Measuring financial performance of commercial in private section from view of accounting reports for granting loans by banks and credit Institutions

Mohammad Naghi Rahmati & Mojtaba moradpour
Faculty members; Accounting Department
Islamic Azad University-Ilam branch
Ilam, Iran
E-mail: Moradpour.mo@gmail.com

Hossein Naderi & Rahmatollah mohammadipour
Faculty members; Accounting Department
Islamic Azad University-Ilam branch
Ilam, Iran
E-mail: Hossein.acc@gmail.com

Abstract— **One of the main goals of accounting and financial reporting is to provide data for banks and other credit Institutions, in order to help them decide rationally, evaluate availability of cash value, timing and vaguest on future perspective of cash course entered into a commercial unit. In this paper, the amount of financial reports and statements presented by companies are studied. Regarding limitations of allocating sources to banks and credit institutions for granting loans, and, on the other hand, referring lost customers to these institutions in order for their financing; they should be familiar with techniques of analyzing financial reports and statements to grant loans and allocate their sources to applicants, as well as they should try to allocate their sources to companies which not only raise the amount of development but also have the least risk in case of non cash resources. In this paper, after analyzing accomplished in section 4, all hypotheses are accepted and the results show that financial reports and statements presented by companies play an important role on banks and other credit institutions decisions in order to grant loans.**

Keywords- Evaluating of performance; financial reports and statements; banks; credit institutions

I. INTRODUCTION

The results from executing programs and operations of an entity are presented in frames of financial reports and statements during, financial period – In other words, it can be said that the final product of accounting system and basic tool for present information to users of those financial information is through financial statements.

Analyzing financial statements plays an important role on evaluating of companies performance through users of financial information, and even its results is very important to institution management, too, why, by using it, one can try to determine future policy for required decisions of the institution. Various groups that apply financial reports and statements are: Institutions managers, share holders, banks and credit institutions, creditors and the government.

Banks and credit institutions analyze financial statements when they grant loans in order to determine the boost of financial state, productivity, capability and payment power of the commercial.

A. Statement Of The Problem And Significance Of The Study

By increasing the number of corporations and complicity of the companies spread accounting branches; as a result, accounting information not only are used by the management to conduct operations and activities of the company, but also are used by shareholders in order to control management performance. Potential investors and other interested groups use financial information to asses future perspective of the company.

One of the main goals of accounting and financial reporting is to provide information for banks and other credit institutions to take rational decisions. Financial reporting can provide proper information to help banks and other credit institutions evaluate possible availability of cash as well as timing and uncertainty of future perspective of cash flows into an entity.

Even though well financial reports and statements presented by companies affect banks and other credit institutions decisions, in this article researchers gathered such data through referring to banks and other credit institutions located in Ilam.

With regards to the limitations of sources to banks and other credit institutions for granting loans, and, on the other hand, referring lots customers to these institutions to financing, they should be familiar with techniques of analyzing financial reports and statements to grant loan and allocate their sources to applicants, as well as they should try to allocate their sources to those companies which not only raise the amount of development, but also have the least risk in case of non cash resources.

II. OBJECTIVES OF THE STUDY

The Generally goal of this paper is to study the efficiency and turn of financial statement to create a sort of communication among private and governmental organizations, and the special goal is to indicate usable financial reports and statement presented by companies as well as how these data influence on user's decisions, i.e. banks and other credit institutions.

A. Hypotheses And Questions Of The Study

The following hypotheses are considered with regards to the theme and goal of the study:

1- The managers of loans office in banks and other credit institutions rely on these statements presented by companies.

2- They have enough knowledge to analyze information of financial reports and statements.

3- The manner of managers decline risk of granting loans.

B. Scope **Of** The Study

The Scopes of this article are considered following as to time, place and the theme:

Time: the study has been accomplished in 2007

Place: Ilam province-Iran

Theme: the article is related to study of financial reports and statements efficiency applied by commercial banks and credit institutions.

C. Statistic Sample And Population

Population is defined as all elements under studying belonged to a defined group; a sample is a set of elements that includes a part of the population. Data gathering form a part of the population is called sampling that is used widely to provide required information for decision makers.

Statistic population, in this case, contains all commercial banks and credit institutions in Ilam province.

Commercial banks are: MELAT, SAPAH, SADERAT, TEJARAT, MELI, REFAH, PARSIAN, SANAT & MADAN, KESHAVARZI, SARMAYEH, and credit institutions are: MEHR, GHAVAMIN and SINA.

collecting information form whole statistic population is expensive and time-consuming, so we should make decision, when analyzing statistic population, using statistic patterns that how many samples is needed to get favorite accuracy.

Now, there is a question, how big should the volume of sample be?

Statistic sample includes some of banks and credit institutions, considered commercial, in this study; by the way, they have had remarkable achievements in fields of plan. The formula for sampling a confined population is as following:

$$N = \frac{NZ_1^2 - \alpha/_Z \, pq}{Z_1^2 - \alpha/_2 \, pq + (N-q)d^2}$$

Where:

N: volume of the population

d: is the amount of all error which is considered 90% in this article by the researcher.

pq: they can be considered the same or one second regarding a statistic method.

α : Level of certain ting considered here 95% by 5% errors.

$Z - \alpha/_2$: is obtained through statistic subjects and a normal distribution table.

So, statistic population of this study includes 184 banks and credit & financial institution all over the province, and then this digit reaches 40, after putting into the above formula. Hence the researcher distributes a questionnair among statistic samples.

D. Method of Collecting and Analyzing data

In this research we applied a library and cycle questionnaire for collecting data which is one of the most common ways for data gathering. To determine efficiency of data in financial reports and statements presented by companies and used by banks and other credit institutions, a questionnaire is provided. Questions of the questionnaire are closed-ended, and at the final part, it is requested to added additional remarks related to the subject by respondents. In this paper, with regards to objectives, kinds of variables, hypotheses and qualitative information of (data and studying variables), both $(x)^2$ and statistic method of p-value are used to decide on H. the questions are so developed that they measure respondents ideas in order to determine stability of studying tool. The numbers of items are considered low not to cause fatigue. So, it is recommended to avoid including many items, using vague questions, negative choices and scientific idioms and notions. Finally, it is confirmed through consulting instructors, as a result, it is tested over a number of banks and institutions..

E. Statistic Methods and results from test of study hypotheses

Managers of loans office in banks and other credit institution rely on financial statements in order to grant loans.

H_0 : There is no meaningful difference among frequencies distribution.

H_1 : There is a meaningful difference among frequencies distribution.

Computations related to $(x)^2$ test, at first hypothesis, are as following (table no.1).

As found through *Table. 1*, $(x)^2$ is 16 for first hypothesis and the value is greater compared with value of $(x)^2$ as 4 in

level of 5% that is 9/49. So H_0 is denied and H_1 is accepted. Now, regarding this fact that frequencies distribution is more than other frequencies, so positive view is winner.

Therefore, managers of loans office in banks and other credit institution rely on financial reports and statements presented by companies, that is, the first hypothesis has been accepted and the percentage of error is5% , so H_0 is denied, and H_1 is accepted.

* Second hypothesis testing using $(x)^2$ and p- value:
Second hypothesis:

The managers of loans office in banks and other credit institutions have enough knowledge to analyze information of financial reports and statements presented by companies. Computations related to $(x)^2$ test are as *Table. 2*.

As found through *Table. 2*, the value of chi- square is 51 for second hypothesis, this value is greater compared with value of $(x)^2$ as a degree of freedom 4, at the level 5% that equals to 9/49. So H_0 is denied and H_1 is accepted. On other hand P- Value equals Zero on the table and is less then 5% percentage of error so H_0 is denied and H_1 is accepted.

That is, managers of loans office in banks and other credit institutions have enough knowledge to analyze data of financial reports and statements. Therefore, second hypothesis is accepted, too.

*Third hypothesis testing using $(x)^2$ and p-value:
Third hypothesis:

The managers of loan office in banks and other credit institutions relying on financial reports and statements and analyze them that decline the risk of granting loans.

H_0: There is no meaningful difference among frequencies distribution.

H_1: There is a meaningful difference among frequencies distribution.

Computations related to $(x)^2$ and p-value is shown as following *Table.3*

As shown from table (3), the value of $(x)^2$ equals 96/438 for third hypothesis which is greater than value of $(x)^2$ as a free degree 4 at level of 5% that is 9/49. So H_0 is denied and H_1 is accepted.

On the other hand, p-value equals zero on the *Table. 3* and is less than 5 percent of error so H_0 is denied and H_1 is accepted.

IV. GENRAL CONCLUSIONS AND SUGGESTIONS

In this study, some attempts are made in order to analyze the efficiency and use of financial reports and statements presented by companies for granting loans by banks and other credit institutions, it may indicate results to solve given problems causing not enough care to these reports and statements that cause not enough attention to analyzing.

Nowadays, credit and bank system plays worth role in our country. It has also special effect on development. The effect of bank system is so that both it can draw country in to economic growth and instant development and it can cause increasing inflation as well as decreasing economic growth. When allocating sources, commercial banks should always consider basic measures and laws of granting loans, also they should have all skills and standards to grant loans introduced by experts or professional associations. as well as they should try to decline the potential risks, and the most important way to decline these risks is to use financial reports ad statements presented by companies and analyze them.

It is so concluded that managers appointed to grant loans believe that using financial reports and statements can decrease the risk of granting loans (third hypothesis), and also the majority of individuals enjoy enough knowledge to analyze financial reports and statements that has been proved on second hypothesis. Also, it was clear that managers of loans office in banks and other credit institutions apply financial reports and statements in order to granting loans to companies (first hypothesis). One of the reasons of using statements and reports was that these ones enjoy acceptable certainty to managers of loans office; finally mentioned issues were proved with regards to findings of the study.

Through interviews with some of the managers of granting loans and related experts in commercial banks, it was identified that they applied both traditional methods, including four factors (reliability- technical qualification- financial capacity and credit power- security or financing) and values governing over the society and goals of banking system, they paid attention to financial reports and statements presented by companies, hence this led to relating a definition of accounting that:

Accounting is an informational system through which financial reports and statements, as final products of this system, are available for investors, shareholders, credit granters and other interest individuals to make proper decisions.

So, regarding to definition on accounting, we conclude that financial reports and statements can be very strong source of information for banks and other credit institutions.

V. RECOMMENDATIONS

Regarding the findings from the article, following recommendations are introduced, it seems these, hopefully, are analyzed deliberately so that they influence on improvements and developments in our country as possible as.

1) Promoting the culture of using financial reports and statement in our country as well as making every one familiar with definition of accounting.

2) Obligating all companies and commercial units such as private and governmental ones to provide consolidated financial statements as well as use standards set according to our country's economy.

3) Now, with regards to inflation condition of country, information of financial statements based on historical cost can't satisfies information needs of users, specially banks and other credit institutions. So, companies should be obligated to introduce adjusted financial statements based on index of public price level or current values, as well as report them as complementary financial statements to users.

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TABLE 1, 2, AND 3: HYPO1, 2, AND 3

N par Tests		**hypo1**	
Chi-square test			
Frequencies			
test statistics			

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test statistics

	Observed N	Expected N	Residual
1	6	16	-10
2	11	16	-5
3	19	16	3
4	27	16	11
5	17	16	1
Total	80	-	-

Chi – square	16
Df	4
Asymp.sin	.003

N par Tests **hypo2**

Chi-square test

Frequencies

test   statistics

	Observed N	Expected N	Residual
1	2	16	-14
2	11	16	-5
3	35	16	19
4	27	16	11
5	5	16	-11
Total	80	16	-

Chi –square	51
Df	4
Asymp.sin	0.000

N par Tests **hypo3**

Chi-square test

Frequencies

test   statistics

test   statistics

	Observed N	Expected N	Residual
1	8	32	-24
2	17	32	-15
3	53	32	21
4	70	32	38
5	12	32	-20
Total	160	-	-

Chi – square	96.438
Df	4
Asymp.sin	0.000