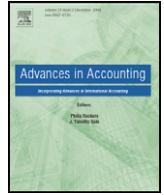




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The impact of the new OHADA accounting system on the judgments and decisions of Cameroonian bankers

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ABSTRACT

Cameroon and 15 other African States belonging to the Organization for the Harmonization of Business Law in Africa (OHADA) adopted the Uniform Act Organizing and Harmonizing Undertakings' Accounting Systems (SYSCOHADA) on March 23, 2000, which scuttled the OCAM accounting plan in favor of the new OHADA accounting system (SYSCOHADA). Companies were required to adopt SYSCOHADA for company accounts and consolidated accounts beginning on January 1, 2001, and January 1, 2002, respectively. The goal of this study is to compare the impact of the presentation format and informational content of both accounting systems on the judgments and decisions of bankers, and, more specifically, to find out whether the information contributed by SYSCOHADA has changed the judgments and decisions bankers made under the old OCAM accounting plan. To that effect, a field experiment was conducted with Cameroonian bankers using a within-subjects design. Significant differences were noted in bankers' underlying judgments (operating income, net income, cash flow, leverage, liquidity, and ability to raise capital) as well as in their initial judgments about profitability and financial structure. Conversely, no significant differences were noted with respect to other judgments and decisions, i.e. principal judgments about the overall risk rating and overall risk trend, the loan decision, and the interest rate to charge (risk premium). Further, the new statement of sources and applications of funds (SSAF) influenced their underlying judgments about operating income, leverage, liquidity, and ability to raise capital, as well as their initial judgments about financial structure.

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1. Introduction

The African member-states of the Organization for the Harmonization of Business Law in Africa (OHADA), adopted the Uniform Act Organizing and Harmonizing Undertakings' Accounting Systems (X, 2000) on March 23, 2000, which required that companies adopt the new OHADA accounting system for corporate financial statements covering financial years beginning on or after January 1, 2001, and for consolidated financial statements issued for the following year and beyond.¹ Cameroon, one of the organization's principal member-states, had been using the accounting system of the Joint African and Malagasy Organization (*Organisation Commune Africaine et Malgache*, or OCAM), which was developed in 1970 after the French accounting plan of 1957. The shift to the new accounting system would bring about content changes and a new format for conveying information to external users – in this case, the State, bankers, and shareholders.

Numerous behavioral studies in financial accounting indicate that sophisticated users (bankers and financial analysts) and non-professional investors alter their judgments and decisions when presented with a change in accounting information format and content (Harper, Mister, & Strawser, 1987; Hirst & Hopkins, 1998; Hopkins, Houston & Peters, 2000; Maines & McDaniel, 2000; Viger, Belzile, & Anandarajan, 2008). In view of these findings, it can be reasonably assumed that a change in accounting systems, as has occurred in Cameroon, affected the judgments and decisions of accounting information users in that country.

The aim of this study is to assess the impact of the new presentation and information content on the judgments and decisions of Cameroonian bankers, one of the primary user groups in the country.² More specifically, this study explores whether the information produced by the OHADA accounting system (SYSCOHADA) has caused Cameroonian bankers to take a different stand in their judgments and decisions as compared with those they formed on the basis of the OCAM plan.

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¹ Sixteen member-states were parties to the treaty for the Harmonization of Business Law in Africa in 2007. These countries are Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Ivory Coast, Mali, Niger, Republic of the Congo, Senegal, and Togo.

² Bankers are the main external financial statement users in Cameroon, given that most firms are family owned and the capital market is still undeveloped, having been in existence only since 1999.

The results of this research will enlighten the Cameroonian financial community about the impact of the new accounting system and be of interest to other OHADA member-states that formerly used the OCAM plan. This study augments the behavioral literature on the judgments and decisions of sophisticated accounting information users by focusing on the impact of concurrent changes in both presentation format and information content, whereas earlier studies examined these aspects only separately. Evidence will be provided that data on the impact of financial statement changes on judgments from studies in developed countries are valid for developing countries as well. The present research also reveals whether any effect on bankers' initial and underlying judgments extends to their subsequent judgments and decisions. Finally, the description provided of SYSCOHADA and its differences from the previous OCAM system will give insights into the development of accounting thought in one of Africa's major regions.

2. Literature review

Experimental research conducted within the communication paradigm in North America shows that user judgments and decisions are influenced by variations in accounting information content (use of different accounting methods or additions of information) and presentation. This effect has been observed in studies on both non-sophisticated users, i.e. students and non-professional investors (Belzile, Fortin, & Viger, 2006; Cooper & Selto, 1991; Elliott, 2006; Frederickson & Miller, 2004; Harper et al., 1987; Hodge, Jollineau Kennedy, & Maines, 2004; Maines & McDaniel, 2000), and sophisticated users, namely financial analysts and bankers (Belkaoui, 1992; Brooks, Scott, & Pearson, 1996; Danos, Holt, & Imhoff, 1989; Elliott, 2006; Goldwater & Fogarty, 1995; Harper et al., 1987; Hirst & Hopkins, 1998; Hirst, Hopkins, & Wahlen, 2004; Hopkins et al., 2000; Hopkins, 1996; Munter & Ratcliffe, 1983; Sami & Schwartz, 1992; Viger et al., 2008).

Behavioral research on changes in the format or information content of financial statements has rarely been conducted outside of North America. One exception is a study conducted in Singapore by Wilkins and Zimmer (1985), who investigated whether alternative accounting methods used by associated investment companies affected Singaporean lenders' assessment of borrowers' loan repayment ability. They concluded that lenders' judgments were significantly affected, but only because the alternative methods influenced some balance sheet indicators such as debt/equity ratios. In Nigeria, Asechemie (1992) examined whether including a statement of transactions in foreign currency (STFC) with financial statements had any effect on bankers' evaluation of a firm's stability, uncertainty, risk, and vulnerability. After looking at a sample of 46 subjects, including a few bankers as well as accountants and individual investors, he concluded that the STFC might have contributed incremental information content beyond the value added statement included in Nigerian financial statements. In Hong Kong, Kwok (2002) investigated whether reporting cash flow using the direct or indirect format in the cash flow statement affected bankers' credit assessment process. The sample of 20 participants included financial loan officers, academics and auditors, all of whom are considered sophisticated users. Using a verbal protocol analysis and a within-subjects design, the author concluded that despite including cash flow information in their decision-making process, the subjects ignored any information in the direct reporting format that was incremental to the data reported in the indirect format.

The preceding review of the impact of introducing format or content changes in financial statements points to significant effects on bankers' judgments and decisions, regardless of where the subjects live. However, the financial statement changes investigated mainly resulted from manipulating one format or information element. It remains to be seen whether the manipulation of several format and information elements in combination also has an effect.

Studies in Bangladesh, Jordan, Zimbabwe, Iran, and Saudi Arabia indicate that the balance sheet and the income statement are the most useful sections for annual report users, including loan officers/creditors (Abu-Nassar & Rutherford, 1996; Al-Razeen & Karbhari, 2007; Mirshekary & Saudagaran, 2005; Nicholls & Ahmed, 1995; Odhiambo & Simon, 1999). The statement of source and application of funds is also considered widely important, but to a lesser extent than other statements. Jordanian bankers in Abu-Nassar and Rutherford (2000) and Iranian bankers in Mirshekary and Saudagaran (2005) rated highly (4 or higher on a scale of 1 to 5, 5 being most important) several elements of the income statement and the balance sheet as well as the statement of source and application of funds. Ngangan, Saudagaran, & Clarke (2005) showed that users in developing countries rated financial and non-financial information in financial statements as more important than their counterparts in developed countries. Wamba and Tchamanbé-Djiné (2002) attested to the importance of financial statements for Cameroonian bankers in the credit lending decision process. Overall, these studies indicate that bankers in developing countries view financial statements as an important source of information.

In considering loan requests, bankers must assess the borrower's ability to repay the loan (Kemp & Overstreet, 1990). This process requires weighing many factors, including firm-specific information and economic considerations (Beaulieu, 1994; Treacy & Carey, 1998). It also involves studying financial and non-financial characteristics, e.g. quality of management or the position of the firm within the industry (Beaulieu, 1994; Berry, Faulkner, Hughes, & Jarvis, 1993; Treacy & Carey, 1998; Viger et al., 2008). Collateral and the firm's repayment history in previous loan cases are also considered (Beaulieu, 1994; Berry et al., 1993; Kemp & Overstreet, 1990; Treacy & Carey, 1998). Financial statements are essential to analyzing the firm's capital structure, solvency, liquidity, and profitability/cash flow (Beaulieu, 1994; Berry et al., 1993; Treacy & Carey, 1998). Some banks use formal credit risk rating models in which each rating's grade corresponds to particular criteria (Treacy & Carey, 1998; Viger et al., 2008). In Cameroon, banks do not seem to have developed such models, but their bankers use financial statements as the basis for their credit lending decision process, along with other criteria (Wamba and Tchamanbé-Djiné, 2002). Many of the major banks were established by French banks (Wanda, 2007), making it likely that credit granting processes in Cameroonian institutions resemble those of French banks to some extent. In comparing French and Bulgarian bankers, Stela and Karim (2007) found that both parties used similar decision criteria, but weighted and ordered the criteria differently. Their results suggest that culture plays a role in bankers' decision process, but does not affect the types of factors considered.

After interviewing 21 bankers from eight Cameroonian banks, Wamba and Tchamanbé-Djiné (2002) concluded that respondents focused most prominently on the firm's financial structure and profitability in their credit decision process by considering debt size, leverage/solvency, autofinancing capacity compared to debts (thus cash flow and liquidity), and return on assets. They also considered collateral value and the firm's portion of the project's financing, a factor that becomes less significant if the firm has a positive reimbursement record for previous loans. The importance of the clients' affairs with the bank is also considered in the decision process (Wamba and Tchamanbé-Djiné, 2002; Wanda, 2007). Company size (Wanda, 2007) and credibility gained from success in business affairs (Tchomba, 1997) are influential factors. Given that establishing interpersonal relationships (Kombou & Feudjo, 2007; Roudier & Chassagne, 2002) and confidence (Roudier & Chassagne, 2002) is important to Cameroonians, the quality of the banker-client relationship affects the credit granting decision process. In their analysis, the bankers assess the firm's credit risk and the interest rate to charge on the loan. This amount depends on the prime rate at their bank and the credit risk of the loan, which is assessed by

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