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Usefulness of Accounting Theory and Practices on Banking Sectors in Nigeria: Empirical Evidence from Basel Accord

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Abstract
The Nigerian banking sector has undergone thorough tremendous changes in the last decade, its financial stability and performance being paramount in the achievement of a stable and sustainable economic growth. Thus, the study examines usefulness of accounting theory and practices on banking sectors in Nigeria with empirical evidence from Basel Accord using time series data from 1983 to 2016. The study adopt regression analysis to empirically examine usefulness of accounting theory and practice on banking sector in Nigeria with and without implementation of Basel Accord. The study found that the implementation of Basel Accord 1 strengthens the effect of liquidity on the capital adequacy of Nigerian banking sectors and concluded that accounting practice and theory has positive effect on the Nigerian banking sectors. In view of this, it is recommended that Nigerian banking sectors should fully comply with the implementation of guidelines as specified in the Basel Accord I.
Keywords: Accounting practices, Accounting theory, Banking Sectors, Basel Accord.

1.0 Introduction

Accounting practice is the procedures and control that various organizations to create and record business transactions in order to produce consistently reliable financial statements. It is a routine in nature but complies with the accounting guidelines and policies. However, accounting theory and practice are used interchangeably as principle that guide business transaction in order to assess the financial stability, strength of the capital structure and the inner worth or the real worth of the business. In view of this, Emerson, Karim and Rutledge, (2010) confirmed that 20th century has witnessed a shift in the accounting practice, from the reporting entity unilaterally setting its own generally accepted accounting practice (GAAP) to an independent body/board setting the financial reporting standards, in a bid to satisfy the users of accounting information, and enhance the 'information to be disclosed and comparison need' of the financial statements. This shift is greatly in response to the dynamism in the business environment and it was partly responsible for the birth of the Accountants International Study Group (AISG) in 1967 and subsequently, the formation of the International Accounting Standard Committee (IASC) in 1973 eventually became the International Accounting Standard Board (IASB) in 2001 (Emerson, etal 2010).

The International Accounting Standard Board was established to develop and issue accounting standards that should guide the preparation and presentation of financial statements globally. Since the establishment of this Board, it has been able to issue not less than forty-one (41) statements or pronouncements bothering on sensitive accounting topics like depreciation, construction contract, deferred taxation, business combination, property plant and equipment (ICAN, 2010). In the year 2005, the Accounting world witnessed the widespread migration (adoption/adaptation) to a 'capital market-oriented financial reporting standards' i.e. the International Financial Reporting Standards (IFRS) (Epstein & Mirza, 2006). The adoption/adaptation of IFRS in 2005 made it the first time the services of IASB, are packaged to satisfy the need of direct client(s) i.e. International Organisation of Securities Commission (IOSCO), Basel Committee on Banking Supervision, International Association of Insurance Supervisors (Epstein & Mirza, 2006). The reason for the introduction was that IFRS should be the common denominator for companies that wish to be accepted for secondary listing into the International Stock Exchange (Epstein & Mirza, 2006).

The International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS) are a set of accounting standards that can be used to bring about uniformity in financial reporting on a global basis. IFRS is one of the accounting practices based set of standards as against the rule based standards which permits the judgement and subsequently choice of the reporting entity, on the accounting principles that best suit the reporting entity, provided they are within the stated allowable principle and practice of reporting finance and financial activities. However, the adoption Basel Accord in banking sector justify full compliance to some part of the IFRS which affect output of their financial statements and their performances. This corroborates to the

findings of Institute of Chartered Accountant England and Wales (2011) which shows that there are links between Basel accord and IFRS in the following areas valuation critical to measurement of capital, technical interaction of provisioning with internal models capital calculation, consolidated Financial Statements important to banking supervision, offsetting or netting rule and hedging among others. For instance the compliance of banking sector to the implementation of Basel Accord, various method of accounting practices of valuation are adopted such as fair value measurement, (as provided in IFRS 13), prudent valuation adjustments, amortisation of assets cost among others and this may significantly influence the ability to report profit of the banking sector and this is line with the findings of (Bessong & Charles, 2012).

In the light of this, the main objective of this study is to examine the determinants of capital adequacy of Nigerian banking sectors in the period of pre and post adoption of Basel accord in Nigeria. In line with this objective, the research question is how does the determinant factors have capital adequacy of Nigerian banking sectors? In consonance with this, the research hypothesis is formulated as; determinant factors have no significant effect on capital adequacy of Nigerian banking sectors during pre and post Basel accord in Nigeria.

2.0 Literature Review

2.1.1 Accounting Theory concept

Riahi-Belkaoui (2014), views accounting theory as 'a set of scientific hypotheses is a scientific theory if and only if it refers to a given factual subject matter and every member of the set is either an initial assumption or a logical consequence of one or more initial assumptions'. In the same token, Unegbu (2014), opines that some accounting theories are either rejected or accepted or continually being revised or modified in other to keep the pace with the increasing complexity of business operations and risks. Knowledge of accounting theory equips a person to exercise independent judgement with confidence besides enabling him to react according to the circumstances. Accounting theory literature is useful to accounting policy makers who are interested in making the accounting information useful. Empirical evidence and investigation can be used and incorporated by the policy makers in formulating accounting policies. Theories are helpful as they apprise policy makers of the underlying issues and clarify the trade-offs implicit in various theory approaches.

2.1.2 Accounting Practices Concept

Accounting practice is the procedures and control that an accounting department uses to create and record business transactions. Accounting practice should ideally be extremely consistent, since there are large numbers of business transactions that must be dealt with in exactly the same manner in order to produce consistently reliable financial statements. It is routine in nature but complies with the accounting guidelines and policies. Auditors rely on consistent accounting practice when examining a company's financial statements. On a deeper level, to remain competitive while adhering to certain standards of business conduct, accounting practices will implement accounting systems. These systems help gather, store and process financial and accounting data that is used by decision makers throughout an organization. Accounting practices and attached systems produce financial reports can be used by management and external users including other stakeholders like investors, creditors, tax collectors, e.t.c. Accounting information systems, when paired with accounting practices, are designed to support all accounting functions and activities including auditing, financial accounting and reporting, management accounting and tax.

2.1.3 Banking Sector in Nigeria

Banking sector are financial intermediaries that intermediate between the ultimate lenders and ultimate borrowers (Jhingan, 2009). Funds flow from ultimate lenders to ultimate borrowers either directly or indirectly through financial institutions. The essential function of banks as a subset of financial institutions in the financial system is to satisfy simultaneously, according to Gurley and Shaw (1960) as cited by Jhingan (2009), 'portfolio preferences of two types of individuals or firms. On the one side are borrowers who are nonfinancial (deficit) spending units. Their principal function is to produce and purchase current output and not to buy one type of security by issuing another'. They wish to expand their holdings of real assets like inventories, real estates, plant and equipment e.tc. They finance these by issuing what Gurley and Shaw term primary securities.

The banking sector in Nigeria has the Central Bank of Nigeria called the Apex bank as the monitor, supervisor and regulator. There are deposit-money banks in form of Commercial banks, merchant banks, development banks/ specialized banks and Micro finance banks. Other non-banks financial institutions like discount houses, finance houses abound. They also play dominant role in the financial system. Banking sector is premised on the fact that they are the foremost channel of savings and allocations of credits in an economy (Ariccia & Marquez, 2004). Nigerian banking sector is very important to the developments of the economy. It is responsible for financing the real sector of the economy. However, because of the nature of their deposits, to avoid portfolio mismatch most of the deposit- money banks engage in short term lending.

2.1.4 Capital Adequacy Concept in Nigerian Banks

The impact of adequate capital on banks' performance cannot be over-emphasized since it will automatically influences the quantum of funds available for investments, which in effect affects the degree of sustainability to absorb shocks in term of risks. Gardner (1981) in Hassan and Bashir, 2004) as cited by Jalloh (2017), stressed that 'despite its many roles and diverse functions, it is clear that bank capital is acting as a protective cushion against losses precipitated by certain kind of uncertainties.' Enhanced capital base helps to avoid over trading and curbing malpractices by the managements. Prudent guidelines of the capital adequacy system have an impact on bank capital, costs and profitability. Adequate capital creates an opportunity for better standards in any business establishment and this will improve business performance. Deposit money bank are encouraged to maintain a higher level of capital which is commensurate with their risk profiles. The existing definition of the constituents of capital, deductions from total qualifying capital and restrictions within and between primary (Tier 1) and (Tier 2) capital are generally consistent with Basel accord.

The importance of capital adequacy lies in helping to spread the cost of prudent business conduct and deters the criminally minded.

2.1.5 Implementation of Basel Accords in the Nigerian Banking Sectors

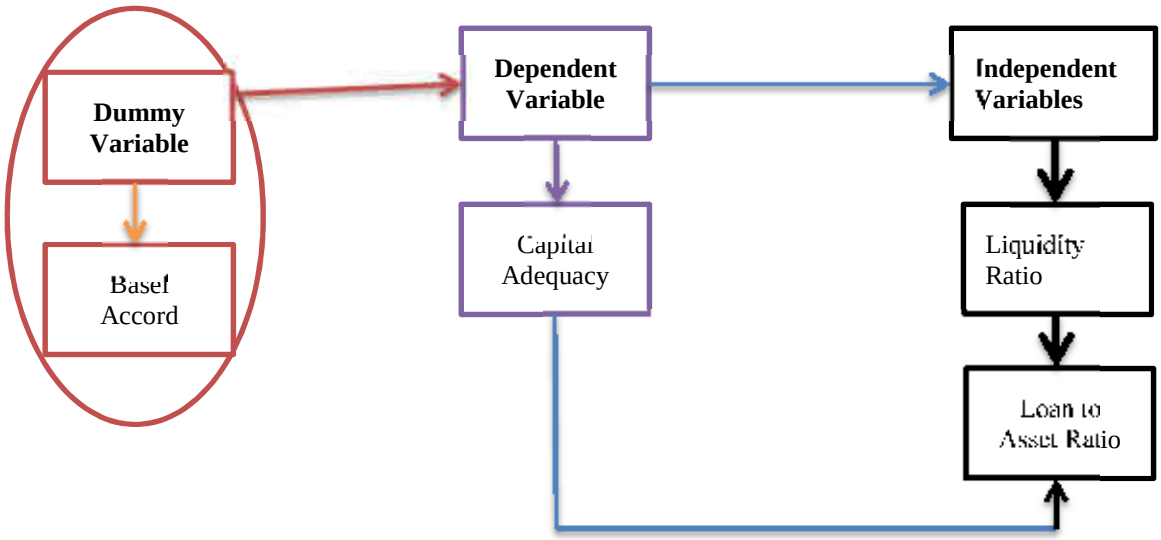
Basel Accords are series of recommendations for the regulation of banking industry internationally. They prescribe standards accepted globally for improving banks' ability to absorb economic and financial shocks, improving risks management practices in banks, strengthening transparency and disclosure requirements for banks and have been adopted by more than 140 countries worldwide. The Basel Committee on Banking Supervision (BCBS) has since inception, introduced three guidelines, each of the subsequent ones seeking to review the previous in line with global best and more recent market realities and practices.

Basel 1 Accord came into effect in 1988. It is known as Capital adequacy Accord because its main thrust focused on ensuring the stability of international banking systems by addressing the inequalities resulting from the variations in capital adequacy requirements for banks in different jurisdictions. It provides a minimum capital ratio of capital to risk weighted assets of 8 per cent (that is, banks are required to maintain in their reserve at least 8 per cent of the value of their off balance sheet exposures). There were amendments to Basel 1 in 1991 and 1996 respectively to deal with issues of bilateral netting and market risks.

The Basel II Accord commonly referred to as 'measurement of capital and standards framework of 2004' expanded its focus to include internal assessment procedures to determine capital adequacy compliance and external disclosure requirements to encourage continued improvement in risk measurement and control. It introduced a systemic framework for assessing credit, market and operational risks. The Basel II Accord still retained the minimum capital ratio of 8%of risk-weighted assets as provided in Basel I but required banks to rely on standardized assessment methodologies of external rating agencies in the calculation of their risk weighted assets. Basel II uses a three pillar concept of minimum capital requirements (addressing risk), supervisory review and market discipline to promote greater stability in the financial system. The first pillar deals with maintaining a regulatory capital calculated for three major components of risks that a bank faces: credit risk, operational risk and market risk. Other risks are not considered fully quantifiable at this stage. The second pillar deals with a regulatory response to the first pillar. It also provides a framework for dealing with all the other risks that a bank may face such as systemic risks, pension risks, concentration risks, strategic risks, reputation risks, liquidity risks and legal risks which the accord combines under the title of residual risks. It gives banks the power to review their risk management systems (Olalekan & Adeyinka, 2013; Van-Greuning & Bratanovic, 2009).

The Basel III Accord establishes more stringent capital requirements, tripling the amount of capital banks must keep on hand to absorb losses during financial crisis. It also requires banks to maintain higher common equity than before, including a capital conservation buffer of 2.5% of their assets. Basel III introduced tighter capital requirements in comparison to Basel I and Basel II. Banks' regulatory capital is divided into Tier 1 and Tier 2 while Tier 1 is subdivided into common equityTier1 and additional Tier 1 capital. The distinction is important because security instruments included in capital have the highest level of subordination. Common Equity Tier 1 capital includes instruments that have discretionary dividends and no maturity, while additional Tier 1 capital comprises securities that subordinated to most subordinated debt with an original maturity of at least five years.

2.1.6 Accounting Theory and Practices on Banking Sectors in Nigeria



Source: Authors' Accounting Theory and Practices on Banking Sectors in Nigeria Model

2.2 Theoretical Framework

The study is anchored with three theories comprised normative theory, anticipated income theory and the stakeholders' theory.

2.2.1 Normative Theory

Deductive approach to formulation of theory begins with propositions and assumptions and finally ends with logical conclusion about the subject under consideration. It helps in developing new accounting practices keeping pace with the dynamic world. It stresses on 'what ought to be done'. It helps in formulating normative theories, which helps in solving crucial problems of accountants. It guides accountants towards better accounting practices. It suggests what an accountant 'should do' rather than explaining 'what he does' It aims towards full disclosure of the information to the users to safeguard their interest in the firm. The method of formulation of Normative theory involves determining the objective of preparing financial statement, assumptions or postulates are made, new principles are evolved on the basis of those postulates and new accounting techniques are derived from such principles. The deductive approach or theory made under this approach is compatible with changing circumstances. It is also useful when logic is necessary for building up new models. Another area where normative approach can be helpful in the current economic and business scenario is social accounting (Bassam, Peter & Christopher, 2006).

2.2.2 Anticipated Income Theory

The theory explains the theoretical underpinning as it relates to banks' performance. The theory depends on the loan and advances portfolio as a liquid source. The theory recognizes that liquidity can be structured according to maturity profile of the banks' assets and liabilities. Mis-match of banks' portfolio should be avoided. The major drawback of this theory is in installment loan and advances repayments. Since installment loan

repayments provide a regular flow of liquidity, they may not be adequate for meeting unstructured contingencies in terms of cash requirements in the banking sector. Bosede, Olowe and Uwuigbe (2013) as cited by Jalloh (2017) opine that banks' managements need to maintain some capital as cushion to absorb uncertainties in the business environment.

The stakeholder Theory

This theory is of organization management business ethics that addresses morals and value in managing an organization (Freeman 1994). The theory identifies and models the groups which are stakeholders of a corporation, and both describes and recommends methods in which management can give due regard to the interests of those groups. The theory attempts to address the 'principle of who or what really counts.'

2.3 Empirical Review

Podpiera (2004), examined the relationship between compliance with Basel core principles for effective banking supervision, introduced in 1997 by Basel Committee on Banking Supervision, and performance of banking sector. The study found that compliance with Basel Core Principles has positive impact on banking sector performance. The study concluded that Basel Core Principles aim to strengthen quality of banks regulation and supervision by setting twenty-five principles for effective supervision system, capital adequacy requirements, information requirements and accounting standards. The study recommends that Basel II promotes the adoption of minimum capital adequacy standards, empowering supervisory agencies, and strengthening market discipline mechanisms. In a similar study, Lin, Penm, Garg and Chang (2005) conducted a study on the pre- and post-implementation stages of capital adequacy in Taiwan's banking industry. The study found that there is a significant positive relationship between capital adequacy and financial performance, thus, after the implementation of the new regulatory measures, banks financial performance has improved. Moreover, there is a significant positive relationship between capital adequacy and insolvency risk index, and they argue that in context of capital management, when capital adequacy management tends to be strict this will lead banks to take greater risk. The study concluded that the relationship between insolvency risk index and financial performance is significantly negative relationship. Also, Barth, Caprio and Levine (2008) examined the regulatory environment in the banking systems of 142 countries. The study tests whether the changes in the regulatory reforms in order to comply with the regulatory framework of Basel Committee improve development, efficiency and corruption in lending. The study concluded that there is an improvement and better reformation as a result of the regulatory environment.

Naceur and Kandil (2009) examined the impact of imposing minimum capital adequacy ratio on banks' performance using two measures of performance: cost of intermediation and profits during the period 1989-2004, while controlling for the effect of bank-specific and macroeconomic variables on cost of intermediation and bank profits in Egypt. The study found that higher capital requirements have a positive impact on banks' profitability. The study concluded that higher capital-to-assets ratio, an increase in management efficiency (measured by ratio of earning assets to total assets), and a reduction in inflation are experienced by banks after post-capital regulations period. Cosimano and Hakura (2011) conducted a study on bank behavior in response to Basel III. The study found that higher lending rates because higher capital requirements lead to higher cost of

funding. The study recommend that when banks increase their equity-to-asset ratio by 1.3 percent points, they will increase their lending rates by 16 basis points and their loan growth in the long run will decrease by 1.3 percent.

Olalekan and Adeyinka (2013) conducted a study on effect of capital adequacy on profitability of deposit money banks in Nigeria. The study adopt Ordinary least squares (OLS) estimation technique for examining the effect of independent variables/loans and advances (LA)- shareholders' funds, total assets and customer deposits- on dependent variables-earnings per share (EPS) standards exerted a major influence on a banks' performance. The study found that the impact of the Nigerian monetary authority on new capital requirements was complemented by the adoption of Basel Accord Framework. The study concluded with the recommendation that the CBN should not rely solely on capitalization of banks as a determinant of banks' performance but should also concentrate on efficient and effective bank supervision and risk management. Gavalas and Syriopoulos (2014) conducted a study on Basel III and its Effects on Banking Performance with an emphasis on investigating lending rates and loan quantity. The study found that there are differences in loan demand elasticity and an increase of 1.3 percent point in the capital ratio implies decrease in the volume of loans by 4.97 percent for banks in countries that experienced a crisis and by 18.67 percent for banks in countries not experiencing a crisis. The study adopted simultaneous equations model in a sample of 594 banks in the European Union during the period from 2006 – 2011, and found that level of loans is decreased by 2 per cent only because first, lending rates are increased by only 18.8 basis points for one percent point increase in the capital ratio, second, most of the European banks are already complying with the capital requirements, and third the elasticity of demand for loans is low in the EU.

From the literature reviewed, it was found that most of the studies made were conducted in Abroad and very few studies exist in Nigeria country on examination of Basel accord in the Nigerian banking sector. Based on this, there is a need for further research in this area and this justify the importance of this research using time series data.

3.0 Methodology

Expos-facto research design is adopted in this study which is characterizes with quantitative or numeric description of historical data. The total population of this study comprises of 21 banks (which is used as proxy of Nigerian banking sector) that are currently functioning out of 89 banks which were in existence as at December 2004, following the recapitalization exercise. The 89 commercial banks also is an off-shoot of the 110 banks that emerged after the liberalization of the financial system in 1986 (Somoye 2008). The sample for this study was drawn through census and the data employed is time series data which were extracted from the Central Bank of Nigeria Statistical Bulletin from 1983 to 2016. The model specification incorporates liquidity variable and capital adequacy variable. The models are specified below:

$$CAR_t = \pi_0 + \lambda_1 LDR_t + \lambda_2 LOA_t + \varepsilon_t \quad (1)$$

$$CAR_t = \pi_0 + \lambda_1 LDR * BSA_t + \lambda_2 LOA * BSA_t + \varepsilon_t \quad (2)$$

Where CAR is the capital adequacy ratio, LDR represents Liquidity ratio, LOA is the loan to assets ratio, λ_1-λ_2 represent the coefficients of the variables, ε represents the error term, π_0 represent the constant, t is the time frame in the study. The capital adequacy was adopted in this study as one of the popular measure of banks'

performance represented by CAMEL approach which is derive from five main segments of a bank operations; Capital adequacy, Asset quality, Management quality, Earnings ability and Liquidity. It is also one the most important aspect emphasised in the Basel Accord. The table below shows how the variables are mesuredin this study.

Table 1: Measurement of Variable

S/N	Variables	Types of Variables	Measurement	Source
1	Capital adequacy	Dependent	Equity divided by total asset	Romana, and Sargu, (2013)
2	Liquidity ratio	Independent variable 1	Index	CBN Statistical Bullletin (2016)
3	Loan to asset ratio	Independent variable 2	Loan divided by total asset	Dufera (2010)
4	Basel Accord	Dummy Variable	Taking 0 for pre-adoption and 1 for post- adoption	

Source: Authors' computation

4.0 Results

4.1 Descriptive Statistics

The researchers employ various statistics to examine the shapes of the distribution of these data and to check whether the data series follow a Gaussian process. The statistical description is based on mean, maximum, minimum, standard deviation, skewness, kurtosis, and Jarque-Bera statistics, while the visual description centres on line graphs. Table 2 gives the results of the statistical method.

Table2: Statistical Description of Data

Statistics	CAR	LDR	LIR
Mean	0.028650	67.00333	0.386255
Median	0.019397	67.76250	0.378677
Maximum	0.132737	85.66147	0.659766
Minimum	0.004405	38.00000	0.266409
Std. Dev.	0.034422	12.67117	0.076011
Skewness	1.961600	-0.542934	1.288142
Kurtosis	5.654076	2.577224	6.191178
Jarque-Bera	31.78380	1.923620	23.82954
Probability	0.000000	0.382200	0.000007
Observations	34	34	34

Source: Authors' computation

As shown in table 2 above, it is remarkable that both the median and average values are positive in each case. I also observe that there is a significant margin between the median and mean. This means these variables displayed an increasing tendency through the period of investigation. More so, the liquidity ratio has the highest volatility as shown by the coefficients of the standard deviation. Coefficient of skewness in each of the variables is approximately larger than zero except for liquidity ratio indicating that all the variables are positively skewed,

and asymmetric in nature except liquidity risk ratio. This simply means throughout the sampling period, the raw data exhibit much more low values than high value except liquidity risk ratio. The kurtosis values show that capital adequacy has low volatility of volatility, and it is plytokurtic, with flat tail, while liquidity ratio and loan to asset ratio are leptokurtic with high volatility of volatility. This leptokurtic characteristic suggests that in future time, these variables would manifest high values or there would be occasional outliers in the future. The JB statistic of liquidity ratio is large with probability value larger than alpha value at 5 per cent, this implies that the distribution pattern is normal while the distribution pattern of loan to asset and capital adequacy is not normal.

4.2 Correlation Matrix

The correlation matrix simply reveals the direction of movement between capital adequacy and liquidity of banking sector in Nigeria. The result is presented in Table 3 below;

Table 3: Correlation Matrix

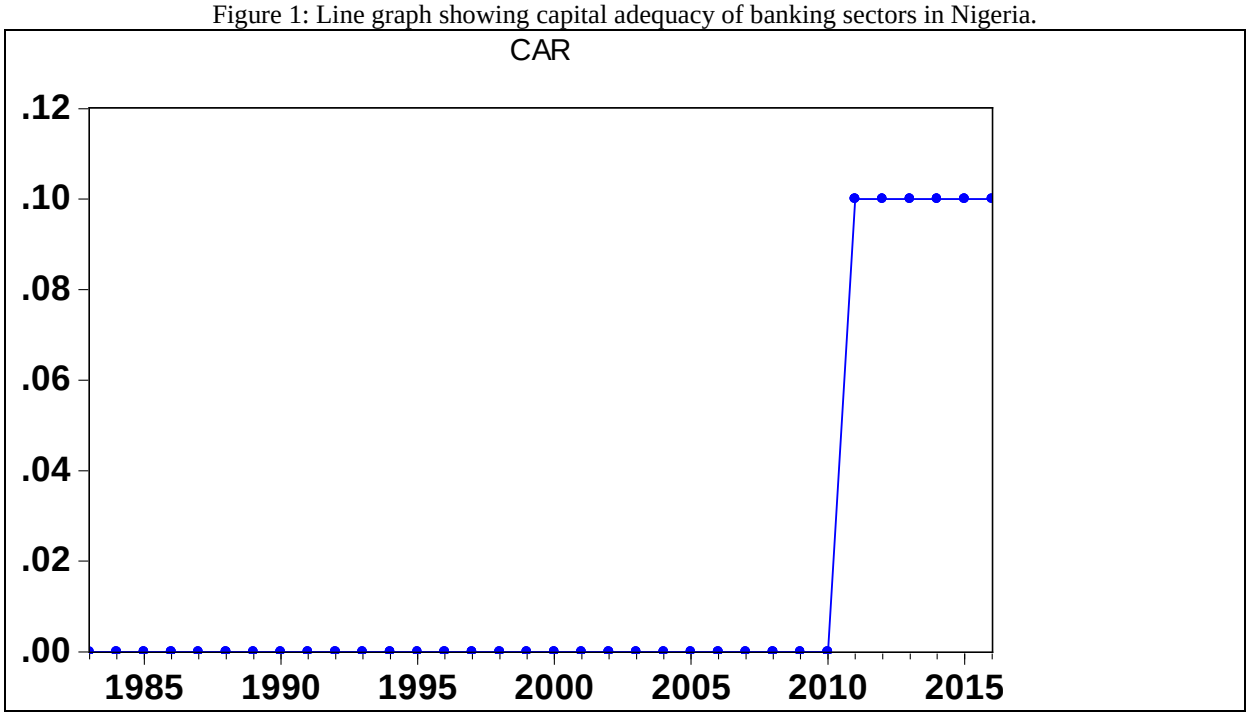
Variables	CAR	LDR	LIR	BSA
CAR	1	-0.3424	0.1963	0.6113
LDR	-0.3424	1	0.4989	-0.2024
LIR	0.1963	0.4989	1	0.3069
BSA	0.6113	-0.2024	0.3069	1

Source: Authors' computation

In table 3 above, the interpretation of the Pearson correlation would follow Guilford rule of thumb which is < 0.2 is a negligible correlation, 0.2 to 0.4 is low correlation, 0.4 to 0.7 is a moderate correlation, 0.7 to 0.9 is a high correlation, > 0.9 is a very high correlation. The matrix shows that the correlation coefficient between capital adequacy and liquidity ratio is -0.3424, while capital adequacy and loan to asset ratio is 0. 1963. These values reveal that there is weak correlation between capital adequacy and liquidity of banking sectors in Nigeria. However, these weak correlation coefficients reveal that there is absence of multi-collinearity. In addition, the researcher uses line graph to illustrate the pattern of these data and the results are shown below;

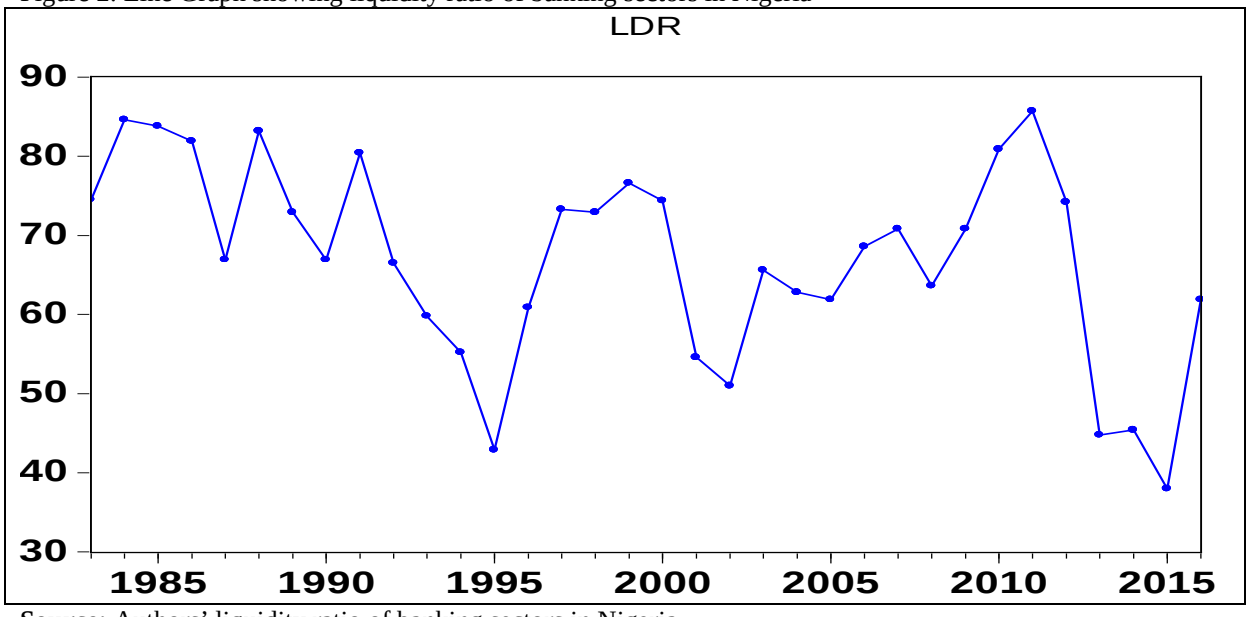
In figure 1, visual evidence shows that capital adequacy has been very low and stable from 1983 to 2010 but increases sporadically from 2010 to 2011 and remains stable from 2011 to 2016. This implies that since the adoption of Basel Accord 1 in 2004, the full complaints to this rule was effective in 2010 and since then the banking sectors have not yet fully adopt the Basel accord 2.

Figure 1: Line graph showing capital adequacy of banking sectors in Nigeria.



Source: Authors' Capital adequacy of banking sectors in Nigeria.

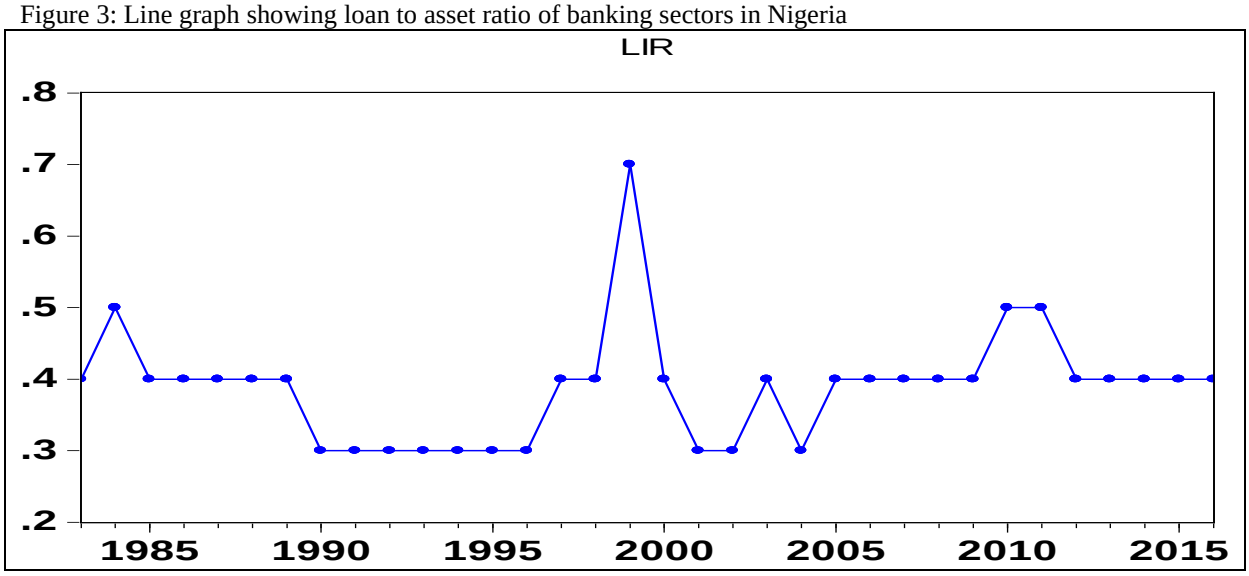
Figure 2: Line Graph showing liquidity ratio of banking sectors in Nigeria



Source: Authors' liquidity ratio of banking sectors in Nigeria

In fig. 2 above, visual evidence shows that liquidity ratio has been increasing and falling intermittently. In 2011, liquidity ratio of the banking sector reached the peak and fell immediately in 2012. The liquidity ratio also rises in from 2015 to 2016.

Figure 3: Line graph showing loan to asset ratio of banking sectors in Nigeria



Source: Authors' loan to asset ratio of banking sectors in Nigeria

From the fig.3 above it is clear that the loan to asset ratio of banking sectors in Nigeria is highly unstable. However, it increased immediately and got to the peak in 1999; fell again, but remain stable since 2012.

4.3 Regression Results

The regression results are estimated based on the two model specification in the methodology. The first model is estimated without the interaction of Basel Accord and the other model is estimated with interaction of Basel Accord.

Table 4: Dependent Variable (Capital Adequacy)

Variables	Coefficients	Probability	Coefficients	Probability
C	0.046949	0.2157	-0.000632	0.9044
LDR	-0.001490	0.0095	-0.003366	0.0000
LIR	0.181674	0.0396	0.631878	0.0000
R-squared	0.219625		0.637729	
Adjusted R-squared	0.169278		0.614357	
F-statistic	4.362237		27.28563	
Prob(F-statistic)	0.021414		0.000000	

Source: Authors' computation

The table 4 above shows the result of the specified models. The result shows the determinant of capital adequacy before and post adoption of Basel accord in the Nigerian banking system. The result of the model before the adoption of Basel shows that the coefficient of determination is 0.2196 which implies that 21.96 per cent of the explanatory variables (liquidity ratio and loan to asset ratio) account for changes in the dependent variable (capital adequacy). Also the liquidity ratio has negative but significant effect on capital adequacy of the Nigerian banking sectors while loan to asset ratio exert positive and significant effect on the capital adequacy of the Nigerian banking sectors. Probability of F-statistics is less than 5 per cent which implies that the model is statistically fit. In the same token the result of the model when Basel accord is adopted by Nigerian banking sectors reveal that the coefficient of determination is 0.6377 which implies that 63.77 per cent of the explanatory variables (liquidity ratio and loan to asset ratio) account for changes in the dependent variable (capital

adequacy). This show that the interaction and implementation of Basel accord by the Nigerian banking sectors increased the explanatory power of the coefficient of determination. More so, liquidity ratio has negative but significant effect on capital adequacy of the Nigerian banking sectors while loan to asset ratio exert positive and significant effect on the capital adequacy of the Nigerian banking sectors. Probability of F-statistics is less than 5 per cent which implies that the model is statistically fit.

4.4 Discussion of Findings

The increase in the level of explanation of the independent variables to the dependent variable from the pre period to the post period is 0.445079. This difference in the cumulative correlation results for pre and post Basel Accord which is an indication that the banks liquidity explained capital adequacy better after the adoption of Basel Accord one in Nigeria. The impact of Basel Accord 1 adoption strengthens the effect of liquidity on the capital adequacy. This could be as a result of accounting practice through international financial reporting standard implemented to facilitate the measurement of bank liquidity which does not only focus on short-term ratio but also enable banks to carry out stock of high quality liquid asset which enables them to survive for 30 days stress scenario. This conforms to the objective of Basel Accord I to strengthen the soundness and stability of banking sectors and this is in tandem with a priori expectation or paradigm and the paradox is fixed in the Nigerian banking sectors. This finding conforms to the finding of Lin, etal. (2005), who found that after the implementation of the new regulatory measures, banks' performance improved. Also, the study found that liquidity ratio has negative but significant effect on capital adequacy of the Nigerian banking sectors and this also is in line with the finding of Lin, etal. (2005). More so, the loan to asset ratio exerts positive and significant effect on the capital adequacy of the Nigerian. This conforms to the finding of Cosimano and Hakura (2011), which explained that higher lending rates because higher capital requirements lead to higher cost of funding.

5.0 Summary and Conclusion

The study examines usefulness of accounting theory and practices on banking sectors in Nigeria with empirical evidence from Basel Accord using time series data from 1983 to 2016. The study adopt regression analysis to empirically examine usefulness of accounting theory and practice on banking sectors in Nigeria with and without implementation of Basel Accord which is limited to Basel Accord 1. Findings revealed that the implementation of Basel Accord 1 strengthens the effect of liquidity on the capital adequacy of Nigerian banking sectors. It is concluded that accounting practice and theory has positive effect on the Nigerian banking sectors. In view of this, it is recommended that Nigerian banking sectors should fully comply with the implementation of guidelines as specified in the Basel Accord I, II and III as this will improve their performance.

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