THE IMPACT OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ON REPORTED FINANCIAL STATEMENTS

(A CASE STUDY OF PATHERSON AND ZOCHONIS INDUSTRIES Plc)

BY

AKANDE, SAMSON BAMIDELE

MBA/MT/06/0264

A THESIS SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS IN BUSINESS ADMINISTRATION (ACCOUNTING OPTION)

SCHOOL OF MANAGEMENT TECHNOLOGY FEDERAL UNIVERSITY OF TECHNOLOGY YOLA, ADAMAWA STATE

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BEING A PROJECT SUBMITTED TO DEPARTMENT OF MANAGEMENT TECHNOLOGY, FEDERAL UNIVERSITY OF TECHNOLOGY, YOLA, ADAMAWA STATE

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS IN BUSINESS ADMINISTRATION (ACCOUNTING OPTION)

JUNE 2009

CERTIFICATION

This research project by Akande Samson Bamidele has met the requirements for the award of masters in Business Administration (Accounting Option) of Federal University of Technology, Yola (FUTY). And is approved for its contribution to knowledge.

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Supervisor	Signature & Date
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Head of Deparment	Signature & Date
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Dean	Signature & Date
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External Examiner	Signature & Date

DEDICATION

This project is dedicated to the Almighty God for His faithfulness towards me in seeing that this work is completed and to my beloved late sister Florence Akande.

ACKNOWLEDGEMENT

I acknowledge the encouragement support from my parents, O/seer and Deaconess Akande.

My heart goes to very special persons Dr. and Deaconess Timothy Idowu thanks for your love, care and support throughout the course of this work.

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I want to appreciate the efforts of my siblings.

The work will be incomplete without showing my appreciation to sister Salomi Godwin.

I wish to thank the entire staff of PZ for being able to release materials and answers needed for this project work to be completed.

I deem it is necessary to appreciate my Internal Examiner Mr. Ishaya Dabari for his contribution in one way other towards the successful completion of this project.

I also thank my good brothers Mr. Mike soomiyol, Mr. Akinwale Olorunshola and Mr. Gbenga Ogundele God Almighty will bless you.

Finally, I will always remember the brilliant contributions of my able and dynamic supervisor Mr. Bawa Ahmed thanks a lot.

ABSTRACT

The research is titled " The Impact of Generally Accepted Accounting Principles (GAAPs)". A case study of PATHERSON AND ZOCHONIS (PZ) Industries Plc. In this study, the purpose of the research, the problems that called for the research, the scope of the study, etc were identified. The research is aimed at understanding and application of the accounting principles, conventions and standards as well as to demonstrate the role of Generally Accepted Accounting Principles (GAAP) in producing viable financial reports of any organization. The methods of data collection were both the primary and secondary source of data collection. Under the primary source of data collection oral interview and observation were used. Under secondary source of data collection the researcher made used of textbooks, journals etc. The major finding is that Generally Accepted Accounting Principles has not been strictly observed and management reported financial statement is not of good qualities, which lower the standard of the company. Based on the foregoing, the following recommendation was made: Management should do strictly adhere to GAAP procedure so that good timely and quality reported financial statement could be produced.

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CHAPTER ONE

1.1. BACKGROUND OF THE STUDY

Accounting as a scientific process is about provision of financial information required by owners, manager and other stakeholders to ascertain the changes in the stock of the wealth of shareholders such that they are able to decide whether to retain their holdings, recommit more funds or divert entirely from the organization. Frankwood (2001:3) Accounting is the process of identifying, measuring, recording, and communicating economic information about an organization or other entity, in order to permit informed judgments by users of the information. Bookkeeping encompasses the record-keeping aspect of accounting and therefore provides much of the data to which accounting principles are applied in the preparation of financial statements and other financial information.

In addition, accounting information affords the numerous stakeholders the opportunity to assess the virility and viability of the enterprise and stewardship of managers. The type and form in which the stewardship reports should be presented are clearly spelt-out in section 334(2) of Company and Allied Matter Act (CAMA 1990). From the above, it can be seen that every business organization whether in the public or private sector needs the understanding of accounting in order to achieve the established objectives/goals and success of the organization.

Since the type and form in which the stewardship reports should be presented are clearly spelt-out in CAMA 1990 which complements the Generally Accepted Accounting Principles (GAAPs) that is why this study is concern on how useful this principles are to the financial statements (which shows or present stewardship reports). This above necessity and the need therefore, to prepare meaningful financial reports on business and Government operations has produced a body of principles which can be generally applied and readily understood: such as the Generally Accepted Accounting Principles, (GAAPs). This covers the convention; rules and procedures necessary to define accepted accounting practices at a particular time. That is, those, which are been given authority and recognition. They are also available for use in preparing financial statement to explain adequately the operating and the change in financial position of business enterprise and easily understood by an interested reader.

Moreover, financial accountings information are statutorily required to be prepared in line with the universally accepted assumptions principles and conventions of accounting which aid intra-firm, inter-firm and industry comparisons over time. This requirements ensures that the financial information gathered are objective, properly analyzed, interpreted and accurately transmitted to stakeholders, thus making financial statements reliable, precise and subject to unbiased review irrespective of the environment. These principles and conventions are necessarily complemented by standards, which are authoritative statements expressly issued by appropriate regulatory bodies, on how particular types of transactions and other events should be treated and reflected in financial statements in order to ensure that such reports are prepared in a uniformly accepted format of presentation. Indeed, the company and Allied Matter Act (CAMA 1990) holds that such reports must be prepared in conformity with accounting standards issued from time to time by the Nigerian Accounting Standard Board (NASB).

However, which accounting assumptions, principles and conventions enjoy universal applicability, they are often locally adopted to comply with the laws of the country and the regulations of the standards setting body because of the differences in national ethnics and norms.

So this study will aim at determining the ease to the problems of understanding and application of the Generally Accepted Accounting Principles (GAAPs) (which are principles, conventions, and standards) as well as endures the credibility of financial statements with special reference to.

1.2. **STATEMENT OF PROBLEMS**

Since ownership is separated from control, accountants are statutorily required to attest to the truth and fairness of the records of stewardship of the Board of Directors. This attestation function involves the expression of an opinion on the financial statements prepared by directors and presented to shareholders as part of these fiduciary responsibilities. To give effect to these statutory requirements; some problems may rise which this research is intended to address.

(i) How do shareholders, stakeholders perceive reported financial statements? This is in terms of understandability of the reported financial statements, which have been prepared in line with the Generally Accepted Accounting Principles. Akinsulire (2006:539) when a company makes a profit, the company's Board of Directors will need to determine the level of the profit that is to be paid as dividend to equity holders and form the dividend is to take. The role of the GAAP, therefore, is to strike a balance between dividend payout and retention of earnings. This is a very difficult task because shareholders have different and conflicting objectives-heterogeneous expectations-some will prefer steady flow of income while others will prefer capital gains arising from increased share prices and if the dividend is not forth coming the way it suppose to be shareholder will be thinking that the business is not viable again.

(ii) Due to the fact that Generally Accepted Accounting Principles is dynamic in nature, it created a problem for the audience public limited company, most audience find it difficult to interpret this principle that should be followed strictly when changes occurred.

(iii) The effect it has on management when adapted to this principles, conventions and standards use in preparing financial statements is that cash basis permits the application of the accrual basis to select transactions, when this switch and selection is been done any management that is not conversant with the operation will find it difficult to cope.

(iv) How do internal auditors perceive these Generally Accepted Accounting Principles when auditing the organization’s financial statement? Some internal auditors that are not intelligent find to understand this principle because it does not affect them directly.

Further, this study provides better understanding of desire for objective, which is often at the heart of the financial accounting method in use at the present time.

Moreover, since Generally Accepted Accounting Principles (GAAP) as observed, is a dynamic concept, which requires constant review, adaptation and reaction to change circumstances so it is greatly of immense use to various parties within the business and academic world.

1.3. **SIGNIFICANCE OF THE STUDY**

The Generally Accepted Accounting Principles (GAAPs) can be seen as an important/tool in the preparation of financial statements and it gives stakeholders the opportunity to assess the virility and variability of the enterprise and stewardship of managers. The financial statements are preparation by the Board of Directors in accordance with an identified financial reporting framework, which usually embodies the concepts of going concern historical cost, relevance, reliability, materiality and understandability among other that are part of Generally Accepted Accounting Principles (GAAPs). So in order to show the ease to the problem of understanding and application of these principles, conventions and standards as well as to demonstrate the role of Generally Accepted Accounting Principles (GAAPs) in producing viable financial reports of any organization, this study then tends to aim at the following:

1. To enable the readers have an idea how improper accounting records could breed a fertile ground for the employees of an organization to defraud it.
2. Ability to manage any corporation whether public or private funds and to secure its property. Every organization where money and property are involved, management is responsible for accounts, financial control and maintenance of adequate records to detect errors and prevent fraudulent practices by establishing by GAAPs.

3. GAAPs established could help to reduce auditors work while if not followed property would entail that an auditor has to carry out a critical review of work done to spot out possible area of corrupt practices created by such deficiency.
4. It is also my believe that this research work would be of immense importance to studies of higher learning both private and public sectors and potential researchers in this field.

1.4. **OBJECTIVE OF THE STUDY**

Hitherto, this area of study has largely unexplored. Reasons are that most researchers perceive these two concepts; Accounting and Generally Accepted Accounting Principles (GAAPs) to be mutually exclusive, skeletal articles on this subject matter have not adequately addressed some problems area identified.

It is in the light of the above, therefore, that this research endeavours to set out to achieve the following: -

- To recognize the role of account as an information tool to management, providing that presented rules for reporting are adhered. Increase the level of confidence and reliance by external auditor on those financial statements.
- To reveal to a large extent, the constraints composed on financial statement by statutes and regulatory bodies and how they can be read within the context of such legal limitations.
- To provide the guarantee that absolute compliance with the Generally Accepted Accounting Principles (GAAPs) by management will completely obliterate fraudulent practices and insider abuse in the organization and how it can influence the economic decision of both internal and external users.

1.5. **RESEARCH QUESTIONS**

Having highlighted on the statement of the problems next is to establish some underlying assumptions upon which the course of the study will be directed. This is referred to as a research question, which is a tentative statement depicting relationship between the two or more variables.

1. How can the abilities of the Patherson And Zochonis (PZ) Industries Plc to meet hers short-term liabilities as they fall due out of hers short-term assets be indicated?
2. How can the Patherson And Zochonis (PZ) Industries Plc directors know the profit earned (usually before interest and tax) to the funds used to generate that return?
3. How can it show the exposure the liabilities have in the company?
4. How can the management Patherson And Zochonis (PZ) Industries Plc provide pointers towards areas of interest in an entity, and provide a far more complete picture of entity than that given by the financial statements.

1.6. **SCOPE OF THE STUDY**

This study assessed the impact of Generally Accepted Accounting Principles (GAAPs) on published financial statements of PATHERSON AND ZOCHONIS (PZ).

The study was in the organization’s Head office which comprises the Personnel Department, the Administrative Department, the Control Accounts Department, Operations credit control and Debt recovering.

CHAPTER TWO

LITERATURE REVIEW

2.1. DEFINITION OFACCOUNTING

Accounting is the process of identifying, measuring, recording and communicating economic information about an organization or other entity, in order to permit informed judgments by users of the information, this information is primarily and generally expressed in monetary terms (The American Accounting Association [AAA]). Bookkeeping encompasses the record-keeping aspect of accounting and therefore provides much of the data to which accounting principles are applied in the preparation of financial statements and other financial information.

2.1.1. ACCOUNTING INFORMATION

According to ANAO A.R. (1999:44) Accounting information can be classified into two categories: financial accounting, consisting of public information, and managerial accounting, consisting of private information. Financial accounting includes information disseminated to parties that are not part of the enterprise proper, such as stockholders, creditors, customers, suppliers, regulatory commissions, financial analysts, and trade associations. Such information relates to the financial position, the liquidity, and the profitability of an enterprise.

Managerial accounting deals with information that is not generally disseminated outside a company, such as salary costs, profit targets, and cost of materials per unit produced. Whereas the general-purpose financial statements of financial accounting are assumed to meet the basic information needs of most external users, managerial accounting provides a wide variety of specialized reports for division managers, department heads, project directors, section supervisors, and other managers within a company.

2.1.2. **ACCOUNTING METHOD**

An accounting method is the medium through which the forgoing fundamental accounting concepts are applied to financial transactions and to the preparation of financial statement. It is also the method adopted in recognizing measuring and valuing an item of revenues, expenses, gain, loss or any assets or liability. There exist different methods recovering financial transactions, calculating profit-measuring depreciation, valuing stock etc. Therefore, the disclosure of the accounting method adopted in preparing financial statement usually assists readers in their interpretation. All this is due to the fact that accounting practices have evolved in response to the variety and complexity of types of enterprise and business transaction, so the existence of more than one recognized accounting method can be rationalized. There exist different methods of recording financial transactions, calculating profit, measuring depreciation, valuing stock etc therefore the disclosure of the accounting methods adapted in preparing financial statements usually assist readers in their interpretation.

2.1.3. **ACCOUNTING BASIS**

These are the totality of method adopted by an enterprise for applying fundamental accounting concepts to its financial transactions.

Examples are the determination of the accounting period for the purpose of revenue and costs recognition and the method used for the measurement of the values to be placed on items appearing 1 in the balance sheet as act the end of each accounting period.

These are two distinctive accounting bases – the accrual and the cash.

2.1.4. **ACCRUAL BASIS**

According to Samuel A. (2007:380) Accrual basis taxpayers include items when they are *earned* and claim deductions when expenses are *owed*. An accrual basis taxpayer looks to the “all-events test” and “earlier-of test” to determine when income is earned. Under the all-events test, an accrual basis taxpayer generally must include income "for the taxable year when all the events have occurred that fix the right to receive income and the amount of the income can be determined with reasonable accuracy. Under the "earlier-of test, an accrual basis taxpayer receives income when (1) the required performance occurs, (2) payment therefore is due, or (3) payment therefore is made, whichever happens earliest. Under the earlier of test outlined in Revenue Ruling 74-607, an accrual basis taxpayer may be treated, as a cash basis taxpayer, when payment is received before the required performance and before the payment is actually due. An accrual basis taxpayer generally can claim a deduction “in the taxable year in which all the events have occurred that establish the fact of the liability, the amount of the liability can be determined with reasonable accuracy, and economic performance has occurred with respect to the liability

Here, revenue and expenses are recognized in the accounting period to which they relate and in which they are earned and incurred; and not when they are received or paid. Under this, basis revenue and expenses are recognized in the accounting period to which they related and in which they are earned and incurred; and, not when they are received or paid.

2.1.5. **CASH BASIS**

According to Samuel A. (2007:380) Cash basis taxpayers include income when it is *received*, and claim deductions when expenses are *paid*. A cash basis taxpayer can look to the doctrine of constructive receipt and the doctrine of cash equivalence to help determine when income is received. Most individuals start as cash basis taxpayers. There are three types of taxpayers that cannot use the cash basis: (1) C corporations; (2) partnerships with at least one C corporation partner; and (3) tax shelters

Under this basis only revenue actually received and expenses actually paid during the accounting period are recognized in that period. However, a modified cash basis permits the application of the accrual basis to selected transactions.

2.1.6. **ACCOUNTING POLICIES**

Accounting policies are those bases, rules, principles, conventions and procedure adopted in preparing and presenting financial statements. Judgment is required in the choice of the accounting policies which are appropriate to the circumstances of an enterprise and are best suited to present the “true and fair view of its results” and financial position.

The statement of significant accounting policies should include:

a). A brief description of the systematic method by which non-performing loans are identified and the method by which the provision for loan losses are determined. This should include an outline of the periods over which non-performing loans are provided for and the basis upon which recoveries against provision previously made and interest previously suspended is released to income.

b). The nature of off balance sheet engagements and the methods used to recognize income thereon.

2.1.7. ACOUNTING PRINCIPLES

According to Millichamp (2000:32) accounting Principles consists of the followings:

1. The company shall be presumed to be carrying on business as a going concern.

2. Accounting policies shall be applied consistently within the same accounts and from one financial year to the next.

3. The amount of any item shall be determined on a prudent basis and in particular.

a. Only profits realized at the Balance Sheet date shall be included in the profit and low account and
b. All liabilities and losses which have arisen or are likely to arise in respect of the financial year to which the accounts relate or a previous financial year shall be taken into account, including those which only become apparent between the balance sheet date and the date on which it is signed on behalf of the board of directors in pursuance of section 238 of this Act.

- All income and charges relating to the financial year to which the accounts relate shall be taken into account, without regard to the date of receipt or payment.
- In determining the aggregate amount of any item the amount of each individual asset or liability that falls to be taken into account shall be determined separately.

2.2**. LEGAL AND REGULATORY FRAMEWORK ACCOUNTING**

In the words of frank wood and Alan Songster (2000:11) Legal and regulatory framework of accounting are those Standards/Bodies which controls and develop a framework for the preparation and presentation of financial statements and for the awareness of the full range of accounting standards currently in issue and their aims and objectives.

For the purpose of this research work, the following Bodies/Standards will be considered. They are:

(A). **Companies and Allied Matters Act (1990)**. The Companies Acts are descendants of modern limited liability company legislation, which can be tracked back to the passing, of the companies Act 1862. This Acts were triumph for the development of the limited liability principles which has been severally restricted since the so called bubbled Act of 1720, this latter Act being the remedy for a multitude of spectacular frauds perpetrated behind the clock of limited liability. Not until 1862 was general prejudice overcome and the way paved for the general use of the limited liability principles, which is now commonplace. Company law therefore, consists of the companies Act 1985 and 1989, together with a considerable body of case law, which has been built up over the years. It must be borne in mind that due to the above development impacted on the revision process of the hitherto existing 1968 Nigerian Companies Act led to the enactment of the Companies and Allied Matters Act of 1990.

The Companies and matters Act of 1990 (CAMA) legislation therefore, made two issues, among others, mandatory. First, the Board of Directors of companies are required to prepare periodic statements which comply in form and content with the Generally Accepted Accounting Principles (GAAP) and standards laid down in the Statements of Accounting Standards (SAS) issued from time to time by the Nigeria Accounting Standards Board (NASB). Second the shareholders were also required to appoint, at their Annual General Meetings external auditors who were empowered by sections 359(1) and section 360(1) to examine the financial statements of companies and issue professional opinion on how well they complied with GAAP, accounting standards and other reluctant legislation. Not that accounts of companies that depart from this approved process will necessarily be qualified as they fail the acid test of “true and fair”.

(B). Accounting standards were fundamental accounting concepts are followed in the preparation of financial statements; the disclosure of such concept is not required. If fundamental accounting concepts are not followed that fact should be disclosed. Note that the following boards issue these standards from time to time.

Nigerian Accounting Standards Board (NASB) – This is an organization that has a legal status to formulate and publish in the public interest, accounting standards to be observed in the preparation of financial statements and to promote the general acceptance and adoption of such standards by prepares and users of financial statement. For the purpose of this study, the SAS and SAS, which is of interest to this study, will be considered (statement of Accounting Policies).

GENERAL DISLOSURES

(1). Where fundamental accounting concepts are followed in the preparation of financial statements, the disclosures of such concepts is not required, if a fundamental accounting concepts is not required, if a fundamental accounting concepts is not followed, that fact should be disclosed together with the reasons.

(2). Rational judgment aided by principles of economic substance over form, objectively, fairness, materiality and prudence should govern the selection and application of accounting policies.

(3). Whenever there are several acceptable accounting basis that may be adopted a reporting enterprise should disclose, the basis used, especially where the knowledge of the accounting basis is significant in the understanding and interpretation of the financial statements.

(4). Accounting policies should be prominently disclosed as an integral part of the financial statements under one caption rather than as notes to individual items in the financial statements.

(5). Adopted accounting policies should be followed consistently, but a charge may be made if it is decided that at different policy will bitter reflect current or subsequent period net profit or loss.

When such a charge is made, the nature, justification and the monetary effect on current year's transactions should be disclosed. But note that in the case of adjustments, where such an amount is not ascertainable, wholly or in part, the fact should be indicated.

(6). Wrong or inappropriate treatment of items in financial statements is not rectified either by disclosure of the accounting policies adopted or by notes or explanatory materials.

(7). All accounting information that will assist users access the financial liquidity profitability and viability of a reporting entity should be disclosed and presented in a logical, clear and understandable manner.

(8). The financial statements of an enterprise should state the name of the enterprise, the period of time covered, a brief description of its activities, it legal forms that whether it is limited company or not, it relationship with its significant local and overseas suppliers including the immediate and ultimate parent, associated or affiliated company.

(9). The financial implications of inter-company transfer and technical/management agreements between the enterprise and its significant local and overseas suppliers including its immediate and ultimate, associated, affiliated company should be disclosed.

(10). Financial statements should show corresponding figures for the proceeding period.

The requirements of this standard accord substantially with the requirements the international accounting standard (IAS) No 5 "information to be disclosed in financial statement". Statement of Standard Accounting Practice (SSAP)

The requirements of this standard and the national legal requirements stated above accord very closely with the requirements of International Accounting Standard No 1- "Disclosure of Accounting Policies" compliance with this standards will ensure compliance with IAS in all material respects.

SSAP 2: Disclosure of Accounting Policies

Requires disclosure when the generally accepted ascertaining concepts are not complied with. The ones specifically mentioned as being generally applied are accruals, consistency, going concern and prudence. SSAP 2 does not mention other concepts and convention generally recognized in the academic world, although it accepted that there are other concepts than the four mentioned. This has been confirmed since SSAP 2 was first issued, a number of other concepts having been formally introduced by the companies Act and other accounting standards.

(C). **Auditing standards** – As it must be appreciate opinions can only be expressed after the chartered accountants has conducted a detailed examination of the financial books kept by the company and confirms that they complied (or did not comply) with the generally accepted accounting principles. Indeed such an opinion is intended to show the correspondence of the information to the economic activity it purpose to describe and the objectivity exercised by management when processing it. In the view of Lee (1996) " the major objective of audit is to ensure that shareholders are presented with credible information which they can use with a reasonable assurance that it has been prepared honestly and with due case 3". In other words, the auditing standards enables the auditors to ascertain whether, in all material respect, in accordance with an identified financial reporting framework. Such a financial reporting framework selected by the Board of Directors usually embodies the concepts of going concern, historical cost, relevance, reliability materiality and understandability, which are part of GAAP. It is important to emphasis that the financial reporting framework adopted by an organization is neither chosen nor drawn up by the external auditor whose duty is that of attestation. The Board of Directors exercises its discretion and professional wisdom in the choice of the financial reporting framework. The attestation role of the auditor is only to ensure full disclosures consistent compliance to these principles and conventions and the expression of an opinion on the objectivity of these financial reports prepared by the directors.

(D). **Nigeria Stock Exchange** – The NSE is a place where dealings in stock and shares take, a market where those desiring to buy stock and share are brought into contact with those who want to sell. Hanson (1999:460) Nigeria Stock Exchange (NSE) is therefore, primarily mainly a market for existing securities.

The price at which a security can be bought or sold on the stock exchange will depend as in other markets, on the relative strength of the demand for and the supply of that particular security at a particular time. All sorts of influences affect the prices of shows, through supply or demand. If business prospects are good the prices of shares will generally be high; if prospects are poor prices will be low. This is why companies are required by the Nigeria Stock Exchange [NSE] to publish their financial statement since the publication of a company's balance sheet will affect the price of its shares, favourably or adversely as the case might be.

2.3. **BRIEF DESCRIPTION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAPs)**

Generally Accepted Accounting Principles (GAAPs) can be said to be accepted assumptions, principle and conventions of accounting, which are statutorily required of both intra-firm and inter-firm in presenting their financial accounting information and also for comparison overtime.

The common set of accounting principles, standards and procedures that companies use to compile their financial statements. GAAP are a combination of authoritative standards (set by policy boards) and simply the commonly accepted ways of recording and reporting accounting information.

Investopedia (2007:256) explains *Generally Accepted Accounting Principles* GAAP are imposed on companies so that investors have a minimum level of consistency in the financial statements they use when analyzing companies for investment purposes. GAAP cover such things as revenue recognition, balance sheet item classification and outstanding share measurements. Companies are expected to follow GAAP rules when reporting their financial data via financial statements. If a financial statement is not prepared using GAAP principles, be very wary! That said, keep in mind that GAAP is only a set of standards. There is plenty of room within GAAP for unscrupulous accountants to distort figures. So, even when a company uses GAAP, you still need to scrutinize its financial statements.

This requirement ensures that the financial information gathered are objective properly analyzed, interpreted and accurately transmitted to stakeholders, thus making the financial statement reliable, precise and subject to unbiased review irrespective of the environment. These principles and conventions are necessarily complemented by standards which are authoritative statement expressly issued by appropriate regulatory bodies, on how particular types of transactions and other events should be treated and reflected in financial statements in order to ensure that such report are prepare in a uniformity accepted format of presentation. But it should be noted that the Generally Accepted Accounting Principles (GAAP) and standard in each country are unique and influenced by the business history of the country.

2.4. HISTORICAL EVOLUTION OF ACCOUNTING STANDARDS

Frankwood (2000:43) The external users of accounts need to be sure that reliance can be placed on the methods used by a business in calculating its profit and balance sheet values. In the late 1960s there was a general out-crying that the methods used by different business were showing vastly different profit on similar data.

In December 1969, the Institute of Chartered Accountants, in England and Wales issue a statement of intent on Accounting standards in the 1970s. The Institute set up the Accounting standards starring committee in 1970. Over the following six years, they were joined by the five other UK and Irish accounting bodies and in 1976, the committee became the Accounting Standards Committee (ASC).

The six accountancy bodies formed the Consultative Committee of Accountancy Bodies (CCAB).

Prior to the issue of any accounting standard issued by the ASC, a great deal of preparatory work was done culminating in the publication of an Exposure Draft (ED) copies of the Exposure Draft were then sent to those with a special interest in the topic. The journals of the CCAB also give full details of the Exposure Draft. After full and proper consultation, when it was seen to be desirable, an accounting standard on the topic was issued. The standards issued by the ASC were called Statements of Standard Accounting Practice (SSAP). Because the ASC had to obtain approval from its six professional accountancy body members, it did not appear to be as decisive and independent as was desired and in 1990, a new body, the Accounting Standards Board (ASB), took over the functions of the ASC. The ASB is more independent of the accounting bodies and can issue its recommendations, as known as Financial Reporting Standards (FRS) without approval from any other body. The ASB has accepted the SSAP in force and those will remain effective until replaced by on FRS. As with the ASC, the ASB issues exposure drafts FREDS: - developed in a similar fashion to before while there is no general law compelling observation of the standards, accounting standards have had statutory recognition since the Companies Act was issued, as a result, a part from entities, exempted from certain standards or sections within standards.

SSAP 13 (Research and development) and 25 (segmental reporting) and FRS 1 (Cash flow statements), for example all contain exemption clauses based on company size-accounting standard must be complied with when preparing financial statements intended to present a true and fair view. The Companies Act states that NASB conducts the business of the NASB. It was also noted that this Board would be subject to expression from time to time.

Objectives

The objectives of the ASB as set out in its constitution are:

-To formulate and publish, in the public interest, accounting standard to be observed in the preparation of financial statements and to promote the general acceptance and adoption of such standard by prepares and users of financial statements.

-To promote and sponsor/legislation, when necessary, in order of endure that standards developed and published by the board received nation-wide acceptance, adoption and compliance.

-To review from time to time, the standards development by the board in the light of changes in the social economic and political environment.

-The council of the NASB is responsible for issuing statements of accounting standard (SAS) after going through the processes stipulated in the NASB constitution.

The Scope Of Standards

Each Statement of Accounting Standard will include any limitations of its applicability.

Except where otherwise required, Statements of Accounting Standard are not intended to apply to immaterial or insignificant item. Standard issues by the NASB do failure to comply with the requirements or an accounting standard must be explained in the financial statements.

The main method of ensuring compliance with the standards has been through the professional bodies own disciplinary procedures on their members. The ASB has however, set up a review panel that has power to prosecute companies under civil law where their financial statements contain a major breach of the standards. Adopted: (from

Frank wood and Alan Songster Text 2001)(Financial Times Prentice Hall).

2.5. THE NIGERIAN ACCOUNTING STANDARDS BOARD (NASB) ORGANISATION AND STRUCTURE

The Nigerian Accounting Standards Board (NASB) was formally inaugurated on September 9, 1982 after consultations initiated by the Institute of Chartered Accountants of Nigeria (ICAN). The membership of NASB comprises.

Central Bank of Nigeria (CBN)

Federal Ministry of Finance (FMF)

Nigerian Accounting Teachers Association (NATA)

Nigerian Association of Commerce, Industry, Mines and Agriculture (NACCIMA)

Nigerian Bankers Association (NBA)

Securities and Exchange Commission (SEC)

The Institute of Chartered Accountants of Nigerian (ICAN)

The constitution of the NASB was approved by all the member organizations by 31st December 1983. Under the constitutions, a council whose membership of thirteen is representative of the establishment/organizations, which make-up the NASB, conducts the business of the NASB. It was noted that this Board would be subject to expansion from time to time.

OBJECTIVES OF NIGERIAN ACCOUNTING STANDARDS BOARD (NASB)

The objectives of the NIGERIAN ACCOUNTING STANDARDS BOARD (NASB) as set out in its constitution are:

- To formulate and publish, in the public interest, accounting standard to be observed in the preparation of financial statements and to promote the general acceptance and adoption of such standard by preparers and users of financial statements.
- To promote and sponsor/legislation, when necessary, in order to ensure that standards developed and published by the board received nation-wide acceptance, adoption and compliance.
- To review from time to time, the standards development by the board in the light of changes in the social economic and political environment.

The council of the NASB is responsible for issuing Statements of Accounting Standard (SAS) after going through the processes stipulated in the NASB constitution.

2.6. FINANCIAL STATEMENTS/ FINANCIAL REPORT

According to Standards Board. Accessed 24 June 2007. **Financial statements** (or **financial reports**) are formal records of the financial activities of a business, person, or other entity. In British English, including United Kingdom company law, financial statements are often referred to as **accounts**, although the term financial statements is also used, particularly by accountants.

Financial statements provide an overview of a business or person's financial condition in both short and long term. All the relevant financial information of a business enterprise, presented in a structured manner and in a form easy to understand, are called the financial statements. There are four basic financial statements:

1. **Balance sheet**: also referred to as statement of financial position or condition, reports on a company's assets, liabilities, and net equity as of a given point in time.
2. **Income statement**: also referred to as Profit and Loss statement (or a "P&L"), reports on a company's income, expenses, and profits over a period of time.Profit & Loss account provide information on the operation of the enterprise. These include sale and the various expenses incurred during the processing state.
3. **Statement of retained earnings**: explains the changes in a company's retained earnings over the reporting period.
4. **Statement of cash flows**: reports on a company's cash flow activities, particularly its operating, investing and financing activities.

For large corporations, these statements are often complex and may include an extensive set of notes to the financial statements and management discussion and analysis. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. In those days, business was dominated by private ownership. It therefore means that business entity was hardly demarcated between the owners and the business. (That is, no business entity concept/accounting concept was observed). And the method of recording business transaction then was simply a comparison of cash contributed or payment in these days. And also vouches there off. However, in 1997 on Italian name LUCAPACIOLO publish his article on double entity system for the first time and the method of presenting financial statement was described. Since then, there have noticeable changes in the scope of financial reporting. Accounting therefore is fundamentally, a measurement and communicating process used in reporting the activity of profit seeking or non-profit seeking organization. According to Hermanson, Edwards and Salmanson (1995:5). The affirmed that both profit seeking and non- profit seeking organization always give account of their activity in order to know the viability of that organization. The viable organization is one who can give a good account of its activity presented in a uniformity-accepted manner.

John (1999:6) said, “One aspect of accounting involves the systematic reporting, classifying and summarizing of the transaction which serve as the basis for the company’s financial reports called financial statements. So a system reporting which deals with classifying and summarizing of transaction in a financial statement is called accounting.

Millichamp (2000:482) defined accounting as a set of theories, concept and techniques by which financial data are processed unto information for reporting, planning, controlling and for decision-making purpose. So accounting is the process of recording, classifying, reporting and interpreting the financial data of an organization.

The growth of large-scale business in the nineteenth century and government legislation to control them led to the development of accounting profession. Taxation of companies which also began in nineteenth century, meant that all business needed proper books of accounting and that an accepted way of accounting for income expenditure and assets was required.

Accounting is not a static subject. Changes occur over the years as they are seen to be necessary and also get general agreement as to their usefulness. Since the advent of SSAP and FRS the number of changes that practitioner and students have had to learn has increase at a very fast rate. A prime example of this is the introduction of FRS 3, which necessitates changes to the formats of profit and loss accounts when certain events have occurred.

This standard superseded SSAP 6 extraordinary items and prior year adjustments amended SSAP3: Earnings per share and also made changes as a consequence to various other accounting standards.

Suppose that you are considering the affairs of a business over the years. The business has not changed significantly, there have been no acquisition, no discontinued operations, no fundamental re-organization or restructuring of the business nor have there been any extra-ordinary items affecting the accounts. In these circumstances, when company the accounts over the years, you are comparing like with like, subject to the problem of the effect of the effect of inflation or deflation.

On the other hand, suppose that some of the things mentioned have occurred, when trying to see what the future might hold for the company. Simply basing your opinions on what has happened in the post can be very confusing.

To help you to distinguish the post and the future and give you some idea as to what changes have occurred, FRS 3 requires that the following should be highlighted in the profit and loss account if they are material in amount:

a). What are the results of continuing operations are, including the results of acquisitions. Since acquisitions affect future results and they are therefore, included in the continuing operations.

b). What the results have been have discontinued operations. This should help distinguish the past from the future.

c). The profits or losses on the sales termination of an operation, the costs of fundamental reorganization or restructuring and the profits and losses on the disposal of fixed assets. The profits and losses concerning these matters are not going to happen again and so this helps us distinguish the past from the future.

The Users Of Financial Statements

According to Frank wood and Alan Songster in there book Business Accounting 2. Identified the main users of published accounts of large companies in line with the main reasons they require the accounts.

- **Shareholders of the company**, both existing and potential, will want to know how effectively the directors are performing their stewardship function. They will use the accounts as a base for decision of some or all of their shares or to buy some.
- **The loan creditor group**. This consists of existing and potential debenture and loan stockholders, and providers of short-term secure funds. They will want to ensure that interest payments will be made promptly and capital repayments will be made as agreed. Debenture and loan stockholders, whether redeemable or irredeemable, will also want to be able to assess how easily they may dispose of their debentures or loan stock, should they so wish.
- **Employee groups**, including existing, potential and past employees. These can include trade unions that members are employees. Past

employees will be mainly concerned with ensuring that any pension etc. paid by the company is maintained. Present employees will be interested in ensuring that the company is able to keep an operating, so maintaining their jobs and paying them acceptable wages, and that any pension contributions are maintained. In addition, they may want to ensure that the company is being fair to them, so that they get reasonable shares of the profits accruing to the firm from their efforts. Trade unions will be upholding the interests of their members and will possibly use the accounts in wage and pension negotiations. Potential employees will be interest in assessing whether or not it would be worth seeking employment with the company.

- **Bankers**. Where bank has not given a loan granted an overdraft, there will be no great need to see the accounts. Where money is owned to the banks, they will want to ensure that payments of interest will be made when due, and that the firm will be able to repay the loan or overdraft at the correct time.
- **The business contact group**. This includes trade creditors and suppliers who will want to know whether or not they will continue to be paid and the prospects for a profitable future association. Customers are included, since they will want to know whether or not the company is a secure source of supply. Business rivals in this group will be trying to assess their own position compared with the firm. Potential takeover bidders, or those interested in a merger will want to assess the desirability of any such move.
- **The analyst/adviser group**. Theses will be need information for their clients or their readers. Financial journalists need information for their reader's stockbrokers need it to adviser investors. Credit agencies

want it to be able to advise present and possible suppliers of goods and services to the company as its credit worthiness.

- **The Inland Revenue** will need the accounts to assess the tax payable by the company.
- **Other official agencies**. Various organizations concerned with the supervision of industry and commerce may want the accounts for their purpose.

Management. In addition in the internally produced management accounts the management is also vitally concerned with any published accounts. It has to consider the effect of such published accounts on the world at large. The public. This consists of group as ratepayers, taxpayers, political parties, pressure group and consumers. The needs of these parties will very accordingly.

<u>Classification Of Financial Statement</u>

Gleen and Rober (1997:19) wrote, "There are two ways of classifying financial statement which financial analyst must take in consideration". They are

- Internal (i.e. Management Accounting Statements)
- External (i.e. Financial Accounting Statements)

<u>Internal Financial Statement</u>

These are final drawn up by a company purely for internal use by directors and the management; it can draft them in any way it wishers. If a firm wishes to change something in the trading accounts, which perhaps in theory ought to be shown in the profit and loss account, then there is nothing to present the firms from so doing. Therefore, they are prepared to meet specific internal policies and guideline established by the management.

External Financial Statement

When it comes to publication, i.e. when the final accounts are sent to the shareholders or to the registrar of companies, then the Companies Acts. Lay drawn the information, which must be shown and also how it should be shown. The Companies Act do, nevertheless, give companies the choice of two alternatives formats (layouts) for the balance sheets and four alterative formats for profit and loss accounts. All companies, even the very smallest, have to produce accounts for shareholders giving the full details required by the Acts. Small and medium sized companies can, however, file summarized accounts with the registrar of companies, but they must still prepare full accounts for their shareholders. In addition, listed companies may send their shareholders summary financial statements in place of full version, unless a shareholder specifically requests a full version.

Also, to ensure that external parties can rely on the information reported in financial statements, the entity is required to conform to specific and well-known Generally Accepted Accounting Principles.

Objectives Of Financial Statements

According to Glantier and under-down (1998:459) the study group on the objectives of financial statements, which was established in 1971 by the American Institute of Certified Public Accountants (AICPA) stated in the true blood report of 1985 that accounting is not an end itself. As information system, the justification for accounting information serves those who use it thus, the study group agrees with the conclusion drawn by many other study groups that:

- The basic objective of financial statement is to provide information about the financial position, performance and financial adaptability of an enterprise that is useful to a wide range of users in making economic decisions.

- To serve primarily those users who have limited authority or resources to obtain information, as their principal source of the enterprise economic resources are limited.
- To assess management stewardship i.e. accountability of management for resources entrusted to it.
- To provide understandable information which will aid investors and creditors in predicting company and evaluating potential cash flow of a firm in terms of amount, timing and related uncertainty.
- To provide users with information for predicting, comparing and evaluating enterprise earnings power.
- To report on those activities of the enterprise affecting society, which can be determined and described or measured and which are important to the role of the enterprise in its social environment.

Preparation Of Financial Statements

The objective of IAS 1 (revised 1997) is to prescribe the basis for presentation of general-purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. IAS 1 sets out the overall framework and responsibilities for the presentation of financial statements, guidelines for their structure and minimum requirements for the content of the financial statements. Standards for recognizing, measuring and disclosing specific transactions are addressed in other Standards and Interpretations.

THE QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

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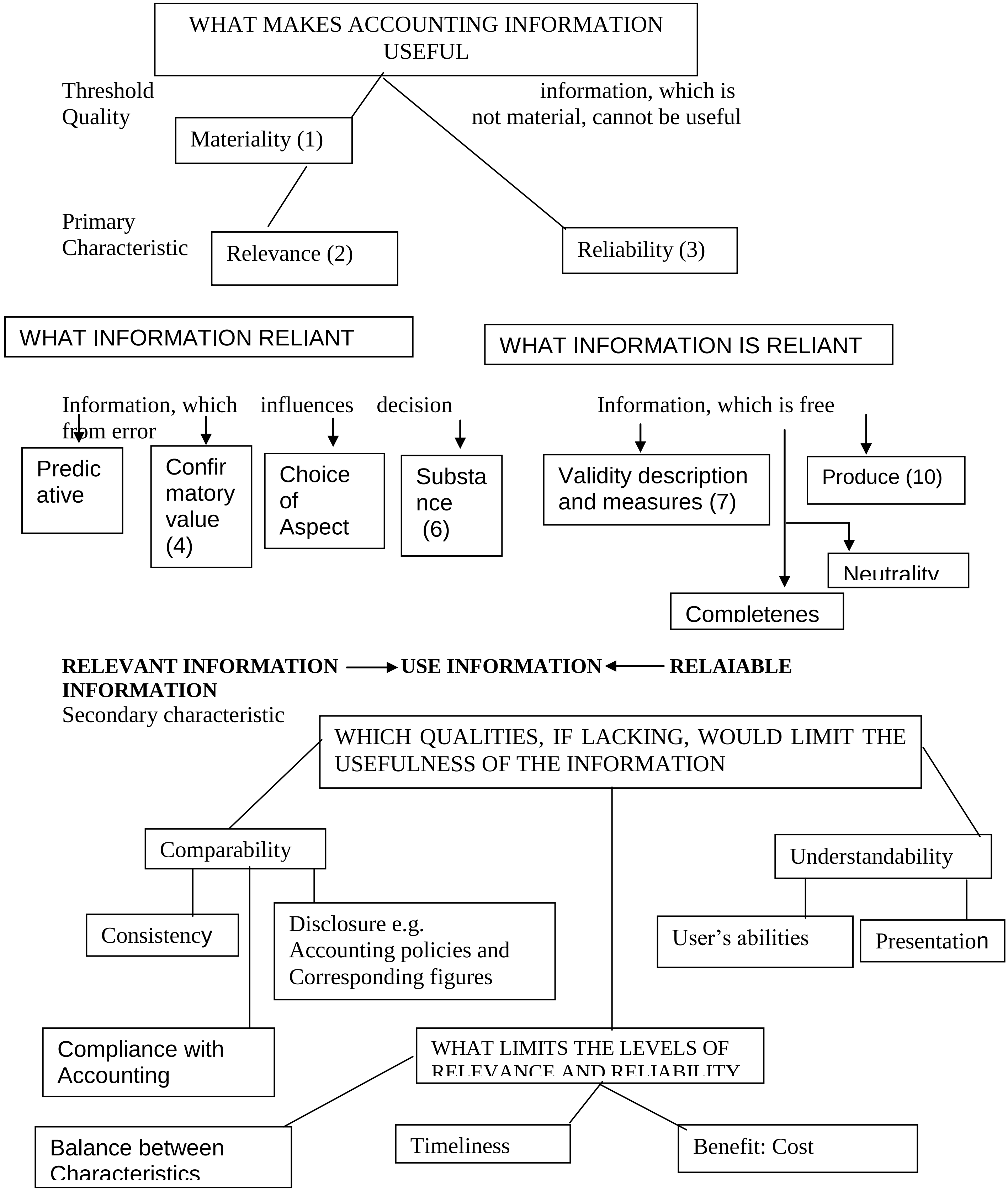

Note 1: Materiality means that if omission or mis-statement of some information would influence a decision then it is material. Information, which is not material, is therefore, not useful and beyond the threshold for inclusion.

Note 2: To be useful, information must be relevant to the decision taking needs of users. Relevance relates to the influence of the information on the user's evaluation of events past, present or future. This evaluation can be influenced by the way items in accounts are presented.

Note 3: Reliability means information free from material error and bias and which users to conform to descriptions given can rely on.

It is clear that information may be very relevant but unreliable e.g. a betting tip out a horse race. Reliability may not ensure relevance, e.g. reliable analysis of last year's performance may exclude very important indicators of future potential, such as new management in position. Relevance information. They are broken down into further characteristics as follows:

Reliance

Note 4: Predictive value means using an analysis of current or past performance to predict a future out come. The same information can be used to confirm whether predictions in past period have come true.

Confirmatory values is this second part, i.e. checking past predictions.

Note 5: The term choice of aspect implies that there may be significant choice for the preparers of accounts as to which aspects of transactions to represent. For example, a business might acquire a new building in a good position for trading and on which it owns the freehold. Another relevant piece of information is that the property is in an area proposed for a new motorway and could well be the subject of a compulsory purchase order. To be the subject to a user who wishes to value the business for future prospects, both aspect of the information are relevant. Note that a simple statement that: the property was owned and showing its purchase price would be a valid description and measurement and therefore reliable so far as it went.

Reliability

Note 6: Substance indicates that information should represent the events it purports to represent. Sometimes, complex legal arrangements may be entered into to obscure the ownership of assets. To be reliable the true operation and ownership of the assets must be reflected in the accounts. Artificial legal transactions should not obscure the substances.

Note 7: Although the title indicates the intension, it is important to relate this aspect of reliability to Note 5 “choice of aspect”. Valid description and measurement needs to be applied to the appropriate aspects of events.

Note 8: This indicates that incomplete information may make it false or misleading and thus not relevant.

Note 9: Neutrality implies freedom from bias. This indicates that accounts should not be prepared with the intention of influencing decision in any particular way.

Note 10: Prudence is the concept already described in the earlier part of this chapter and in relation to SSAP2. It implies a degree of caution anticipating losses in the valuation of assets. In many cases this is subjective as it relates to the future, e.g. in predicting doubtful debts.

This aspect should not be used to overestimate potential losses and thus misrepresent the affairs of an organization.

In the second part of the chart, secondary characteristics which, if lacking would limit the usefulness of the information

2.7. **BASIC ACCOUNTING CONCEPTS AND CONVENTIONS**

Accounting as it exists today may be viewed as a system of assumptions, doctrines, tenets, and conventions, all encompassed by the phrase "generally accepted accounting principles." Many of these principles developed gradually, as did much of common law. In recent decades, however, an authoritative body, such as the Financial Accounting Standards Board, has determined standards or rules for accounting principles. Following are several fundamental accounting concepts.

1. **ENTITY**: Every economic unit, regardless of its legal form of existence, is treated as a separate entity (in accounting) from parties having proprietary or economic interest in it. The *entity concept* states that the item or activity (entity) that is to receive an accounting must be clearly defined, and that the relationship assumed to exist between the entity and external parties must be clearly delineated.
2. **GOING CONCERN**: The assumption is that the business unit will operate in perpetuity; that is, the business does not expect to be liquidated in the foreseeable future. A business is considered a going concern if it is capable of earning a reasonable net income and there is no intention or threat from any sources to curtail significantly its line

of business in the foreseeable future. The *going-concern* assumption states that it is expected that the entity will continue to operate indefinitely.

3. **PERIODICITY**: Although, the results of a business unit cannot be determined with precision unit its final liquidations, the business community and users of financial statements require that the business be divided into accounting periods (usually one year) and that changes in position be measure over these periods.

4. **REALIZATION**: The concept establishes the rule for the periodic recognition of revenue as soon as (a) it is capable of objective measurements, and (b) the value of assets received or receivable in exchange is reasonable certain. It is possible to recognize revenue at a variety of points e.g. when goods are produced, when goods are delivered, or when the transaction is completed choice, in most cases, is an industrial norm; and depends on which of the points is the critical events. Only when this event is passed can revenue be legitimately recognized. The ***realization concept*** states that accounting takes place only for those economic events to which the entity is a party. This principle therefore rules out recognizing a gain based on the appreciated market value of a still-owned asset.

5. **MATCHING**: The concept holds that for any accounting period, all elements of cost and expense relating to that revenue are usually carried over or deferred as the case may be. The *matching principle* states that income is calculated by matching a period's revenues, such as the amount of merchandise sold, with the expenses (monetary costs) incurred in order to bring about that revenue.

6. **CONSISTENCY**: Usually, there is more than one way in which an item may be treated in the accounts, without violating accounting principles. The concept of consistency holds that when a company selects a method it should continue (unless conditions warrant a change) to use that method in subsequent periods so that a comparison of accounting figures overtime is meaningful. The concept ensures that the accounting treatment of like item is consistent, taking one accounting period with another.
7. **HISTORICAL COST**: The historical cost concept holds that cost is the appropriate basis for initial accounting recognition of all assets acquisitions, services rendered or received, expenses incurred, creditors and owners interest and it also holds that subsequent to acquisition, cost values are retained throughout the accounting process. The *historical-cost principle* states that economic resources be recorded in terms of the amounts of money exchanged; when a transaction occurs, the exchange price is by its nature a measure of the value of the economic resources that are exchanged.
8. The ***substance-over-form*** standard emphasizes the economic substance of an event even though its legal form may suggest a different result. An example is the practice of consolidating the financial statements of one company with those of another in which it has more than a 50 percent ownership interest.
9. The ***accrual principle*** defines revenues and expenses as the inflow and outflow of all assets—as distinct from the flow only of the cash asset—in the course of operating the enterprise.
10. The ***consistency criterion*** states that the accounting procedures used at a given time should conform to the procedures previously used

for that activity. Such consistency allows data of different periods to be compared.

11. The ***disclosure principle*** requires that financial statements present the most useful amount of relevant information—namely, all information that is necessary in order not to be misleading.

12. The ***doctrine of accounting conservatism*** applies to a situation in which a company appears to be headed for a financial loss. The accountant confers with management to determine whether this loss is probable or only possible. In cases where the loss is deemed probable, the accountant and management then seek to estimate the likely amount of the loss. If the loss can be estimated, then the negative effect of the loss will be reflected in the company's financial statement even though the loss has not yet actually occurred.

This part of the study is concerned with the effect GAAP has on reported financial statements of companies in respect of dividend, taxation and depreciation. It is not concerned with the actual calculation of the taxes and analyses of types of divided and depreciation methods.

Taxes are payable to the Inland Revenue, this being the government department responsible for the calculation and collection of the taxes. For a company those taxes are corporation tax and income tax. SSAP (the treatment of taxation under the imputation system in the accounts of companies) deals with the treatment of taxation in company financial statement, and must be adhered to at all times. The tax, which limited companies suffer, is known as corporation tax. In the accounting standard, this tax is legally an appropriation of profit, it is not an expense, and it should therefore, be shown in the profit and loss appropriation account. This according to the according standard does not mean that corporation tax is payable on the net profits as shown in the financial statement. What it does mean is that the corporation tax is assessable on the profit calculated after certain adjustment have been made to the net profit shown according to the profit and loss account. The depreciation provision used for financial statements in accordance with GAAP is not usually the same with the one allowed by Inland Revenue. The allowances made for depreciation by the Inland Revenue are known as capital allowances. These are calculated by rules, which usually vary at one point, or another from the methods applied in line with GAAP by the company in determining depreciation provisions.

Moreover, there is a conflict between SAAP 12 (depreciation) and companies Act. The Companies Act requires depreciation on revealed assets to be based on the revealed amount. However, the companies Acts allow the extra depreciation because of the revaluation to be added back when calculating distributable profit.

In Nigeria and elsewhere, there are certain legal and generally accepted principles, which determine whether a company can pay dividends or not and how much it should pay in spite of its objectives. In the first place, if a company is earning a high rate of return on its equity as reflected in a reported financial statement, it becomes desirable to retain the profits rather than pay then out in dividends especially if shareholders will earn less on them if invested elsewhere. Thus, if return on equity of the companies 25% and other investments available to shareholders like a commercial bank savings account can only earn14%, then it would pay the shareholders better for the company to reinvested the profits rather than pay them out in dividends. From this it can be seen that generally accepted accounting principle could alter both the company's policy and the policy used.

According to Harrison (1999:8) the double entry principle is basis of every proper accounting system throughout the world. That the dual concept, which is not applied in the balance, does not ensure that the balance sheet is correct always. He argued that the accounting concepts and conversion affects the preparation and presentation of the balance sheet in various ways.

The balance sheet and the profit and loss account are drawn up on the assumption that there is no insertion or necessity to liquidation or curtail the scale of operation in the near future, the consequent or this according to Millichamp (2000:415) is that fixed and current assets are valued at cost derived amounts.

Lee (1996:271) said that under historical cost, assets are carried in the balance sheet on the basis of actual or allocated sacrifices incurred at their date of acquisition and not limited to items expected with a high degree of probability to produce future benefits.

2.8. HISTORY AND ORIGIN OF PATHERSON AND ZOCHONIS (PZ)

PZ first established in Sirraleone when Mr. G.B. Zochion's amd Mr. G.H. Paterson met in Freetown in the 1870s. The company was incorporated as a private one under the English law in February 1884 with a registered office in Liverpool, England. In 1886 the office was transferred from Liverpool to Manchester which has remained headquarter of the company since then.

Its main business then was that of general merchant and was active for many years in the exports of West Africa products such as Cotton, Maize, Groundnut, Palm produce, Coffee, Cocoa, Cassava, Hides and skins.

Its origin in Nigeria - Patherson And Zochonis (PZ) Industries Plc the company was incorporated in Nigeria on 4 December, 1948 under the name of P.B. Nicholas and Company Limited. Its name was changed to Alagbon Industries Limited in 1953 and to Associated Industries Limited 1960. The company became a public company in 1972 and was granted a listing on the Nigerian Stock Exchange. The name was changed to Patherson And Zochonis (PZ) Industries Limited on 24 November 1976 and in compliance with the Companies and Allied Matters Act, 1990, it changed its name of Patherson And Zochonis (PZ) Plc on 22 November 1990. During the year, the company adopted its present name of PZ Cussons Nigeria Plc. The principal activities of the group are the manufacture and sale of a wide range of consumer products and home appliances which are leading brand names throughout the country in detergent, soap, pharmaceuticals, cosmetics, confectionery, refrigerators, freezers, air-conditioners, plastic containers and components. The group also distributes the milk products of Nutricima Limited, a related company. At present the company operates branches in most major cities and towns of the federation.

Since the end of the last century the company's business has expanded throughout Nigeria and has been significantly diversified. The company's operation and presently organized into three departments.

The Technical Department – This department specializes, through it branches and the stores of approved deals throughout the country in the sale and servicing of a wide range of technical products. The company acts made this department a major stockiest and suppliers of a comprehensive range of equipment to the electrical contracting industry, and of all types of lighting fitting including domestics, commercial, industrial and street lighting.

The General Merchandise Department – with connections through leading manufacturers in Nigeria and all over the world, supplies on a whole a sale basis a wide range of hardware, building materials, foodstuffs, haberdashery and sundry materials.

The Depot Services Department – This department offers warehousing and delivery services to local manufacturers, this enabling them to maintain buffer stocks at all major centers for supply to their distributors.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. INTRODUCTION

Having introduction the subject matter and reviewed the work of others related topic of study it is important at this point to look at the methodology which has been used in the study.

According to the Collins Dictionary "Methodology means particular method or procedure".

This chapter dealt with the research procedures and methods on how data was collected, presented and analyzed. This chapter was therefore, embrace the research design, oral interview, data collection and presentation and method of data analyze.

Research methodology attempts to explain the process by which data is to be collected and enumerated of research design, sampling procedure, sources of data and the tools were used in analysis of data. Meekyaa (2002:13) states that strategies adopted or developed for accomplishing the problem, the aims and objectives and test of hypothesis of a research project constitute its methodology.

Researcher Methodology is an important tool in the design of a research because it presents both steps and procedures of which the research is conducted. It enables the researcher come out with a feasible solution to the problem defined in the research.

This chapter was discussed the research methodology of the work in relation to methods were used for data collection, sources of data, determination of sample size and the method of data analysis.

3.2. **RESEARCH DESIGN**

The research work was carried out on Patherson and Zochonis (PZ) Nigeria Plc; to ascertain that "compliance with Generally Accepted Accounting Principles will enhances the credibility of reported financial statement".

The research design for this study was essentially descriptive; this was enable the researcher to investigate the statement of the problem understudy.

"A descriptive research is that research with specifies the nature of the phenomenon", Osuala (1998:45) it is a prerequisite for inference and generalization. Anyanwu (2000:2) a descriptive Research describes what is. It involves some type of comparison or contrast and attempts to discover relationships between existing non-manipulated variables. Also, a descriptive research describes and interprets what is. It is concerned with the conditions or relationships that exist, or opinions that are held, processes that are going on, affect that are evident or trends that are developing.

3.3. **POPULATION OF THE STUDY**

During the course of this research work, eighteen (18) employees of the PATHERSON AND ZOCHONIS (PZ) INDUSTRIES Plc were interviewed using structured interviews. They include: Manager from The Technical Department, The General Merchandise Department, The Depot Services Department each, five employees from the three departments were also interviewed likewise.

There were also limitations in that too much time was ensured in the course of the interview.

Observation is an intentional or explicit examination of situation for thing in order to ascertain facts or particulars about it, however observation can be intentional or explicit, known or unknown, direct of indirect, scheduled or unscheduled.

Another source of data that will also be used is secondary sources. According to Michael, (2001:126) “Secondary sources of data are documents collected from another person, agency or organization useful to the researcher for use before getting into the field to make his own finding”. These sources of data equip the present researcher with idea on which he is looking for thereby making his work comprehensive. Examples of secondary sources are newspapers, periodicals, textbooks, public documents, journals etc.

During the course of this research, information was collected from textbooks, journals, government status, publications and some published works from the PATHERSON AND ZOCHONIS (PZ) INDUSTRIES Plc.

3.4. **SAMPLING DESIGN AND PROCEDURE**

Sampling according to Galtug (1999:163) is a subject of the population where a population deals with a large group. A sample is only on integral part of the large group (population) sampling is the process of selecting units within a population.

During the course of this study, the simple random sampling method of drawing population was used. This method was used so that each member of population shall have an equal chance of being selected at random.

3.5. **METHODS OF DATA COLLECTION**

Sources of data refer to the origin of data that a researcher uses in deriving information for a project. Galtung (1999:109), broadly classified sources of data into; primary and secondary sources. According to him, a researcher is at complete liberty as to which of the two methods of data collect he prefers to use that best suits the purpose of his research or can use both.

The researcher used primary sources of data while carrying out research for this project.

Primary sources of data means getting information from the eyewitness of historical events or the even on the object under investigation. According to Michael, (2001:126) primary sources are the original information or data obtained by the researcher. They are documents in which the individual describing the situation object or even was present physically during the event. This data is raw and unprocessed. It has to be refined before use.

In collecting the primary source data, the researcher will use both interviewer and observation. Interview represents a personal contact between an interviewer and respondent either in the respondent house or office. An interview could be structured in which case; the interviewer has a planned series of questions.

ORAL INTERVIEW METHOD

This a means by which information was collected by oral discussion, this will enable the researcher to obtain valid information in the form of verbal information, in the form of verbal response from respondents.

This verbal discussion with the staff of the accounting department, administrative department operations credit control and debt recovering in PZ will hold to uncover some facts related to the study which not be disclosed if questionnaires were used.

Unstructured interview was conducted because of its flexibility. It gives opportunity to obtain information, which could not be gotten, if questionnaires are to be used.

The researcher used this method because questionnaires will not be completed. The researcher was established good rapport with the subjects because many people were unwilling to commit into writing what they would say orally. Questions relating to themselves, condition of services/organizations performance, how they see the financial report of the organization, how they understand if and general information about the organization were asked. This method is usually successful because people may give very important information through oral interview.

3.6. **DATA COLLECTION AND PRESNTATION**

The researcher used secondary sources of data to elicit information for the study. This is because of the special nature of the research topic, which bothers on the applicability of GAAP on reported financial statements. Also, these sources are in the form of published financial statement like the company's five years financial statement to the current years statement, also materials such as dissertation, journal (accounting journals), statements of accounting standard (SAS) and related textbooks were used.

The Companies and Allied Matter Act 1990 will not be left behind.

3.7. **METHOD OF DATA ANALYSIS**

Data analysis was base on the seven years financial report presented. It is common that some company's profitability may be used on the reported financial statement.

Based on this, the researcher intends to use ratio, simple average and simple percentage for:

Analysis – where the profitability ratios (return on capital employed or ROCE) and other supporting ratios like Asserts Turnover Ratios, Profit Margin Ratio, Solvency Ratios, Investment Ratios (earnings per share, dividend yield, price earnings) and value added ratios will be calculated.

Ratios are used because they are prepared regularly and on a consistent basis so that trends can be highlighted and the changes investigated. According to T. Lucey (2000:45), ratio analysis is the systematic production of ratios from both internal and external financial reports so as to summarize key relationship and results in order to appraise financial performance. That is to say that ratio analysis is a practical means of monitoring and improving performance.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1. DATA PRESENTATION

The research topic: “The Impact of Generally Accepted Accounting Principles on Reported financial statements, allow for the use of reported statements. And personal interview for data collection in analysis the reported statements. And results were expressed in percentage. This section presents and discussion the data and the results from the statistical analysis. The tables and figure are presented and they are very useful to supplement textual material.

From the above, the presentation was done in form of a tables in order to show the Balance Sheet, profit and loss account cash flow statement, value added statement and (2007-2003) five years financial summary.

TABLE I

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MAY 2007

		2007	2006
	NOTE	N’000	N’000
TURNOVER	2	54,216,824	42,225,417
Cost of Sales		(40,914,006)	(31,010,146)
Gross profit		13,302,818	11,215,271
Selling and distribution expenses		(4,798,294)	(3,936,333)
Administrative expenses		(3,728,892)	(2,853,334)
Other operating income	3	446,590	91,257
Profit on disposal of fixed assets		248,403	444,947
Operating Profit		5,470,625	4,961,808
Net interest payable		(114,741)	(158,100)
PROFIT BEFORE TAXATION	4	5,355,884	4,803,708
TAXATION	5	(1,532,147)	(1,232,325)
PROFIT AFTER TAXATION		3,823,737	3,571,383
Minority interest		(311,391)	(335,796)
Profit attributable to members transferred to general reserve	19	3,512,346	3,235,587
Per Share Data (Kobo): Earning per share	25	138	127

TABLE II

BALANCE SHEET FOR THE YEAR ENDED 31 MAY 2007

		2007	2006
	NOTE	N'000	N'000
FIXED ASSETS	6	16,366,285	14,369,900
LONG-TERM INVESTMENTS			
Shares in subsidiaries	7		
CURRENT ASSETS			
Stocks	8	22,202,080	19,216,663
Debtors	9	5,445,800	3,897,084
Deposit for letters of credit		856,928	89,962
Due from group company		-	-
Bank deposits cash at bank and in hand		416,101	4,298,585
CREDITORS: Amounts falling due within one year Borrowings	10	1,433,791	666,951
Trade creditors		787,847	664,441
Other creditors and accruals	11	2,983,364	1,715,677
Due to group company		-	-
Due to parent company		4,263,838	4,738,079
Dividends payable	12	763,967	401,528
Taxation	5.2	1,613,028	1,091,287
		11,845,835	9,277,963
NET CURRENT ASSETS		17,075,074	18,224,331
TOTAL ASSETS LESS CURRENT LIABILITIES		33,441,359	32,594,231
Deferred taxation	13	(2,078,389)	(1,966,836)
PROVISION FOR LIABILITIES AND CHARGES			
Gratuity and past service benefits	14	-	(1,334,799)
Minority interest	15	(795,525)	(484,134)
NET ASSETS		30,567,445	28,808,462
CAPITAL AND RESERVES			
Share capital	16	1,270,553	1,270,553
Share premium	17	6,878,269	6,878,269
Revaluation reserve	18	7,637,514	7,637,514
Revenue reserves	19	14,781,109	13,022,126
		30,567,445	28,808,462

TABLE III

STATEMENT OF CASH FLOW

		2007	2006
	NOTE	N'000	N'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipts from customers		51,901,141	41,948,869
Cash paid to suppliers and employees		(51,549,976)	(40,223,628)
Tax paid	5.2	(898,853)	(945,840)
Net cash provided by operating activities	20	(547,688)	(770,401)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	6.1	(3,136,393)	(3,355,562)
Proceeds from sale of fixed assets		540,422	528004
Interest received		175,030	128,453
Net cash provided by investing activities		(2,420,941)	(2,699,105)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of debenture stocks		-	(12,500)
Proceeds from issue of shares		-	5,268,185
Dividends paid	12	(1,390,924)	(1,484,303)
Interest paid		(289,771)	(216,503)
Net cash provided by financing activities		(1,680,695)	3,554,879
Net (decreased)/increase in cash and cash equivalents		(4,649,324)	1,626,175
Cash and cash equivalents at 1 June		3,631,634	2,005,459
Cash and cash equivalents at 31 May	21	(1,017,690)	(3,631,634)

TABLE IV

STATEMENT OF VALUE ADDED FOR THE YEAR ENDED 31 MAY 2007

	2007	%	2006	%
	N'000		N'000	
Turnover	54,216,824		42,225,417	
Other operating income	446,590		91,257	
Bought-in-materials and services				
-Imported	(23,027,048)		(19,783,168)	
-Local	(20,229,592)		(12,991,402)	
Value added	11,406,774	100	9,542,104	100
Applied as follows:				
To pay employees:				
-Salaries, wages, and other benefits	5,088,162	45	3,661,407	38
To pay government:				
-Income and education taxes	1,420,594	12	918,703	10
To pay providers of capital:				
-Debenture interest	-	-	2,064	-
-Bank interest	114,741	1	186,791	2
Retained for replacement of assets and business growth:				
-Deferred taxation	111,553	1	313,622	3
-Minority interest	311,391	3	335,796	4
-Depreciation	847,987	7	888,134	9
-Profit attributable to members	3,512,346	31	3,235,587	34
	11,406,774	100	9,542,104	100

Value added represents the additional wealth, which the group has been able to create by its own, and its employees' efforts. This statement shows the allocation of that wealth to employees, government, providers of capital and the amount retained for the future creation of more wealth.

TABLE V

Five-Year Financial Summary YEAR ENDED 31 MAY 2005

		2005	2004	2003	2002	2001
		N'000	N'000	N'000	N'000	N'000
Assets employed	Fixed assets	11,985,529	11,820,528	8,341,636	7,115,344	6,546,593
	Net current assets	11,461,356	9,752,919	9,133,580	9,300,212	8,671,873
		23,446,885	21,573,447	17,475,216	16,415,556	15,218,466
	Creditors (due after one year)	-	(16,013)	(34,014)	(70,121)	(83,053)
	Deferred taxation	(1,669,634)	(1,640,534)	(1,055,573)	(851,281)	(844,989)
	Gratuity and past service benefits	(1,193,810)	(1,041,762)	(1,010,103)	(979,442)	(797,391)
	Minority interest	(278,751)	(174,053)	(164,544)	(165,161)	-
		20,304,690	18,701,085	15,210,982	14,349,551	13,493,033
Funds Employed	Share capital	1,089,045	871,236	871,236	726,030	726,030
	Share Premium	1,791,592	1,791,592	1,791,592	1,791,592	1,791,592
	Revaluation reserve	7,710,324	7,817,209	5,098,097	5,098,097	5,102,887
	Other reserves	9,713,729	8,221,048	7,450,057	6,733,832	5,872,524
Turnover and profits	Turnover	34,134,609	27,995,035	24,029,720	20,614,761	16,089,203
	Profit before taxation	4,379,952	3,303,662	2,859,678	2,430,740	1,787,337
	Profit after taxation	3,237,173	2,077,845	2,011,463	1,688,982	1,270,157
	Dividend	1,633,568	1,306,854	1,150,032	827,674	653,427
Per 50k share data	Earnings per share (kobo)	N 1.49	N 1.19	N 1.15	N 0.97	N 0.73
	Dividend per share (kobo)	N 0.75	N 0.75	N 0.66	N 0.47	N 0.37
	Dividend cover (times)	2.07	1.60	1.75	2.04	1.94
Per 50k share data	Earnings per share (kobo)	1.49	1.19	1.15	0.97	0.73
	Dividend per share (kobo)	0.75	0.75	0.66	0.47	0.37
	Dividend cover (times)	2.07	1.60	1.75	2.04	1.94

Notes: 1. Earnings and dividend per share are based on the number of shares issued at the end of each year.

2. Earnings per share are based on the profit after taxation attributable to members.

4.2 DATA ANALYSIS/INTERPRETATION

In this area, that is, analysis rations was used and results was presented in percentage. Also this data analysis/interpretation was based on 2002, 2003 and 2007 financial statements due to the reason of bringing out relevant facts.

ANALYSIS 1:

Return On Capital Employed (ROCE)

$$\frac{\text{NET PROFIT}}{\text{CAPITAL EMPLOYED}} \times 100$$

Calculation of capital employed = Share capital + Share Premium + Reserves

Year 2002

Total Capital = 14,393,551

Appropriate profits = 1,688,982

$$\text{ROCE} = \frac{1,688,982}{14,393,551} \times 100$$

11.73 %

Year 2003

Total capital = 15,210,982

Appropriate profits = 2,011,463

$$\text{ROCE} = \frac{2,011,463}{15,210,982} \times 100$$

13.22 %

Year 2007

Total Capital = 30,567,445

Appropriate profits = 3,512,346

$$\text{ROCE} = \frac{3{,}512{,}346}{30{,}567{,}445} \times 100$$

11.49 %

From analysis 1, it shows that in 2002, when the statement of sources and application of funds (SSAE) was still in application, performance compared by ROCE, which was 11.73%, was better than that of fear 2007 when cash flow statement was applied which was 11.49%.

ANALYSIS II:

ASSET TURNOVER RATIOS

Year 2002

Sales = 20,614,761

Total Assets = 21,658,888

Current Liabilities = 5,243,332

$$\text{Asset Turnover Ratio} = \frac{20{,}614{,}761}{21{,}658{,}888 - 5{,}243{,}332}$$

1.3:1

Year 2003

Sales = 24,029,720

Total Assets = 25,001,610

Current Liabilities = 7,526,394

$$\text{Asset Turnover Ratio} = \frac{24{,}029{,}720}{25{,}001{,}610 - 7{,}526{,}394}$$

1.4:1

Year 2007

Sales = 54,216,824

Total Assets = 45,287,194

Current Liabilities = 11,845,835

Asset Turnover Ratio $= \dfrac{54,216,824}{45,287,194 - 11,845,835}$

1.6:1

From analysis II, it was seen that in 2002 that Asset Turnover ratio (1.3:1) compare to that of 2007 (1.6:1) was lower, that is to say that efficiency based on Assets Turnover was lower or poor in 2002 when compared to that of 2007. Also that of 2003 (1.4:1) was better than of 2002.

ANALYSIS III:

PROFIT MARGIN RATIOS

Year 2002

Operating Profit = 2,625,998

Sales = 20,614,761

Profit Margin = $\dfrac{20,614,761}{2,625,995} \times 100$

78.50%

Year 2003

Operating Profit = 3,395,145

Sales = 24,029,720

Profit Margin $= \dfrac{24,029,720}{3,395,145} \times 100$

70.78%

Year 2007

Operating Profit = 5,470,625

Sales = 54,216,824

Profit Margin = 54,216,824 x 100

5,470,625

99.11%

This analysis III reveals that the profit margin, which is a greed factor to examine efficiency in 2002 was higher (78.50%) when compared that of 2007 (99.11%). And that of 2003 was lower when compared to the above two mentioned years.

ANALYSIS IV:

SOLVENCY RATIOS

YEAR 2002

Short-term Solvency Ratio Using Current Ratio

Current Assets = 14,543,544

Current Liabilities = 5,243,332

Shorter term Solvency ratio 14,543,544

5,243,332

2.8:1

Long term Solvency Ratio Using Shareholders Equity to Assets Ratio

Shareholders Equity = 14,349,551

Total Assets = 21,658,888

Long term Solvency Ratio = 14,349,551

21,658,888

0.6:1

YEAR 2003

Short-term Solvency Ratio Using Current Ratio

Current Assets = 16,659,974

Current Liabilities = 7,526,394

Shorter term Solvency ratio $= \frac{16,659,974}{7,526,394}$

2.2:1

Long term Solvency Ratio Using Shareholders Equity to Assets Ratio

Shareholders Equity = 15,210,982

Total Assets = 25,001,610

Long term Solvency Ratio $= \frac{15,210,982}{25,001,610}$

0.6:1

YEAR 2007

Short-term Solvency Ratio Using Current Ratio

Current Assets = 28,920,909

Current Liabilities = 11,845,835

Shorter term Solvency ratio $= \frac{28,920,909}{11,845,835}$

2.4:1

Long term Solvency Ratio Using Shareholders Equity to Assets Ratio

Shareholders Equity = 30,567,445

Total Assets = 45,287,194

Long term Solvency Ratio $= \frac{30,567,445}{45,287,194}$

0.6:1

Analysis IV shows that the solvency ratio in 2007 (2.4:1) for short term when compare to that of 2003 (2.2:1) was very low while that of 2002 (2.8:1) was the better when compared to the above 2007 year mentioned.

Moreover, in terms of long term solvency, that of 2003 and low (2.2:1) when compared to 2007 (2.4:1). While that of 2002 (2.8:1) was the highest.

ANALYSIS V:

VALUE ADDED RATIO

YEAR 2002

Value added per N = 5,028,773

Value added per N of salaries and wages = 1,889,709

Value added ratio = 2.7:1

YEAR 2003

Value added per N = 6,099,466

Value added per N of salaries and wages = 2,164,128

Value added ratio = 2.8:1

YEAR 2007

Value added per N = 11,406,774

Value added per N of salaries and wages = 5,088,162

Value added ratio = 2.2:1

From analysis VI one could see based on cash element that the value added in 2003 (2.8:1) was greater that the value added in 2002 and 2007 that 2.7:1 and 2.2:1 respectively.

4.3 SUMMARY OF FINDINGS

The followings are the findings made by the researcher when carries out the research work:

That Accounting Principles, procedures/methods, basis and standard were not observed and put into practice in preparing their reported financial statements and that, where there is any deviation from this principles/standard, the users attention were not called to it.

Furthermore, it was also observed that the reported financial statements are prepared annually, that it does not get to them on time and that even when they are distributed, it is not always enough to go around all users.

This sort of situation could be frustrating. Management should do something so that good timely and quality reported financial statement can be produced and the standard of the company can than be rated high.

Finally, there is inadequate competent and experienced staff.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

The study critically examined the concept of Generally Accepted Accounting Principles on Reported financial statements. Emphasis was deliberately placed on reported financial statement because users reliability on reported financial statements will be enhanced if these principles and standards are adhered to in the presentation and presentation of financial statements.

The analyses that these are a positive relationship between Generally Accepted Accounting Principles and Reported financial statement was accepted. The inference drawn from this is that from analysis I, return on capital employed in 2003 when the statement of source and application of funds was still in use was higher. While from analyses II, Asset Turnover, in 2007 when cash flow statement, which is presently in use, was applied, was higher. Then from analysis III, profit margin in 2003 was higher. Also, form analysis IV, solvency in short term was higher in 2005 and also where the cash flow statement was applied.

Moreover, from analysis V, investment in terms of earnings per share was higher in 2003. While in terms of dividend per share, was higher in 2007. That in terms of price earnings it was higher in 2005. These views are supported by the work of several other researchers ACCA (1987:3).

The acts did not state the methods by which these items should be valued or treated; accountants were expected to apply Generally Accepted Accounting Principles (GAAP), which are embodiments of rules, and conventions, and practices developed over time by the accounting profession. They serve as general guidelines in the preparation of financial reports.

5.2. **CONCLUSION**

The concept of Generally Accepted Accounting Principles (GAAP) is control to the theory and practice of Accountants and Management.

However, the following conclusions could be authoritative drawn based on the research findings.

It was discovered that the organization (PZ) visited have accounting department which are sectionalized.

That accounting concepts and principle are not new to the organization and that they are being used by them without findings any difficulties in the usage.

Financial statements are prepared by the organization annually rather than quarterly and monthly.

Accounting concepts and principles are relevant and serve as guide in the preparation of financial statement.

That the organization/users see accounting concepts and principles as means which provide useful information for the preparation of financial statements for making economic decisions, hence help to improve decision made by management.

Accounting concepts and principles are seen by the organization as basis for analyzing financial statements which make it more meaningful and reliable, thus, help in understanding how transactions are accounted for.

That there is consistency in the application of accounting concepts and principles in the organization and as such, it provides framework in constructing financial reports of the organization.

In fact, Generally Accepted Accounting Principles (GAAP) pays a big part in financial report-users relationship.

5.3. RECOMMENDATION

Based on the conclusions draw above, it becomes imperative at this junction to make the following recommendations.

Management should always adhere to accounting concepts and principles, which act as basis for the preparation of financial statement, which result in improved decision made by management.

In order to produce useful information for making economic decisions, the generally accounting principles must be observed.

Management interested in making good economic decision from reported financial statements should see these accounting principles as bedrock for such decisions.

However, in order to curtail acceptance of these principles, the organization should see these principles as useful tools in understanding how transactions are accounted for.

In as mush as financial reports are prepared annually, they should be given to users on time and should be well.

The organization should follow the same method of accounting principles always. And this could help in providing a framework in constructing financial statement.

Finally, researchers venturing into this research topic should reach on the limitations of adhering and accepting their principles.

Also, I would advise, that in order to have complete information about the financial transactions of the organization, financial report should be prepared most often than the interim.

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