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ABSTRACT

Research project examined the significance of accounting standard (SAS) in the preparation of financial statement with special reference to Guinness Nig Plc, Lagos. The most common report from external use are the financial statement included in the annual report to shareholders (owners) and potential investors.

These financial statement are prepared to confirm with generally accepted accounting principles such principles have evolved over time or have been made acceptable by decree from rule making body.

Accounting principles result from an essentially political process.

The government through the Securities and Exchange Commission (SEC) prescribes the methods of accounting profession through its board, Nigeria accounting standards boards also issue statements of accounting standards as guide for preparing financial statements.

In explanation of the above, the researcher examined the significance of -the statement produced by the accounting profession's organ (NASB) and how they are being complied with, its achievements and problems, hypotheses was also conducted. However, form the findings of the study, it was discovered form the findings that accounting; standard application in preparing financial statement have come to conclusion that it contributes numerously not to the company Guinness Nig PIc, also on the nation's economy as a whole.

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CHAPTER ONE

INRODUCTION

1.1 Background to the Study

The basic purpose of accounting standards is to facilitate the provision of financial information about entities to enable investors, analysts, creditors and the entities themselves to make informed decisions about the allocation of resources. Accounting standards are essentially about disclosure and, in many respects, are at the heart of market efficiency. Clearly, while accounting standards assist preparers of financial statements by providing' a framework within which to construct the statements, their prime importance is to assist users of the statements to make meaningful assessments about the financial position of an entity. Users of financial statements range from directors to investors, through to credit rating agencies.

Effective financial reporting, which is essential to investor confidence, can only be achieved if it is underpinned by relevant and well-designed accounting standards. As the detail of financial reporting requirements is increasingly being left by legislation to be filled in by accounting standards, the importance of accounting standards is becoming accentuated.

Accounting standards facilitate both the efficient day-to-day operations of individual business entities and contribute to the efficient operation of capital markets.

At the firm level, accounting standards improve the accountability of individual business enterprises and their managements to investors and creditors. By promoting accurate reporting, accounting standards assist the management of a business entity to maximize the wealth of the entity Find to put in place effective and efficient corporate governance arrangements. At a broader level, accounting standards are central to the provision of accurate, transparent and reliable information to the market as a whole. In this regard, a well-informed market will generally be an efficient one.

Accounting standards that result in the provision of accurate and comparable information about the true financial performance and position of business entities promote investor confidence and market integrity, thereby ultimately reducing the costs of capital throughout the economy. Public confidence m the integrity of the financial reporting framework is central to maintaining and expanding a sophisticated domestic capital market.

1.2 Historical Background of the Study

Historically, the debate over International Accounting

Standard Commission standards has centered on qualitative issues. International accounting standards commission have been perceived at times to be:

inferior in terms of underlying accounting policies;

incomplete and incapable of adoption without substantial support from national standards and national regulatory bodies;

incapable of achieving the same level of investor protection that currently exists in Australia;

Relaxed in terms of allowing alternative accounting methods to be used thereby reducing the comparability of financial information; and have allowed the use of too many options in the preparation of financial reports; are incomplete there are gaps in the standards.

In light of the above, the International Accounting Standard Commission agreed with in 1995 to a new work program designed to address the criticisms of international standards particularly regarding gaps in their coverage. The work program aims to produce a complete core set of standards by March 1998, and to re-examine a substantial number of existing standards. The core set of standards being developed are primarily for cross-border offerings and listings.

International has indicated that its endorsement or International Accounting Standard Commission standards will be withheld until such time as a core set of acceptable standards are in place.

International has given the International Accounting Standard Commission a deadline of the end of 1998 in this regard.

In the US context, it is interesting to note that the US Congress recently passed the National Capital Efficiency *Act* 1996, which draws attention specifically to the accounting problems facing issuers seeking to raise capital across international borders. The US Securities and Exchange Commission (SEC) is to report back to Congress later this year on the progress of the development of accounting standard.

The development of accounting standards that enhance efficiency, Expansion and international competitiveness of Australian business while at the same time maintaining investor confidence;

The composition and funding of the Australian Accounting Standard Board (AASB) and the need for greater industry and user participation;

The relevance and usefulness of existing accounting standards to contemporary conditions.

The extent to which accounting standards should be strictly prescribed and whether there is scope for individual companies to be permitted or required to determine the level and type of disclosure which is appropriate for those companies; and whether Australia should continue to develop its own set of standards or whether international standards should be used as a basis and adapted to Australian conditions where necessary.

This paper proposes an accounting standard setting framework for Australia which requires the involvement and support of all stakeholders in financial reporting. The restructuring of the existing regime gives rise to a range of associated issues including consideration of the role of accounting standards, the institutional arrangements tor standard setting in Australia, the funding of the accounting standard setting process, compliance with accounting standards, the separation of the setting of accounting standards for public and private sector entities and future developments.

Effective financial reporting, which is essential to investor confidence, can only be achieved if it is underpinned by relevant and Whilst Australian accounting standards have sometimes been criticized as being too detailed and complex, this does not necessarily mean that they are fundamentally flawed. Feedback to the Government from business and international standard setters suggests that the form arid content of Australian accounting standards are broadly consistent with those existing in other countries with sophisticated capital markets.

Accordingly, it would be inappropriate to consider a wholesale or fundamental change in the way standards are written. However, there may be scope for better targeting and design of particular standards. Just as financial reporting must be dynamic and responsive to the needs of users, so must be the accounting standards upon which the financial reporting framework is based. The question, therefore, arises as to how to ensure that accounting standards are meeting the needs of users who are increasingly demanding a higher level of sophistication and reliability of financial reports.

The legislation that establishes the Australian Accounting Standard Board, the Australian Securities Commission Act 1989, does not provide any indication to the Australian Accounting Standard Board as to the purposes of or the objectives to be achieved by, the accounting standards it is required to prepare. In this regard, it is desirable that the standard setter be given greater guidance as to what accounting standards should be designed to achieve. Whilst clarification of the objectives of accounting standards would not guarantee the production of high quality and relevant standards, it could go a fair way down that track. In light of the above, and to ensure that the standard setter has regard to the objectives of accounting standards, it should be specifically stated, either in the charter of the standard setter or in the legislation under which it is established, that in designing accounting standards, the standard setter should seek to ensure that compliance with accounting standards leads to the production of relevant, reliable, neutral and comparable financial information for users of financial statements.

Accounting standards are becoming more prescriptive, partly because of the tendency for them to be interpreted from a. strictly legal perspective rather than a commercial one. It seems that a vicious circle is being created in this regard because preparers of financial statements are increasingly relying on adherence to the black letter of the standard s to protect themselves legally, rather than following the spirit of the standards.

A way of addressing this issue could be to explicitly provide in legislation that accounting standards should be interpreted from a commercial-perspective and not just a purely literal 0" legal one. By a commercial perspective, it is intended that more weight should be given to the objectives of the standards and what is generally considered in the relevant market to be good commercial practice. This may give comfort to the preparers of financial statements who might then more willingly follow more principled-based standards. The standard setter may also be more inclined to set less prescriptive standards if it does not feel the pressure of having to foresee every eventuality or address every possible evil when developing a standard.

1.3 Statement of Problem

Having identified the background to the research study, it is considered necessary to get the problem stated:

(1) The problem of the significance of accounting standard on organization corporate reputation.

(2) The problem of the significance of accounting standard contribution toward the organization growth and development.

(3) The problem of the effect of significance of accounting standard on the creation of competitive advantages.

1.4 Objective of the Study

The purpose of the study IS to carryout findings on the analyzed problems with a view of recommending a progressive course of actions

(1) To determine the effect of significance of accounting standard on the creation of competitive advantages.

(2) To determine the effect of significance of accounting standard on the creation of competitive advantage.

(3) To ascertain the effect of significance of accounting standard on the profitability level of an organization.

(4) To evaluate the extent to which corporate reputation of the organization is being improved by significance of accounting standard.

1.5 Significance of the Study

The various importance of this study is outlined below:

It should be specifically stated, either in the charter of the standard setter or in the legislation under which it is established that, in designing accounting standards, the standard setter should seek to ensure that the standards lead to the production of:

relevant;
reliable;
neutral; and
comparable
Financial information for the users of financial statements.

A cost/benefit analysis should be undertaken by the standard setter in the development of each accounting standard. In undertaking the cost/benefit analysis, consideration should be given to whether the proposed standard is suitable for all entities required by legislation to prepare financial statements in accordance with accounting standards, or whether the proposed standard should only apply to a specific class of entity.

It should be made clear in legislation that accounting standards should be interpreted from a commercial perspective to promote compliance by preparers of accounts, not only with the black letter of the standard, but also its overall purpose.

1.6 Research Questions

The fundamental research questions include the following:

(i) To what extent has significance of accounting standard improved the profitability level in the organization?

(ii) What effect does significance of accounting standard have on the corporate reputation of the organization?

(iii) What are the significances of accounting standard in creation of competitive advantages in the organization?

1.7 Research Hypotheses

The research hypothesis includes the following:

Hypothesis One

Ho:' Accounting standard does not improve the profitability level of the organization.

Hi: Accounting standard Improves the profitability level of the organization.

Hypothesis Two

Ho: Accounting standard does not improve the corporate reputation of the organization.

Hi: Accounting standard improves the corporate reputation of the organization.

Hypothesis Three

Ho: Accounting standard does not create competitive advantages in the organization.

Hi: Accounting standard create competitive advantages in the organization.

1.8 Scope and Limitation of Study

This research work will be limited in depth and coverage to the bank in view, Guinness Nigeria plc operating in Lagos area. The business environment in this case shall include the employees, customers or clients, competitors and vendors while such other variable like economic, social and political environment will not be considered in the study area regarded as fixed.

The research work shall Endeavour to make both the descriptive and empirical analysis of the efficient and effective significance of accounting standard in the organization with special emphasis being placed of Guinness Nigeria plc.

The limitation of the study shall be time constraint, inability of customers to provide relevance information.

1.9 Definition of Terms

This part of the chapter will be focused on bringing out a better understanding of the term which has been used in the process of the writer up of these chapter.

Accounting: is the art of recording transactions in the best manner possible, so as to enable the reader to arrive at judgments / come to conclusions, and in this regard it utmost necessary that there are set guidelines. These guidelines are generally called accounting policies. The intricacies of accounting policies permitted Companies to alter their accounting principles for their benefit. This made it impossible to make comparisons. In order to avoid the above and to have a harmonized accounting principle, Standards needed to be set by recognized accounting bodies. This paved the way for Accounting Standards to come into existence.

Disclosure of Accounting Policies: Accounting Policies refer to specific accounting principles and the method of applying those principles adopted by the enterprises in preparation and presentation of the financial statements.

Valuation of Inventories: The objective of this standard is to formulate the method of computation of cost of inventories / stock, determine the value of closing stock / inventory at which the inventory is to be shown in balance sheet till it is not sold and recognized as revenue.

Cash Flow Statements: Cash flow statement is additional information to user of financial statement. This statement exhibits the flow of incoming and outgoing cash. This statement assesses the ability of the enterprise to generate cash and to utilize the cash. This statement is one of the tools for assessing the liquidity and solvency of the enterprise.

Net Profit or Loss for the Period, Prior Period Items and change in Accounting Policies: The objective of this accounting standard is to prescribe the criteria for certain items in the profit and loss account so that comparability of the financial statement can be enhanced.

Depreciation Accounting: It is a measure of wearing out, consumption or other loss of value of a depreciable asset arising from use, passage of time. Depreciation is nothing but distribution of total cost of asset over its useful life.

Construction Contracts: Accounting for long term construction contracts involves question as to when revenue should be recognized and how to measure the revenue in the books of contract of construction starts in one year and is completed in another year or after 4-5 years or so. Therefore question arises how the profit or loss of construction contract by contractor should be determined.

Revenue Recognition: The standard explains as to when the revenue should be recognized in profit and loss account and also states the circumstances in which revenue recognition can be postponed. Revenue means gross resources by other yielding interest, dividend and royalties. In other words, revenue is a charge made to customers / clients for goods supplied

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