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# Qualitative Characteristics of Financial Statements and Quality of Financial Reports of Nigerian Banks

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**Abstract**

*The concept of qualitative characteristics of financial statements have been used in many studies but the qualitative approach from the perceptions of relevant stakeholders have not been critically explored. The motivation for this study is to therefore examine the impact of relevance, reliability and comparability as the qualitative characteristics of financial statements on quality of financial reports of Nigerian banks from the perceptions of stakeholders. Two listed deposit money banks were judgmentally selected for the study while primary data were collected through self-administered copies of questionnaires from 65 purposefully selected out of 80 sampled preparers of financial reports. Multiple Linear Regression was adopted to analyze the data to test the relationship between the variables. The findings disclosed that there was a significant relationship between the qualitative characteristics of financial statements and quality of financial reports of the selected banks in Nigeria. It further indicated that relevance, reliability and comparability have significant impact on quality of financial reports of banks in Nigeria. It is therefore recommended that more attention should be given to these qualitative characteristics of financial statements since they have been empirically proven to be statistically significant in the preparation of financial reports of Nigerian Banks*

**Keywords:** *Relevance, Reliability, Comparability, Quality of Financial Reports and Nigeria Banks*

## 1. Introduction

Consequent upon the convergence of accounting standards that is globally regarded as principles based in nature, prior studies do not account for unequivocal appraisal on whether the quality of financial reports of firms have been enhanced (Erick, Peterson & Paul, 2017). The need for high-quality financial reports became more pronounced particularly after the two major occurrences in the accounting landscape globally. The collapse of energy corporation in the United States of America (USA), Enron, in 2001 as well as global convergence of accounting standards in 2001 (IASB, 2010).

According to Zeff (2007) the quest for harmonizing and standardizing accounting standards commenced in 1990s. This eventually led to international convergence of the diverse accounting standards in 2000s. Nobes and Zeff (2008) posit that international convergence of accounting standards is a process of bringing into line the local standards of various jurisdictions that are rules-based in nature and International Financial Reporting Standards (IFRS) that is principles-based.

Given the primary aim of constituting the International Accounting Standards Board (IASB) which is to develop in the public interest, accounting standards that are acceptable all over the world, the concern is to enhance firms' quality of financial reports (Barth, 2008). Despite the expectation of this objective, corporate financial reporting failures have been on the rise, particularly in the past few decades after the Enron saga in the USA in 2001. Some qualitative attributes are contained in the Conceptual Framework as issued by IASB in 2001, these are therefore regarded as enhanced qualitative characteristics of quality of firms' financial reports (International Generally Acceptable Accounting Principles, 2012). Existing studies do not therefore a clear picture if these qualitative characteristics have actually increased the quality of financial reports globally and particularly in Nigeria context after the introduction of principles-based accounting standards in the banking sector in 2012.

The need to therefore promote quality financial reports is not negotiable because an excellent and quality financial report reduces information asymmetry between the principal and agent in line with firm's contractual obligations (Landsman *et al*. (2012) as cited in Irwandi and Pamungkas (2020). The focus of this study shall be to examine the effect of qualitative characteristics of accounting standards on quality of financial reports of selected banks in Nigeria.

Prior studies, Ayorinde & Olugbenga (2012); Nyor (2013), Umoren & Nneng (2017) and Irwandi & Pamungkas (2020) in this line of study commonly make use of a research known as ex-post facto by basing their data analysis on historical accounting figures contained in the firm's financial reports to determine how qualitative financial reports are. This current study therefore argued that several incidences of window dressed accounts and cosmetic financial reporting that have led to the collapse of many companies both in developed and developing economies have rendered accounting figures from published financial reports invalid or misleading for empirical research. This study adopts survey research design to appraise the impact of qualitative characteristics of accounting standards on the quality of financial reports of selected banks in Nigeria from the perspectives of relevant stakeholder.

Nyor (2013) posits that there is a growing concern in the published financial statements of firms in both advanced economies and emerging economies globally as a result of collapse of giant companies such as Enron, WorldCom, Global Crossing, Rank Xerox, Palamant, Cadbury Plc, Afribank, Oceanic Bank and a host of others. The financial crises that erupted particularly in the banking sector which led to the fall of share prices in the capital market has grown research focus to raise academic dust in the air and motivate the qualitative view of the quality of financial reports. Hence, the need to investigate stakeholders' perceptions on the impact of qualitative attributes of accounting standards on the quality of financial reports of banks Nigeria becomes highly imperative.

## 2. Literature Review

### Qualitative Attributes of Financial Statements

Nyor (2013) posits that making use of the qualitative attributes approach determines the area of usefulness of decision-making regarding information of financial reports by setting in motion the qualitative attributes of the financial reports. Irwandi & Pamungkas (2020) posit that the essence of financial report is to produce quality financial information to be considered by relevant stakeholders whenever they are searching for funds for their organizations. Chen, Wang, & Zhao (2009) as cited in Irwandi & Pamungkas (2020) argue that high-quality financial reports are means for providing guide against information inefficiency.

Prior studies have revealed that in order to enhance high-quality of financial reports, such reports bust be faithfully represented, relevant in value, reliable, comparable and uniform (Nyor, 2013). The concern here is to have transparent financial reports and not the financial reports that will be misleading to users or stakeholders (Barth, Beaver & Landsman, 2001; Gajevszky, 2015 and Sinyema & Norah, 2017).

Financial Accounting Standards Board (IASB) and the International Accounting Standards Board mutually agreed on some attributes of high-quality financial reports. These attributes are regarded as the fundamental qualitative characteristics of quality of financial reports. According to FASB's Statement of Financial Accounting Concepts (SFAC) No 5 presents relevance and reliability as the two fundamental qualitative attributes of financial reports. It is further argued that the accounting figures contained in the financial reports are relevant if they are capable of making meaningful effects on the users of financial reports for making investment decisions. Financial report is therefore said to be reliable if it represents the information it purports to represent. The two qualitative attributes of relevance, reliability and comparability of the financial reports are known as fundamental qualitative characteristics of IASB Conceptual Framework (GAAP, 2012). Other enhanced qualitative characteristics are comparability, uniformity, dependability, faithful representation, understandability and objectivity (Nyor, 2013).

The International Financial Reporting Standards which are regarded as a set of principles-based accounting standards produced and entrenched by the International Accounting Standards Board (IASB) and consequently became acceptable by different countries of the world in the preparation and presentation of financial reports (Desoky & Mousa, 2014) as cited in Mulenga (2016). According to Azeem & Kauser (2011), the erstwhile International Accounting Standards Committee (IASC) was previously regarded as the International Accounting Standards Board (IASB). Globally in the history of accounting, adoption of IFRS is observed to be a highly important event that has brought about major significant changes in the accounting landscape in the past few decades (Kousenidis & Laddas, 2010).

**Qualitative Characteristics of Accounting Standards**

In accordance with the position of Landsman, Beaver & Barth (2000), relevance and reliability of financial reports remain the area of interest to FASB and IASB because they provide insight into quality of financial reporting studies. Reliability and relevance are the two criteria the FASB adopts for choosing from so many accounting alternatives Nyor (2013). As stated in the No. 5 of Statement of Financial Accounting Concepts, the contents of financial reports become relevant if it is capable of making changes to the users of the financial reports. Accounting figures are also considered reliable if they represent the information they purport to represent.

Cho (2006), specifies certain attributes of financial reports. He further posits that figures in the financial reports to be reliable it must have the following qualities:

**Relevance**

Relevance is referred to as the capability "of making a difference in the decisions made by users in their capacity as capital providers

**Reliability**

Reliability is described as a state of financial reports being dependable and trustworthy capable of influencing user decision making.

**Comparability**

Comparability is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena (IASB, 2008). In other words, similar situations should be presented the same, while different situations should be presented differently

**Stakeholder Theory**

To this end, this stakeholder theory is considered as the underpinning theory for this study because the preparers of financial reports of banks in Nigeria are within the contextual framework of stakeholders whose manipulatory and discretionary roles can influence the quality of financial reports. Stakeholder theory demonstrates the fact that certain group of people are considered critical for the survival of any firm (Freeman, 1994). Stakeholder usually includes shareholders, employee, investors, customers, government and various interest group (Osho & Akinwumi, 2018). Geening and Gray (1994) argue that this theory is used to get the clear understanding of the relationships between the firm and its environment. It is a theory that covers many areas which assists by introducing institutional, competitive and dependency forces and competitive forces in a single theory (Abzug and Webb (1999) cited in Ricardo & Luciana (2007).

In the work of Freeman (1984) on stakeholder theory, it was argued that stakeholders can be group of people and organizations that are interested in the success of the firm. This set of stakeholders have the power to change the firm's performances by their actions or inactions (David, 1995).

**Empirical Review**

Joseph (2019) investigated financial reporting quality of limited liability companies in developing economies using evidence from Ghana. The study employed 20 purposefully selected companies from Ghana Stock Exchange (GSE) for 2012 and 2013 using descriptive research design. The findings of the study showed that the overall financial reporting quality of financial reports were 60.95% faithfully represented, 51.01% relevant, 50.10% understandable, 40.09% comparable and 19.75 timely. The study therefore concludes that fundamental characteristics were more prevalent than enhancing qualitative characteristics.

The effect of accounting standards qualitative characteristics was investigated by Ran (2018) on S&P firms' earnings quality in the United States of America during the sampled period. The study adopted multivariate regression analysis for a period of between 2009-214 while timeliness of loss recognition was proxy for quality of financial statements. A statistical association was established between firm-level PSCORE and the quality of financial statements during the period. It was concluded in the study that the choice of either rules or principles-based accounting standards was not sensitive to quality of financial statements.

Nelson

Nelson, Elliot & Tarpley (2002) carried out a survey on whether the choice of standards align with earnings quality management strategies of managers with accounting standards. The study showed that the choice of accounting standards does not have significant impact on managers earnings strategies.

## 3. Data and Methods

The study adopted the survey research design because primary data are involved in the study which is primarily field-based. The researchers also explored the investigation of stakeholders' perception on the variables of the study. The study adopted the questionnaire as a valid and reliable tool of eliciting information from the respondents of the sampled banks. The population of the listed banks as contained in the official reports of NSE as at 31st December 2020 was put at 17 banks. Two banks were judgmentally sampled on the basis of the banks that have not experienced dilution of ownership through either merger or acquisition during the period involved and were also rated among the top five (5) banks in Nigeria. The two sampled banks were First Bank Plc and Zenith Bank Plc. Eight (80) copies of the questionnaire were distributed among the 80 purposefully selected preparers of the banks' financial reports who are professional accountants. Analysis of Variance (ANOVA) and multiple linear regression model was adopted to test the impact of qualitative characteristics of accounting standards on the quality of financial reports of selected banks through SPSS version 17 statistical tools.

## 4. Data Analysis and Discussion of Findings

The model summary in table 1 shows the R-squared of 0.876 as the determination coefficient which shows the proportion of the total variation in the dependent variable explained by the predictors. It indicates that 87.6% of the total variation in quality of financial reports is caused by Relevance, Reliability and Comparability. It also suggests that 87.6% of the variation has been accounted for except for the fact that 26% standard estimate error has reflected in the variation due to the effect of the occurrence of error in the estimate. Meanwhile, Mafini & Meyer (2016) as cited in Osho and Akinwumi (2018) contend that $R^2$ can be described as a statistical measure of how close are the overall data to fit the model of regression. It is therefore shown by the percentage of variance. Going forward, the higher the percentage of variance that is indicated in the regression model, the closer it will be to the perfect model fitness of 100%.

**Table 1: Model Summary**

| Model | R | R-Squared | Adjusted R-Squared | Standard Error of the Estimate |
|---|---|---|---|---|
| 1 | .950 | .876 | .863 | .261 |

a. Dependent Variable: Quality of Financial Report
b. Predictors: (Constant) Relevance, Reliability, Comparability

**Source: Author's computation (2021).**

**Table 2: Overall ANOVA Matrix**

| | Model | Sum of Square | Df | Mean Square | F-value | Sig. |
|---|---|---|---|---|---|---|
| 1. | Regression | 68134.620 | 4 | 17.033 | 624.243 | .000 |
| | Residual | 652.454 | 60 | 10.874 | | |
| | Total | 68787.074 | 64 | | | |

a. Dependent Variable: Quality of Financial Report
b. Predictors: (Constant) Relevance, Reliability, Comparability

**Source: Author's computation (2021)**

The regression in table 3 shows that the independent variables coefficient in the model is positively and statistically significant. This can be interpreted that the quality of financial reports of Nigeria banks are significantly affected and this determined how "Relevant" "Reliable" and "Comparable" they are with those of other jurisdictions globally. Going forward, the result of the Analysis of Variance (ANOVA) attests to the fact that the extent of Relevance, Reliability and

Comparability determines the level of quality of financial reports of Banks in Nigeria.

If F-value from the regression table above shows 624.24 with statistical significance level of .000 at 4, 60 degree of freedom, then, there is enough premise to reject the Null Hypothesis that state that there is no significant relationship between the qualitative characteristics of accounting standards and quality of financial report of selected Nigeria banks. We therefore accept alternate hypothesis that says there is significant relationship between the qualitative characteristics of accounting standards and quality of financial report of selected Nigeria banks.

**Table 3: Coefficients of variables**

| | **Model** | **Unstandardized Coefficients** | | **Standardized Coefficients** | **T** | **Sig.** |
|---|---|---|---|---|---|---|
| | | **B** | **Std. Error** | **Beta** | | |
| 1. | (Constant) | 3242256.432 | 165423.652 | | 2.345 | .214 |
| | Relevance | .965 | .034 | .784 | 4.532 | .000 |
| | Reliability | .846 | .245 | .687 | 3.653 | .001 |
| | Comparability | .342 | .035 | .567 | 2.453 | .004 |

a. Dependent Variable: Quality of Financial Report
@5% level of significance

Source: Author's computation (2021).

## 5. Conclusion and Recommendations

The results of this study have confirmed that relevance, reliability and comparability have a significant relationship with quality of financial reports of Nigeria Banks. This is owing to the fact that relevance, reliability and comparability have significant impact on quality of financial reports of banks in Nigeria as this was validated with the P-Values of .000, .001 and .004 obtained respectively are lower than 5% level of significance specified in the analysis. The study therefore concludes that qualitative characteristics of financial statements such as relevance, reliability and comparability are essential to ensure quality of financial reports of Nigerian banks.

It is therefore recommended that more attention should be given to the qualitative characteristics of financial statements since they have been empirically proved to be statistically significant in the preparation of financial reports of Nigerian Banks

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