

# PDF - A CRITICAL ANALYSIS OF THE USE OF FINANCIAL REPORT IN ASSESSING BANK PERFORMANCE - researchcub.info

## CHAPTER ONE

### INTRODUCTION

#### 1.1 BACKGROUND OF STUDY

A farmer, who plants crops, expects result, similarly to student who sits for examination expects results. The same is also true of an investor.

For the farmer, the result might be communicated to him in the form of a bumper harvest. Its result sheet or a report card would usually suffice for a student. However, in the case of an investor, the result is communicated through the financial reports.

Financial reports are law to be prepared by every limited liability company; these limited liability companies abound in virtually all sectors of the economy.

Every company shall cause accounting records to be kept. The accounting records shall be sufficient to show and explain the transactions of the company and shall be such as to disclose with reasonable accuracy, at any time the financial position of the company.

In the banking industry, financial reports are of great interest to the general public because the banks directly or indirectly interact with people.

This public interest has caused companies (including banks) to accept social as well as economic, financial and legal responsibilities and has created a consequence, a growing need for the communication of information to account for the results which are of considerable interest to a wide range of individuals and organizations.

So, it becomes very imperative for reliable information to be circulated to interested parties which can enable them to acquire an essential knowledge of the way in which companies particularly the bank are performing in relation to the public interest. This fact is further emphasized by the recommendation of the working party set up in Britain by the Accounting standard committee in October 1974 under the chairmanship of Derek Boothman which took a study of the scope and aims of published financial statements.

The committee recommended that:

“The fundamental objectives of corporate report are to communicate economic measurement of the reporting entity useful to those having reasonable right to such information”

It is not an overstatement when one says that the banking industry is the fulcrum on which the national economy rotates. This mammoth impact upon a country's economy therefore makes it a public affair in which everybody in the country has a right to know what such organizations are doing, more so all information necessary to explain the organization's activities fully should be provided in the annual reports.

One of the most significant aspects of the information system of business enterprises in an economy is that which deals with the communication of financial data, especially in describing business profitability and financial position. This information is important because it attempts to partial the economic resources of the enterprises and the financial results, which have been achieved by its management when those resources have been put to use. It attempts to reveal how effective management has been in resource utilization as well as the financial reward available to compensate for risk taken by various suppliers of capital.

#### 1.2 STATEMENT OF THE PROBLEM

The genuineness or otherwise of financial reports has attracted diverse opinions from different

quarters, such opinions can come from the general public, tax authorities, shareholders, creditors with long or short term interest, financial analyst and potential investors.

They argue that the financial reports do not usually give an accurate data about the activities of such business concerns, for example, the idea of stating assets at their historical cost do not favour most investors as they argue that inflation is not usually taken care of, though the real value of such assets might have been eroded.

Again since the financial reports prepared by managements, the shareholders and others argue that there would usually be some elements of bias on the part of management in the disclosure of management's financial ineptitude.

But in any case the management claims that some inherent problems would usually affect the accuracy of such reports. It is therefore the intention of this researcher to delve into the matter to enable him establish a relationship between financial reporting and performance evaluate in a bank.

### 1.3 OBJECTIVES OF THE STUDY

Companies including those in the banking industry have had to face the onerous task of presenting a credible and generally acceptable financial statement in their annual reports, to the various people to whom they own such obligations. The purpose of the study is:

- a. To determine the various financial reports used by banks.
- b. To ascertain the problems of using financial reports to assess performance of banks.
- c. To examine the use of historical cost convention adopted by banks in stating this balance sheet items on investors.
- d. To determine if there's a relationship between financial reporting and performance evaluation of a bank.
- e. To offer recommendations and solutions on the best way financial reports could use in assessing bank performance.

### 1.4 RESEARCH QUESTIONS

- a. What impact has financial reporting on bank performance with respect to the financial position of the bank?
- b. How does financial statement assess the bank performance?
- c. Does financial reports disclosed financial ineptitude of bank managers to the shareholders?
- d. What are the problems associated in using financial reports to assess bank performance?
- e. How do we know a reliable financial report?
- f. Has financial statement of banks influence your investment decision?

### 1.5 RESEARCH HYPOTHESIS

Based on the statement of problem and objections of this research work the following general hypothesis are formulated:

Ho Investment decision, based entirely on the financial statement will not lead to poor and lazy decisions.

Hi Investment decision based entirely on the financial statements will lead to poor and lazy decisions.

Ho The efficiency of financial reports is greatly affected by inflationary trends in the economy.

Hi The efficiency of financial reports is not greatly affected by inflationary trends in the economy.

Ho Financial reports are not a true indicator of banks performance.

Hi financial reports are a true indicator of banks performance.

### 1.6 SIGNIFICANCE OF THE STUDY

The banking industry is a very important sector of the economy. This is because banks can determine the direction of growth or development of the economy through the financial service rendered by banks. The financial services which includes, funds mobilization, safekeeping and custodianship, funds transfer, foreign exchange transaction equipment leasing, extension of loans and advances, investment in securities, bill discounting etc.

Investment key sector of the national economy of which the banking industry is one becomes a goal-getters priority. Owing to this, it becomes necessary that financial reports presented by banks satisfy the need of the users of the reports.

Specially, at the end of this study, we shall have been able to establish:

1. Whether or not the financial reports affects investment in the banking industry.
2. Whether or not the annual financial report currently reflect the inflationary effects.
3. Whether or not banks follow rigid accounting practices.

The emphasis of this research is not to discuss the determinants of performance, but to establish a relationship between financial reporting and performance so that potential investors in banking industry may clearly define the stand.

#### 1.7 SCOPE AND LIMITATION OF THE STUDY

The aim of the study is to examine, the use of financial reporting in assessing bank performance, however it will be restricted to investigations carried out on Union Bank of Nigeria Plc.

To enable the research have a broad view, the study will not be based on one branch. A study of some selected branches of the bank will also be carried out.

But in any case, the following among others are the numerous constraints, which are envisaged;

**LITERATURE:** The dearth of related books and journals will no doubt affect the quality of the research.

**TIME:** The greatest employer of man, which is time was not in my favour through I manage it considering the time allocated to my studies, fellowship and the project.

**FINANCE:** The research work generally involves money but considering my stand as a student. I was limited by financial in achieving my aim of having a population rather I found myself in using sample size, even visit to my case of study.

**RESPONSE RATE:** The information to be analyzed in the study will be limited to those who would respond voluntarily to the questionnaire.

**PAUCITY OF INDUSTRY:** At the course of my research I come to realize that many banks do not have any form inter-relationships which make things difficult for me in using one set of information generated as touching planning and control in UBN to generalize issues. That leads me into more research, which will continue even after this project.

#### 1.8 DEFINITION OF TERMS

**AUDITING:** The objective examination of financial statements initially prepared by management by a third party other than the preparer or used with the goal of establishing the fairness of representations made therein and reporting on same to interested users.

**ATTEST:** To assume responsibility for the fairness and dependability for the fairness and dependability of financial statements.

**BANKRUPT:** Inability of person to meet his liabilities as they mature.

**FRAUD:** Misrepresentation by a person to be untrue or made with reckless indifference as whether the fact

in true with the intention of deceiving the other party and with the result that the other party is injured.  
FINANCIAL STATEMENTS: This covers balance sheets, income statement or profit and loss accounts notes and other statement and explanatory materials.  
GOING CONCERN: Continuing in operation for the foreseeable future with the assumption that the enterprise has neither the intention nor the  
LIQUIDATION: Process of winding up of a company thereby brings to an end its corporate existence.  
TRUE AND FAIR VIEW: The opinion of an auditor, which depicts compliance, will generally accepted accounting principles and full of fair disclosure of facts.

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