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**External Auditors' Liability in the 2009 Bank Crisis in Nigeria**

**Capital Market: An Engine for Industrial Growth and Development**

**Accounting Policies and Practices in Nigerian Universities: A Contextual Analysis**

**An Evaluation of the Process, Principles and Formula Used in Indirect Revenue Allocations in Oyo State LGAs, Nigeria (2003-2007).**

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# **ACCOUNTING POLICIES AND PRACTICES IN NIGERIAN UNIVERSITIES: A CONTEXTUAL ANALYSIS**

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## **Abstract**

This study examines uniformity and comparability of accounting policies and practices in the Nigerian university system. The design employed in data collection is cross-sectional survey of the financial statements of 12 Nigerian universities in the critical area of the quality, presentation, disclosure and content of such statements. The result achieved by applying the chi-square statistic (U.M.P. invariant test) suggests that, Nigerian universities are uniform in the form, types of numbers presented, the layout or format and management of accounting policies. However, their accounting practices are not uniform in the areas of quality, disclosure and content of their financial statements and therefore their overall accounting practices. Following from the findings of this study, some recommendations were made, prominent amongst which was that similar nomenclature should be adopted in the accounting policies and financial statements preparation of all Nigerian universities. This will increase uniformity, understandability and comparability of such financial statements.

**Key words:** Universities, Uniformity, Comparability, Quality, Disclosure, Financial statements

## **INTRODUCTION**

Government is looking into the existing financial guidelines in tertiary institutions and the efficiency of audit process with a view to making them more effective (Obasanjo, 2000). This presidential declaration is to ensure accountability and responsible governance in the Nigerian university system. To instill transparency and accountability in tertiary institutions like universities, extent of compliance with relevant accounting standards, legal requirements and a test of uniformity/comparability of the accounting practices and the resulting financial reports will be desirable.

According to Pandey (2005), finance as it is known, is the bedrock on which the existence of any organization lies. Stakeholders in an organization are expected to be interested in the financial position

of the organization they have a stake in. It is, therefore, surprising that stakeholders in non-profit making organizations like tertiary institutions, who are mainly members of the public, are hardly interested in the ways and manner tertiary institutions manage their finances, not to talk of the stakeholder's poor concern about the accounting practices of the institutions (Beck and Levine, 2005; and Caprio and Klingebiel, 1999).

Following from the above, the rationale for choice of this subject matter is the lack of understanding of the nature of accounting policies and practices in the Nigerian tertiary educational institutions (emphasis on universities) coupled with the absence of an International Accounting Standard (IAS) for public sector entities like tertiary institutions, more so, the financial statements of these institutions, if at all being subjected to audit, are never published for use by the stakeholders (mostly members of the Nigerian public), thereby negating transparency and accountability which are panaceas for economic growth in a democratic governance. Wittich (1998) submitted that, the current lack of IAS's for tertiary institutions has hindered progress towards good governance, accountability and transparency in the reporting of universities' revenue and expenditure. This submission supports the fact that a problem exists as to accounting in the public sector, especially tertiary institutions, therefore, necessitating choice of the subject matter.

The main objective of this paper is to throw more light on uniformity and comparability of accounting practices in Nigerian universities in terms of the presentations, disclosure and content of their financial reports. In achieving this, the remainder of the paper proceeds as follows. In Section two, a brief review of uniformity and comparability of financial statements in line with presentations, disclosure and content of the financial statements was done. In Section three, the data collection procedures as well as the measures used to capture uniformity and comparability of financial statements was described. Section four reports the primary results, while Section five conclude and considers some recommendations.

## **LITERATURE REVIEW**

### **Uniformity and comparability of financial statements**

Uniformity and comparability of financial statements have different goals. The goal of uniformity frequently implies the presentation of financial statement by different organizations using the same accounting procedures, measurement concepts, classifications, and methods of disclosure, as well as a similar basic format in the statement. The goal of comparability is to facilitate the making of predictions and financial decisions by creditors, investors, amongst others. Comparability may be defined as the quality or state of having enough like characteristics to make comparison appropriate (Meek and Sandagaran, 1990).

Comparability of financial reports of organizations in similar line of activities, for example universities, will make for an influential financial report as regards decisions which investors make. Soyode (1982) opines that, most decisions involve a comparison of the same organizations over time. In light of this, accounting is useful to the extent that it permits meaningful comparison. Barton (1978) also corroborates Soyode's (1982) submission by stating that, accounting information is more useful if it facilitates comparisons as all decision making, control and evaluations involve comparison. Comparability he continued, means that like things are measured and reported similarly and that these are distinguished from the unlike things. Comparability requires that a consistent set of accounting principles, definitions, assumptions, data processing and measurement techniques, classifications of data and reporting intervals are applied.

From all Soyode and Barton said, it can be gathered that, for a university to cope with its environmental opportunities and threats, it has to be able to carry out reasonable comparison of its financial position with that of other universities and if possible other tertiary institutions, before reasonable decisions can be made. Also, similar accounting bases and principles for measurement and reporting among universities have to be in place.

However, there is opposition to uniformity in financial statements of organizations within the same industry. This is because some researchers (Acemoglu, Johnson and Robinson, 2001), appear to confuse the concept of comparability with basic identity. And they are of the opinion that comparability cannot be achieved because of the absence of basic identity. According to Kemp (1963), the idea that financial statements of two organizations should be comparable is based on the assumption that the organizations themselves are comparable, which might or might not be true. But Kemp fails to realize that, comparability does not require the existence of identical operating conditions. The existence of differences in operating conditions does require, however, that attention should be given to figuring out dissimilar circumstances. This agrees with the view of Simmon (1967) who submits that, the objective of financial reporting is to reflect similarities as similarities and differences as differences. Hence, the fact that basic identity does not exist among organizations enhances the importance of achieving comparability in financial reporting in universities.

### **Quality of financial statements**

According to Sengupta (1998), quality of financial statements can be assessed based on measures of quality, which includes relevance, materiality, consistency and timeliness. The quality of financial statements is very important to the users. This claim is shared by Desai (1971) who submits that, a lack of quality in financial disclosure increases variations in the market price of the corporation's stock. Butler, Kraft and Weiss (2002) opine that timely disclosure of relevant information tends to prevent surprises, which may completely alter the outlook for the future of the firm. It also tends to give investors greater confidence in the financial information.

The US Financial Accounting Standards Board (FASB) (1978) submits that, the concept of relevance requires that information must bear upon or be usefully associated with actions it is designed to facilitate or results desired to be produced. In this research, by concept of relevance, we mean that of decision relevance; that is emphasis is placed on accounting information that can be useful in either normative or descriptive decision models. The concept of relevance implies that all information should be presented which may aid in the prediction of the types of information required in the decision processes, which may aid directly in the making of decisions. Street and Gray (2001) opine that, the concepts of relevance and materiality tend to be very similar in many respects. The concept of materiality can be used in a positive sense to determine what should be disclosed for general undefined uses. That is, information may be considered to be material, and thus disclosure is necessary, if the knowledge of this information may be significant to the users of accounting reports. Materiality may be looked upon as a constraint determined by the inability of the specific users handling large masses of detail. One of the responsibilities of the accountant in financial reporting is to summarize this mass of data in such a way that it will be meaningful to the users of the reports. Too much data can be just as misleading as too little.

The doctrine of consistency has been a basic tenet in accounting for many years. It has been used to refer to the use of the same accounting procedures by a single educational institution or accounting entity from period to period. The consistency constraint is valid only when there is a choice among two or more equally relevant and valid procedures (Leftwich, Watts, and Zimmerman, 1981). For financial information to be timely, the accumulation and summarisation of accounting information and its publication should be as rapid as possible to assure the availability of current information in the hands of the users. This also implies that, financial statements should be presented at frequent intervals, to reveal changes in the firm's situation, which may in turn affect the user's predictions and decisions.

### **Presentations, disclosure and content of financial statements**

By presentation of financial statements, we mean the form, types of numbers presented and the layout or format and arrangement of items like assets and liabilities. Financial statements are prepared for the purpose of presentation and periodical review or report on progress by the management and deal with the status of the investment in the business and the results achieved during the period under review (Core, 2001).

According to Botosan (2000), disclosure in financial statements means the presentation of information necessary for the optimum operation of an organization or capital markets. How much information should be disclosed is dependent not only on expertise of the reader but also on the desirable standard. The three concepts of disclosure generally proposed are adequate, fair, and full disclosure. By adequate disclosure we imply a minimum amount of disclosure congruous with the negative objective of making the statement not misleading. Fair disclosure implies an ethical objective

of providing equal treatment for all potential readers. Full disclosure implies the presentation of all relevant information. To some writers (Admati and Pfleiderer, 2000), full disclosure means the presentation of superfluous information and is therefore inappropriate. Too much information is not good in that the presentation of unimportant details hides the significant information and makes the financial reports difficult to interpret.

However, appropriate disclosure of information is significant to investors and others, therefore financial statements should be adequate, fair and full. According to Baiman and Verrecchia (1996), there are several different methods of making disclosures. The selection of the best method of disclosure in each case depends on the nature of the information and its relative importance. The common methods of disclosure are, form and arrangements of formal statements, terminology and detailed presentations, parenthetical information, notes on the accounts, supplementary statements and schedules, comments in auditors' certificates and the letter of the Board chairman.

Verrecchia (1990) views content of financial statement as the numbers published rather than how they are to be published. It encompasses the following;

- (a) disclosure-content: which specifies the items that must be included in the financial statement;
- (b) specific-construct-content: which refers to the basis upon which individual items are to be reported; and
- (c) conceptually-based-content: this requires a theory from which operational rules can be derived and which can be referenced to adjudicate between alternative procedures.

We can sum up all these by saying that the content of financial statements is made up of methods, policies, procedures, principles, assumptions and postulates.

Following from the above, the quality, presentations, disclosure and content of financial statements make up the four main divisions of uniformity and therefore generates the first, second, third and fourth hypotheses in this study:

- H<sub>1</sub>: The quality of the financial statements of universities is uniform.  
H<sub>2</sub>: There is uniformity in the presentation of the financial statements of universities.  
H<sub>3</sub>: The disclosures and content of the financial statements of universities are uniform.  
H<sub>4</sub>: The overall accounting practices in universities are uniform.

### **Materials and method**

In order to give empirical support to this paper concerning the comparability of financial statements in Nigerian universities, a cross – sectional survey of the financial statements in the critical areas of the

quality, presentation, disclosure and content was conducted. The population of study is made up of all the 88 universities in Nigeria as at 31<sup>st</sup> December, 2003. The year 2003 was used as the cut-off date because between 2003 and 2009 access to the financial statements of Nigerian universities for this study was not possible. This is a major methodological weakness in this study. However, access to financial statements of 12 of the universities as at 31<sup>st</sup> December, 2003 was possible. Therefore, these 12 universities made up the sample size, by simply adopting the judgmental sampling technique.

A general view of the nature of accounting practices and reports of these universities was also covered and extent of their uniformity and comparability ascertained. The inferential statistics (Chi-square statistic – U.M.P. invariant test) was employed in testing the tentative statements made in this study. The choice of this statistical tool is because the basic empirical operation in this study is determination of uniformity/equality.

### Results and discussion

Data analysis focused on testing of the uniformity and comparability of the six groups. This is as discussed below under quality, presentation, disclosure and overall accounting practice.

#### 1. Quality of financial statements

$$H_0: P_1 \neq P_2 \neq P_k$$

$$H_a: P_1 = P_2 = P_k$$

The expected and observed version of Chi-square ( $X^2$ ) given by the relation:

$$X^2 = \sum_{P=1}^n \frac{(F_o - F_e)^2}{F_e}$$

was adopted to test the first hypothesis Table 1

| Universities                | F <sub>o</sub> | F <sub>e</sub> | F <sub>o</sub> - F <sub>e</sub> | (F <sub>o</sub> - F <sub>e</sub> ) <sup>2</sup> | (F <sub>o</sub> - F <sub>e</sub> ) <sup>2</sup> /F <sub>e</sub> |
|-----------------------------|----------------|----------------|---------------------------------|-------------------------------------------------|-----------------------------------------------------------------|
| 1                           | 2              | 4              | -2                              | 4                                               | 1.00                                                            |
| 2                           | 1              | 4              | -3                              | 9                                               | 2.25                                                            |
| 3                           | 1              | 4              | -3                              | 9                                               | 2.25                                                            |
| 4                           | 1              | 4              | -3                              | 9                                               | 2.25                                                            |
| 5                           | 2              | 4              | -2                              | 4                                               | 1.00                                                            |
| 6                           | 2              | 4              | -2                              | 4                                               | 1.00                                                            |
| 7                           | 2              | 4              | -2                              | 4                                               | 1.00                                                            |
| 8                           | 1              | 4              | -3                              | 9                                               | 2.25                                                            |
| 9                           | 1              | 4              | -3                              | 9                                               | 2.25                                                            |
| 10                          | 1              | 4              | -3                              | 9                                               | 2.25                                                            |
| 11                          | 2              | 4              | -2                              | 4                                               | 1.00                                                            |
| 12                          | 2              | 4              | -2                              | 4                                               | 1.00                                                            |
| Calculated X <sup>2</sup> = |                |                |                                 |                                                 | 19.50                                                           |

Source: fielded interview questions and annual reports of sampled universities



From the  $X^2$  table 1, at (12-1) i.e. 11 degrees of freedom with 0.05 level of significance, tabulated " $X^2$ " = 19.68. Since calculated " $X^2$ " (19.5) is lesser we accept the null hypothesis that the quality of the financial statements of universities differs.

## 2. Presentation of financial statements

The U.M.P. invariant test, postulated by Lehmann (1962), given by the relation

$$X^2 = n \sum_{P=1}^m \frac{(V_p - \Pi_p)^2}{\Pi_p}$$

- n is the sample size
- v: is  $X^2/n$
- $X^2$  is number of trials resulting in the outcome
- m: is possible number of pth outcome
- p: is probability of the pth outcome
- $\Pi_p$ : is  $1/n$

Table 2

| Universities                         | Frequency | $V_p$ | $\Pi_p$ | $(V_p - \Pi_p)$ | $(V_p - \Pi_p)^2$ | $(V_p - \Pi_p)^2/\Pi_p$ |
|--------------------------------------|-----------|-------|---------|-----------------|-------------------|-------------------------|
| 1                                    | 3         | 3/12  | 1/12    | 1/6             | 0.028             | 0.336                   |
| 2                                    | 3         | 3/12  | 1/12    | 1/6             | 0.028             | 0.336                   |
| 3                                    | 0         | 0     | 1/12    | -1/12           | 0.007             | 0.084                   |
| 4                                    | 3         | 3/12  | 1/12    | 1/6             | 0.028             | 0.336                   |
| 5                                    | 0         | 0     | 1/12    | -1/12           | 0.007             | 0.084                   |
| 6                                    | 0         | 0     | 1/12    | -1/12           | 0.007             | 0.084                   |
| 7                                    | 3         | 3/12  | 1/12    | 1/6             | 0.028             | 0.336                   |
| 8                                    | 0         | 0     | 1/12    | -1/12           | 0.007             | 0.084                   |
| 9                                    | 0         | 0     | 1/12    | -1/12           | 0.007             | 0.084                   |
| 10                                   | 0         | 0     | 1/12    | -1/12           | 0.007             | 0.084                   |
| 11                                   | 0         | 0     | 1/12    | -1/12           | 0.007             | 0.084                   |
| 12                                   | 0         | 0     | 1/12    | -1/12           | 0.007             | 0.084                   |
| Calculated $X^2 = 2.016 \times 12 =$ |           |       |         |                 | 24.192            |                         |

**Source:** fielded interview questions and annual reports of sampled universities

From the  $X^2$  table 2, at eleven (11) degrees of freedom with 0.05 level of significance, tabulated " $X^2$ " = 19.68. Reject null hypothesis because calculated " $X^2$ " is greater than tabulated " $X^2$ ". Therefore, there is uniformity in the presentation of the financial statements of universities.

**Table 3: Disclosures in financial statements**

| Universities     | Frequency | $V_p$ | $\Pi_p$ | $(V_p - \Pi_p)$ | $(V_p - \Pi_p)^2$     | $(V_p - \Pi_p)^2/\Pi_p$ |
|------------------|-----------|-------|---------|-----------------|-----------------------|-------------------------|
| 1                | 0         | 0     | 1/12    | -1/12           | -.007                 | .084                    |
| 2                | 0         | 0     | 1/12    | -1/12           | .007                  | .084                    |
| 3                | 1         | 1/12  | 1/12    | 0               | 0                     | 0                       |
| 4                | 0         | 0     | 1/12    | -1/12           | .007                  | .084                    |
| 5                | 0         | 0     | 1/12    | -1/12           | .007                  | .084                    |
| 6                | 0         | 0     | 1/12    | -1/12           | .007                  | .084                    |
| 7                | 1         | 1/12  | 1/12    | 0               | 0                     | 0                       |
| 8                | 1         | 1/12  | 1/12    | 0               | 0                     | 0                       |
| 9                | 3         | 1/4   | 1/12    | -1/6            | .028                  | .336                    |
| 10               | 0         | 0     | 1/12    | -1/12           | .007                  | .084                    |
| 11               | 3         | 1/4   | 1/12    | 1/6             | .028                  | .336                    |
| 12               | 1         | 1/12  | 1/12    | 0               | 0                     | 0                       |
| Calculated $X^2$ |           |       |         |                 | = 1.176 x 12 = 14.112 |                         |

**Source:** fielded interview questions and annual reports of sampled universities.

**Table 4: Content of financial statements**

| Universities     | Frequency | $V_p$ | $\Pi_p$ | $(V_p - \Pi_p)$ | $(V_p - \Pi_p)^2$   | $(V_p - \Pi_p)^2/\Pi_p$ |
|------------------|-----------|-------|---------|-----------------|---------------------|-------------------------|
| 1                | 0         | 0     | 1/12    | -1/12           | .007                | .084                    |
| 2                | 0         | 0     | 1/12    | -1/12           | .007                | .084                    |
| 3                | 0         | 0     | 1/12    | -1/12           | .007                | .084                    |
| 4                | 0         | 0     | 1/12    | -1/12           | .007                | .084                    |
| 5                | 2         | 1/6   | 1/12    | -1/12           | .007                | .084                    |
| 6                | 3         | 1/4   | 1/12    | 1/6             | .028                | .336                    |
| 7                | 3         | 1/4   | 1/12    | 1/6             | .028                | .336                    |
| 8                | 1         | 1/12  | 1/12    | 0               | 0                   | 0                       |
| 9                | 1         | 1/12  | 1/12    | 0               | 0                   | 0                       |
| 10               | 1         | 1/12  | 1/12    | 0               | 0                   | 0                       |
| 11               | 1         | 1/12  | 1/12    | 0               | 0                   | 0                       |
| 12               | 0         | 0     | 1/12    | -1/12           | .007                | .084                    |
| Calculated $X^2$ |           |       |         |                 | = 1.176x12 = 14.112 |                         |

**Source:** fielded interview questions and annual reports of sampled universities

From the  $X^2$  tables 3 and 4, at eleven (11) degrees of freedom with 0.05 level of significance, tabulated " $X^2$ " = 19.68. Accept null hypothesis because calculated " $X^2$ " is less than the tabulated " $X^2$ ". Therefore, the disclosures and content of the financial statements of universities are not uniform.

**Table 5** Overall accounting practice

| Universities         | Frequency | $V_p$ | $\Pi_p$ | $(V_p - \Pi_p)$ | $(V_p - \Pi_p)^2 / \Pi_p^2$ | $(V_p - \Pi_p)^2 / \Pi_p$ |
|----------------------|-----------|-------|---------|-----------------|-----------------------------|---------------------------|
| 1                    | 1         | 1/12  | 1/12    | 0               | 0                           | 0                         |
| 2                    | 1         | 1/12  | 1/12    | 0               | 0                           | 0                         |
| 3                    | 1         | 1/12  | 1/12    | 0               | 0                           | 0                         |
| 4                    | 1         | 1/12  | 1/12    | 0               | 0                           | 0                         |
| 5                    | 1         | 1/12  | 1/12    | 0               | 0                           | 0                         |
| 6                    | 1         | 1/12  | 1/12    | 0               | 0                           | 0                         |
| 7                    | 1         | 1/12  | 1/12    | 0               | 0                           | 0                         |
| 8                    | 1         | 1/12  | 1/12    | 0               | 0                           | 0                         |
| 9                    | 1         | 1/12  | 1/12    | 0               | 0                           | 0                         |
| 10                   | 1         | 1/12  | 1/12    | 0               | 0                           | 0                         |
| 11                   | 1         | 1/12  | 1/12    | 0               | 0                           | 0                         |
| 12                   | 1         | 1/12  | 1/12    | 0               | 0                           | 0                         |
| Calculated $X^2 = 0$ |           |       |         |                 |                             |                           |

**Source:** fielded interview questions and annual reports of sampled universities

From the  $X^2$  tables 5, at eleven (11) degrees of freedom with 0.05 level of significance, tabulated " $X^2$ " = 19.68. Accept null hypothesis because calculated " $X^2$ " is less than the tabulated " $X^2$ ". Therefore, the overall accounting practices in universities are not uniform.

The result of this work suggests that universities are uniform in the form, types of numbers presented and the layout or format and arrangement of items like assets and accounting policies. However, it is sad to discover that Nigerian universities are not uniform in terms of:

- relevance, materiality, consistency and timeliness of their financial statements; and
- disclosure of information necessary for the optimum operation of an organization.

This makes it difficult for universities to make influential financial reports and also not to be able to cope effectively with environmental threats and opportunities, in the sense that they fail to recognize and evaluate accounting practices and policies being adopted by other Nigerian universities for informed decisions.

## **Conclusion**

This paper covers twelve universities in Nigeria. Also involved were the financial Administrators/Bursars of these universities. The paper also covered a general view of the nature of accounting practices and reports of these universities and ascertained their extent of uniformity and comparability.

In order to give empirical support to this paper concerning the uniformity and comparability of financial statements in Nigerian universities, a survey of the financial statements in the critical area of the quality, presentation, disclosure and content was conducted, and the result of this work suggests that universities are uniform in the form, types of numbers presented and the layout or format and management of items like assets and accounting policies. However, it was discovered that their accounting practices are not uniform in areas of quality, disclosure and content of their financial statements and therefore, their overall accounting practices. To make its financial report a vehicle of satisfactory communication and of value not only to those who take financial decisions for universities but to members of the Nigerian public who have majority stake in these universities, the question of non-uniformity in their accounting practice and report should be minimized if not eradicated.

## **Recommendations**

To aid in bringing unified accounting practice and uniformity in accounting report in universities, the following recommendations were made.

1. The accounting manual laid down by the Nigerian Universities Commission (NUC) should be made to serve as a financial regulator as well as a standard for unified accounting practice and uniformity in financial statements of Nigerian universities.
2. A body similar to Nigerian Accounting Standard Board (NASB) should be set up for universities. This body should establish accounting practices which recognizes the status of universities and their activities and which should be adopted by all Nigerian universities to reduce or eliminate the areas of differences in their accounting practices and reports. This body should include representative of the Federal Government, NUC, Institute of Chartered Accountants of Nigeria (ICAN), Nigerian Accounting Standard Board (NASB) and other interest groups.
3. Nigerian universities should adopt the modified accrual accounting basis in their accounting system and use the same in revenue and expenditure recognition. Pure cash accounting basis should not be seen as acceptable nor adequate and price accrual will encounter problems in application because, some items of revenue and expenditure in universities are susceptible to cash accounting while some are susceptible to accrual basis.

4. The current practice of subjecting the financial statements to audit by external auditors is good and should be continued.

It is believed that if these recommendations are noted, the quality of accounting in Nigerian universities will not only be improved but the question of non-uniformity in their accounting practice and report will be minimized if not eradicated.

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