The results of the study indicated that the most frequently used information source was financial statements. Profit / loss information was the most important amongst financial accounting information and share price the least. On the other hand, balance sheet and cash flow statement were the most important statements followed by income statement. Mai (2015) evaluated information on financial statements for loan decision making of commercial banks in Vietnam. Using descriptive analysis method found the importance of financial statement and more importantly the quality of information contained therein on the part of commercial banks when considering loan decisions.

Methodology
The survey research design was employed. The use of the design was based on the fact that surveys generally are employed to answer questions about who, what, where, how much and how many (Saunders, 2009). The study population consist of all the fifteen deposit money banks operating in Warri metropolis, Delta State, Nigeria. The sample size was determined judgmentally and it was made up of three officers each (bank managers, credit officers, and marketing managers) from two branches each of the 15 banks whose job schedules are involved in loan assessment and granting. The banks are Access bank, Diamond bank, Fidelity bank, First bank, First City Monument bank, Guaranty Trust bank, StanbicIBTC bank, Sterling Bank, Union bank, United Bank for Africa, Wema bank, Zenith bank, Ecobank, Unity bank and Skye bank. Thus, the sample size was ninety (90) respondents. The questionnaire instrument was used and developed in such a manner to make it easy for respondents to choose options that would serve the objective of the study and measure accurately what it supposed to measure.

Data collected were qualitative in nature and divided into ordinal and nominal data. Ordinal scale was used to rank order categories while nominal scale was
used for non-ordered categories. The questions were mostly ratings and few others were open-ended. The rating questions were based on five point Likert scales used to locate the respondents’ strength of agreement. For instance ‘most frequently used’ coded 1 to ‘not used at all’ coded 0 was used to rank information sources. From ‘highly important’ coded 1 to ‘not important’ coded 5 was used to rank importance of financial accounting information. From ‘most important than’ coded 1 to ‘least important than’ coded 5 was used to rank importance of financial statements. Likert scales according to Bell (2010) are useful when the wording of the questions is correct while open-ended questions according to Saunders (2009) are used to gather more detailed answers. The Cronbach’s alpha was used to verify the reliability of the instrument. The choice was chosen because the study measured qualitative variables relating to usefulness of accounting information in lending decisions.

Descriptive and inferential statistics were used to analyze the data. These analytical tools were chosen because they have been used in similar studies reviewed. More so they enable one to compare the frequency of usage of information sources, important accounting information and determine which financial statements are mostly used by banks in lending processes. The statistics were mainly the means and standard deviations while answers to few of the open-ended questions were analyzed through deductive approach. Out of the ninety (90) questionnaires distributed, only 72 were retrieved representing a response rate of 80%.

### Data Presentation, Analysis and Discussion

Table 1a: Results of reliability test statistics for questions bothering on information sources, financial accounting information and financial statements

<table>
<thead>
<tr>
<th>Decision variables</th>
<th>Cronbach’s Alpha</th>
<th>Number of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information sources</td>
<td>.869</td>
<td>5</td>
</tr>
<tr>
<td>Financial accounting info.</td>
<td>.891</td>
<td>13</td>
</tr>
<tr>
<td>Financial statements</td>
<td>.862</td>
<td>3</td>
</tr>
</tbody>
</table>

*Source: Field survey, 2017.*

Table 1 above shows the reliability test results to verify the internal consistency of the questionnaire instrument on the basis of the Cronbach’s alpha. The results indicate that the variables measured all have Cronbach’s alpha values above .800. These high values are suggestive of high reliability and validity. On this basis it was possible to conclude that the questionnaire has a very good internal consistency, as such was acceptable for the study.
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Table 2: Background Information for age and work experience of respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency/ Percentage of total respondents</th>
<th>Work experience</th>
<th>Frequency /Percentage of total respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 20</td>
<td>4 (6)</td>
<td>Under 3 years</td>
<td>3 (4)</td>
</tr>
<tr>
<td>20-24</td>
<td>6 (8)</td>
<td>3 to 6 years</td>
<td>7 (10)</td>
</tr>
<tr>
<td>25-29</td>
<td>9 (13)</td>
<td>7 to 14 years</td>
<td>11 (15)</td>
</tr>
<tr>
<td>30-34</td>
<td>24 (33)</td>
<td>15 to 20 years</td>
<td>23 (32)</td>
</tr>
<tr>
<td>Above 35</td>
<td>29 (40)</td>
<td>More than 21</td>
<td>28 (39)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>72 (100)</td>
<td></td>
<td>72 (100)</td>
</tr>
</tbody>
</table>

Source: Field survey, 2017

From Table 2 above, shows the age and work experience frequencies and percentages of the total respondents. The figures not in parenthesis are frequencies while those in parenthesis are percentages in relation to total respondents. Age above 35 has the highest frequency/ percentage of the total respondents. This was followed by age 30 to 34, next was age 25 to 29, and next was age 20-24 while age under 20 was the least. It shows that most of the persons in charge of loan processing and granting were within the age bracket of 30 and above. On work experience, those who have worked for more than 21 years have the highest frequency and percentage of the total respondents. This was followed closely by 15 to 20 years experience; next was 7 to 14 years, next was 3 to 6 years and the last was under 3 years. This indicates that majority of bank credit officers involved in loan processing and granting have reasonable work experience in the field.

Table 3: Descriptive statistics and mean rankings of information sources used by banks in lending decisions

<table>
<thead>
<tr>
<th>Sources</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Rank of means</th>
<th>Means</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial statements</td>
<td>7</td>
<td>1</td>
<td>5</td>
<td>1st</td>
<td>1.762</td>
<td>.97094</td>
</tr>
<tr>
<td>Industry information</td>
<td>7</td>
<td>1</td>
<td>5</td>
<td>2nd</td>
<td>2.423</td>
<td>1.02054</td>
</tr>
<tr>
<td>Media report information</td>
<td>7</td>
<td>1</td>
<td>5</td>
<td>3rd</td>
<td>2.932</td>
<td>1.15765</td>
</tr>
<tr>
<td>Recommendations from others</td>
<td>7</td>
<td>1</td>
<td>5</td>
<td>4th</td>
<td>3.084</td>
<td>1.11862</td>
</tr>
<tr>
<td>Information from other sources</td>
<td>7</td>
<td>1</td>
<td>5</td>
<td>5th</td>
<td>2.949</td>
<td>1.13599</td>
</tr>
</tbody>
</table>

Table 3 provides the mean values of each of the sources of information. Based on the means these sources were ranked. The ranking shows the order concerning how the information source is mostly used by banks in lending process. The results imply that the most frequently used source is financial statement; Industry information followed closely, thereafter media report, then information from other sources and lastly recommendation from others. This infers the usefulness of financial accounting information in lending by deposit money banks in Nigeria. From one of the open ended question asked, most of the respondents emphasized the importance of financial statement as it provides the most valuable information that meets banks’ needs. In addition, they expressed that through financial statements, a firm’s recent and future economic behaviour can be evaluated. The results are consistent with prior research outcomes of Alattar & Al-khater (2007), Ohlson & Aier (2009), Minnis (2011), and Yap (1997) who found that financial statement was a more frequently used information source by banks in the lending process. However, other sources are equally important as they are complementary. Respondents’ answers to one of the open-ended questions affirm that banks rely on a variety of information sources to have a better understanding of the firm which enhances sharing of information. By this, information asymmetry can be reduced drastically including default risk.

Table 4a: Descriptive statistics for importance of financial accounting information and rank ordering by means

<table>
<thead>
<tr>
<th>Financial accounting information</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Rank</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Details of equity information</td>
<td>72</td>
<td>1.00</td>
<td>5.00</td>
<td>12th</td>
<td>2.5763</td>
<td>1.05378</td>
</tr>
<tr>
<td>Details of liabilities information</td>
<td>72</td>
<td>1.00</td>
<td>5.00</td>
<td>4th</td>
<td>2.0000</td>
<td>.94686</td>
</tr>
<tr>
<td>Details of asset information</td>
<td>72</td>
<td>1.00</td>
<td>4.00</td>
<td>2nd</td>
<td>1.8814</td>
<td>.81123</td>
</tr>
<tr>
<td>Details of revenue/tax turnover</td>
<td>72</td>
<td>1.00</td>
<td>5.00</td>
<td>7th</td>
<td>2.1017</td>
<td>.94129</td>
</tr>
<tr>
<td>Details of profit/loss</td>
<td>72</td>
<td>1.00</td>
<td>4.00</td>
<td>1st</td>
<td>1.7119</td>
<td>.85199</td>
</tr>
<tr>
<td>Share price information</td>
<td>72</td>
<td>1.00</td>
<td>5.00</td>
<td>11th</td>
<td>2.5254</td>
<td>1.25060</td>
</tr>
<tr>
<td>Operating cash flow information</td>
<td>72</td>
<td>1.00</td>
<td>5.00</td>
<td>8th</td>
<td>2.1695</td>
<td>1.03645</td>
</tr>
<tr>
<td>Financing cash flow information</td>
<td>72</td>
<td>1.00</td>
<td>5.00</td>
<td>5th</td>
<td>2.0169</td>
<td>1.05849</td>
</tr>
<tr>
<td>Investing cash flow information</td>
<td>72</td>
<td>1.00</td>
<td>5.00</td>
<td>10th</td>
<td>2.2881</td>
<td>1.18977</td>
</tr>
<tr>
<td>Financial ratio information</td>
<td>72</td>
<td>1.00</td>
<td>5.00</td>
<td>9th</td>
<td>2.2203</td>
<td>1.14572</td>
</tr>
<tr>
<td>Cash and cash equivalent information</td>
<td>72</td>
<td>1.00</td>
<td>4.00</td>
<td>6th</td>
<td>2.0678</td>
<td>.98023</td>
</tr>
<tr>
<td>Details of account receivables</td>
<td>72</td>
<td>1.00</td>
<td>4.00</td>
<td>3rd</td>
<td>1.9831</td>
<td>.79852</td>
</tr>
<tr>
<td>Details of account payables</td>
<td>72</td>
<td>1.00</td>
<td>4.00</td>
<td>2nd</td>
<td>1.8814</td>
<td>.76755</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>72</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4a above presents the rank ordering of the importance of each of the financial accounting information. The rank ordering was based on the means. The results indicate that the most important financial accounting information in terms of mean ranking order respectively was profit / loss, financing cash flow, investing cash flow, details of assets, details of liabilities, cash and cash equivalent, accounts payable, share price information, financial ratios, operating cash flow, accounts receivables, turnover and details of equity. Except profit / loss, financing cash flow, investing cash flow, details of assets, details of liabilities, cash and cash equivalent, accounts payable, financial ratios, operating cash flow, accounts receivables, turnover/ revenue that have means lower than 2.5 share price and details of equity have means higher than 2.50. This reveals that share price and details of equity have significant different mean values hence they have the lowest importance in terms of banks information needs. The results to some extent are consistent with the findings of Karilainen (2014) who found profit & loss as the most important financial accounting information while share price the least important with a mean that is significantly higher than the measurement mean. No wonder the respondents remarked in one of the open-ended questions that, these financial information are usually considered over a three-year period and are computed from the financial statements provided by firms asking for loans and advances. Clearly, this implies that banks do trend analysis on the financial information to have an articulated and robust insight of improvements/deterioration on important accounting information to guide lending decisions.

Table 4b: Descriptive statistics of importance of financial statements and rank ordering of means

<table>
<thead>
<tr>
<th>Financial Statements</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Rank</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of cash flow</td>
<td>72</td>
<td>1.00</td>
<td>4.00</td>
<td>3rd</td>
<td>1.7288</td>
<td>.96187</td>
</tr>
<tr>
<td>Statement of financial position</td>
<td>72</td>
<td>1.00</td>
<td>4.00</td>
<td>2nd</td>
<td>1.5593</td>
<td>.81518</td>
</tr>
<tr>
<td>Income /Statement of comprehensive income</td>
<td>72</td>
<td>1.00</td>
<td>4.00</td>
<td>1st</td>
<td>1.4576</td>
<td>.70275</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>72</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Table 4b above vividly indicate the mean ranking of the different financial statements by banks loan granting officers. By the mean ranking, income statement (statement of comprehensive income) appears to top the list followed by statement of financial position and then statement of cash flow. However, all the means were less than the mean value of 2.50, this signifies strong agreement that these statements are important and thus useful to banks when considering granting loans to firms. These results corroborate the findings of Karilainen.
(2014) and Yap (1997) who found that income statement was the most important, followed by statement of financial statement and then cash flow statement. It is however, contrary to the findings of Hail (2013) who found the overall relevance of statement of financial position more than income statement and cash flow statement. It is also at variance with the results of other works such as Catanach (2000), Minnis (2011), Billings & Morton (2002), and Jones et al (1995) who found cash flow statement to be more frequently used and important than income statement and statement of financial position. Generally, the results reveal that financial statements are important in lending decisions. This is consistent with the findings of Kim (2009) who found that financial statements are important to lending decisions of both small and large banks. No wonder the respondents remarked in one of the open-ended questions that three years financial statements (income statements, statement of financial position and cash flow statement) are normally requested to accompany loan request by firms. The implication is that these statements provide useful financial information that can guide lending decisions in terms of how revenue is generated, expenditure amounts, profit/loss, assets, liabilities, how cash is generated and expended. All of this information to a large extent, help to determine the financial strength of the firm and its ability to repay loans and other liabilities.

Conclusion

The results of the study clearly show the source of information banks in Nigeria frequently used the accounting information and the financial statement mostly important to them when making lending decisions. Particularly, it revealed that financial statements was the frequently used source among other sources; profit/loss information was more important than other information; while income statement or comprehensive income was the most important statement comparable to other statements. These results were mixed in relation to prior researches. However, one important lesson to draw from the study is that financial statements and other sources are important as they are complementary which greatly help to reduce information asymmetry.

Recommendation

Thus arising from the results, the study recommends that bank credit officers should continue to give greater attention to financial statements and other sources, as these documents provide the most valuable information that meets banks’ needs. Importantly, through financial statements, a firm’s recent and future economic behaviour can be evaluated in the light of advancement of credit and loans. Secondly, banks’ credit officers should continue also to place emphasis on profit and loss information. This information indicates clearly how much revenue is generated, the nature and various expenditure amounts incurred and the resulting profit or loss. Thirdly, more emphasis should be paid on comprehensive income statement by banks’ credit officers. This statement
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provides detailed information about revenues, other sources of income, various expenditure amounts and their nature, the comprehensive income or loss earned for the period and how it is distributed. Above all it shows the extent to which a firm is sustainable over a long period of time. Significantly, it would assist one to have a broader knowledge about a firm’s performance trajectory in the past, present and to forecast the future with little uncertainty. The research outcomes are believed to stimulate more investigation into the impact of accounting information on banks’ lending decisions. It would encourage firms to consider provision of accounting information in a manner that align with information need of banks. However, it was acknowledged that the study scope was confined only to deposit money banks, as such the interpretation should be restricted only to it and not be generalized as other institutional lenders operate also in the Nigeria financial institution that may have more need for other sources of information than financial statements and the information they contain

References


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