DISSAGREGATION OF OPERATING AND FINANCIING ACTIVITIES; IMPLICATIONS FOR FUTURE FORECAST OF FUTURE PROFITABILITY OF SOME SELECTED INSURANCE COMPANIES.
(A STUDY OF INSURANCE COMPANIES IN NIGERIA)

TOPE OJO
Bursary Department,
Federal Polytechnic,
Ado Ekiti, Nigeria.

BALOGUN, EMMANUEL OLANREWAJU
Department of Accountancy,
Federal Polytechnic,
Ado Ekiti, Nigeria.

ABSTRACT
*This paper examined the disaggregation of operating and financing company activities and the implication for forecast of future profitability of insurance companies. This attempts to examine how disaggregation of operating and financing of activities of insurance companies could affect the forecast of future profitability of the companies. Survey of five insurance companies in Lagos as well as their headquarters in the southwest geopolitical zone of the country was selected. Data were sourced using questionnaire and was analysed using regression analysis with SPSS 17 and z statistics were used to test the hypothesis. It was observed that b*efore disaggregation of financial statement, profit of the Insurance companies were concealed, thereby making it difficult for managers of the business to make useful decisions to improve forecast of future profitability of the business. The researchers therefore recommended that Insurance companies should disaggregate their financial statements into operating and financing activities so that management of the companies would be able to make decisions that would improve the profit of the business and through disaggregation, infrequent items that would bring about incremental in the profit of the business would be identified. This would also show how one item in one statement could relate to the other financial statement.

INTRODUCTION.

The history of insurance companies in Nigeria dated back to 1921, with the Royal Assurance company which was establish in Lagos and ever since then the insurance companies in Nigeria has been preparing their financial statement un-disaggregated (Olasehinde (2009).The financial statement of insurance company is used to disclose useful financial information about the activities of the insurance company to the external users of the insurance financial statement (Olasehinde 2009). Summary measures in the financial statement of insurance companies may not be sufficient enough to communicate all characteristics of the insurance financial statement information that may be needed by managers of the business for decision making of the insurance business.

Financial Accounting Standard Board 2008 in a paper set out the principles of presenting the financial statement of insurance companies in a manner that portrays a chosen financial picture of the entity's activities disaggregate information on the financial statement into the operating and financing so that it would make the prediction of the organisation future profit in the same ways in each of the statements, it was also difficult for users who wants to compare operating and financing activities of insurance companies.

Recent analytical accounting research his emphasised the important of disaggregating financial statements into operating and financing activities (Feltham and Ohlson 1995). This disaggregation is based on Ohlson (1995) equity valuation models which assume that financing activities are zero net present value activities and that financing assets/liabilities are typically reported close to market value of the balance sheet.

The Feltham and Ohlson 1995 valuation models has led to significant changes in valuation research and practise. Recent research on financial statement analysis has relied on the importance of this disaggregation in models of forecasting profitability (e.g. Nyssa and Penman 2001, Farfield and Yohn 2001, Ramnash and Yohn 2009) prior studies provided a structured approach to financial statement analysis based on this disaggregation (e.g. Penman2009: Lundholm and Swan 2006)the area of important aspect of this valuation model is it specification of the divers of future profitability and firm value which are important in arising useful statement disaggregation (Nissim and Penman 2009).

1.2 Statement of problem. Some of the problems militating against insurance companies in the preparation of financial statement before disaggregation of financial statement into operating and financial activities are: According to International Accounting Standard Board and US Financial Accounting Standard Board advisory financial statement presentation on financial statement presentation believed that financial statements aggregated inconsistently could make decision on incremental usefulness and investing in the business of insurance difficult achieve because users would not be able to understand how information in one statement relates to information on the other statements, also identification of infrequent items which often analysed an entity's financial performance independently of it capital structure would be wrongfully stated (International Financial Reporting Standard foundation staff draft of exposure July2010) The old ways of preparing the financial statement before disaggregation of insurance company financial statement into operating and financing activities conceals profit of the insurance companies thereby making it difficult, for managers of the business to make decisions in the forecast of future profitability of the business(Olasehinde 2009).

1.3 Objective of the study.

This study is set out to examine the disaggregation of operating and financing activities: implication for forecast of future profitability of insurance companies. But shall in a more specific manner address the following objectives:

i. To establish the extent disaggregation of the financial statement into operating and financing activities would improve management decision in forecasting the future profitability of the business.
ii. To establish the extent disaggregation of financial statement presentation affect decision on incremental usefulness on how one item in one financial statement relates to the other information presented in the other statement.
iii. To determine whether disaggregation of financial statement into operating and financing activities could identify infrequent items that would analysed an entity

finance performance independently of it capital structure so as improve the forecast of future profitability.

1.4 Research hypothesis.

(i) **H_0**: Disaggregation of financial statements into operating and financing activities would not significantly improve management decision in forecasting the future profitability of insurance companies in Nigeria.

H_1: Disaggregating of financial statement into operating activities would significantly improve management decision in forecasting the future profitability of insurance companies in Nigeria.

(ii): **H_0:** Disaggregation of financial statement into operating and financing activities would have no effect on the decision on incremental usefulness on how one item in one financial statement relates to the other information presented in the other statement.

H_1: Disaggregation of financial statement into operating and financing activities would have effect on decision on incremental usefulness. On how one item in one financial statement would relates to the one in the other statements.

(iii) **H_0:** Disaggregation of financial statement into operating financial activities would have no significant influence in identifying infrequent items that is often analysed on entity financial performance independently of it capital structure..

H_1: Disaggregation of financial statement into operating activities would have significant influence in identifying infrequent items that is often analysed on entity performance independently of its capital structure.

1.5 Research questions.

The following research questions were formulated in other to achieve the research objectives of the study.

i. To what extent is the effect of disaggregation of financial statement into operating and financing activities improve management decision in forecasting the profitability of insurance companies in Nigeria.
ii. How would the disaggregation of financial statement into financing and operating affect the financial presentation format and how it would affect the decision to be taking by the organization?
iii. How would disaggregation of financial statement into operating and financial activities affect the return of equity of insurance companies in Nigeria?

1.6 Significance of the study.

This research would help the researchers to apply the knowledge in the practice of accounting to study how disaggregation of the financial statement of insurance companies into operating and financing activities so as to forecast future profit of the companies and also the study would be of benefit to the followings:

i. The shareholder of the company would be able to know how to improve their investments in insurance business so as to improve the forecast of future profitability.
ii. The Management would be able to plan ahead because they would be aware of the future forecast of the profit.

iii. The tax authorities would be able to charged insurance companies appropriately because there profit would increase.
iv. The employee of the organization would be able to contribute more to the organization because they know they would be well remunerated.

1.7 Scope of study.

The scope of the study central on the operation and financing activities of five insurance companies in Nigeria on the disaggregation's of their financial statements into operating and financing activities.

Review of related literature.

2.1 The operating and financial disaggregation.

The Boards of Financial Statement presentation discusses in paper states ''(a) an entity should disaggregates information in its financial statement in a manner that makes it useful in assessing the amount of timing and uncertainly of its future cash flows (FASB 2008 –2010). FASB Notes that users interested in future cash flow are primarily interested in information about (a firm's) earning rather than information on cash flow (FASB 1978; 13). Further, the Board's discussion paper suggests that forecast of income in future profitability are useful outcome measures for evaluating the effectiveness of disaggregating financial statements information.

With this disaggregation objectives in mind, the Board's current proposal requires that firms disaggregating the statements of comprehensive income and financial position into operating and financing activities similar to the classifications used by firms to present the statements of cash flow in accordance with Statement Of Financial Accounting Standard (SFAS) No 95 (FASB 1987). According to the Boards proposal, each firm would present subtotal on it financial statement summarising its operating and financing activities.

Regardless of the potential benefit of the disaggregation for financial statement users, it is widely accepted that the Board proposal could be very costly to prepare. Investors and other users could also incur cost as a result of the claims that users might face more complex financial statements as a result of the proposed change collectively. These potential cost warrant on empirical investigation of benefit likely to accrue to financial statements users, one of the key potentials benefits of the proposed disaggregation is improved profitability forecasting.

Building from the residual income valuation model, Feltham and Ohlsan (1995) demonstrates that the potential usefulness of a valuation model that separately accounts for operating and financing activities. They distinguished operating profitability from the profitability of financing activities for firms valuation where operating activities relates to the raising or disposition of cash used for operations. The Feltham and Ohlson (1995) valuation model express form value as a function of current Book Value (BV) and future net operating assets (NOA) and return in net operating assets.

In related discussions, Modigliani and Miller (1958) as well as Feltham and Ohlson (1995) argued that accounting principles systematically under value operating income with the appropriate measure financing income. According to Feltham and Ohlson (1995) proposal, a valuation model where form value is driven by future Return on Net Operating Activities (RNOA) in this model Net Financing Assets (NFA) are valued Naira for Naira and Return on Net Financing Assets (RNFA).

The model suggests that the persistence of operating and financing activities should differ because financing activities are zero net present value activities and therefore that Return on Net Financing Activities (RNFA) should be forecasted to be relatively constant and equal to the cost of capital for debt. On the other hand, the implications of current Return on Net Financing Activities (RNOA) for future profitability should be more pronounced and its persistence should depend on level of accounting conservation as well as the strategy and ability of the company in generating future abnormal profit from operating activities. Thus the model suggests that operating and financing are differentially persistent.

The disaggregation of financial statements into operating and financing activities has been accepted as a fundamental norms in financial statements analysis research (Nissim and Penman 2001; Farfield and Yohn 2001; Sohman 2008; Farfield et al 2009) equally Penman 2009, Hoodlolm, and shooters 2009 recommended that operating and financing disaggregation for profitability forecasting and firm valuation.

Recent research has examined the information consent of the operating 21 financing disaggregation in a valuation contest; and the research presents mixed evidence at best; Beaver (2002) note that various analytic assumptions of the Feltham and Ohlson (1995) model such as Linearity properties and the consistency of the co-efficient) have been underlined by empirical investigation. Callen and Sigel (2005) found limited support for Feltham and Ohlson (1995) disaggregated valuation model over and Ohlson (1995) aggregated model, and also find that Feltham and Ohlson (1995) models fails to outperform the aggregated Ohlson 1995 model in year ahead price predictions. In addition, there is no evidence in the usefulness of the operating and financing disaggregation for forecasting profitability.

Given the limited evidence of the usefulness of the operating and financing disaggregation for explaining stock price and given Board's stated goals of proving financial information that is useful for forecasting future for profitability, before there is a strong need for empirical evidence on the usefulness of disaggregating financial statement into operating and financing activities for forecasting.

2.2 Reporting unusual and/or infrequent items.

In accordance with Universal General Accounting Principles and Practice (GAAP), Financial Accounting Standard Board (FASB 1973, 6) if an income item is both unusual in nature and not expected to recur in the foreseeable future then, it is classified as an extraordinary item. Current US GAAP requires extraordinary items to be presented separately below income from continuing operating operations in the income statement. Income items that are unusual in nature or not expected recur to but not both (hereafter referred to as special items) are currently received to be presented separately on the income statement above income from continuing operations.

However, International Financial Reporting Standards (IFRS) do not allow firms to disaggregate unusual and/or infrequent items on the income statements and the IASB has traditionally been strongly opposed to the adoption of the unusual and/or infrequent disaggregation.

Prior research supports the notion that extraordinary items and special items are less likely to recur in the future. Fairfield et al (1996) suggest that extraordinary items should be assigned zero weight for forecasting Return On Equity (ROE) and that special items should not be weighted when forecasting Return On Equity (ROE) before special items and only assigned a small position weight when forecasting Return On Equity (ROE). Dechow and Gee (2005) arrived that a similar position conclusion by suggesting that special items draw the differential persistence of accruals and operating cost flow, to the extent that firms do not opportunistically report special items. Farfield et al (2009) also provides evidence in favour of distinguishing special items from other income items on the income statements.

Analyst also appears to find the classification of extraordinary items and special item to be informative for forecasting future profitability. For example, Bradshaw and Sloan (2002) and Christensen Merkley, Tucker and Venkatraman (2009). Note that analysts track strife earnings which exclude unusual and/or infrequent items to be less likely to recur in future period. These and other studies support the separate presentation of unusual and/or infrequent items on the income statements. In contract, Mevay (2006) suggests that manager employs this classification to many earnings, which is inconsistent with the usefulness of this item in forecasting. Furthermore, the unusual and/or infrequent disaggregation is by definition likely to apply to fewer firms than the operating and financing disaggregation, for example, in our sample of computer firms years with large absolute values of Net Future Assets (NFA) only 12.80% report extraordinarily items 30.16% report special items and 32.26% report extraordinary item or special items. Therefore the operating and financial disaggregation will affect the presentation of the income statements for more forms than the unusual and/or infrequent disaggregation.

With respect to the unusual and/or infrequent disaggregation, the boards have recently oscillated in their decision concerning whether to require Decision since Z- test calculated = 6.81>1.96 z-test value at 5% significant value we reject null hypothesis and accept the alternate hypothesis.

Firms to disaggregate unusual and/or infrequent items on the income statement as currently named by universal General Accounting Accepted Principles (GAAP). For example, in the Boards March 10, 2010 meeting (FASB 2010 3).

The Boards affirmed (their) prior tentative decision that an entity should not present the effects of extraordinary unusual and infrequently occurring events and transactions as a financial category in the statements of comprehensive income as currently required under Financial Accounting Standard Board codification Subtopic 225-20 (originally, issued as APS opinion No.30). In contrast, in the Boards of April 22, 2010 meeting FASB 2010b: 2), the Board stated that universal General Accounting Accepted Principles (GAAP) currently required the presentation of unusual or infrequently occurring items in the statements of comprehensive income and disclosure of related information in the notes to financial statements. However, International Financial Reporting Standard (IFRS) does not have similar requirement. The Boards agreed to include those requirements in the forthcoming exposure drafts.

Operating Activities:

Included in the operating activities of insurance companies are;

(i) Premium received from policy holder. (Ii) Retrocession receipts in respect of claim (iii) Acquisition cost paid

(iv) Retrocession premium paid (v) cash paid on behalf of employees

(vi) Claims paid (vii) tax paid (viii) VAT paid

Financing Activitiers

Financing Activities of insurance companies include

(i) Dividend expenses (ii) Interest on loan overdraft (iii) proceeds from convertible bonds

3.1 RESEARCH METHODOLOGY

Research Design.

The researcher used survey research design. Under this method, financial statements of five insurance companies for year 2010 were critically studied by collecting and analysing data from a few members considered to the representatives of the entire group. Since the researchers cannot study the entire population, this method is considered mostly appropriate.

3.2 Sample Area.

The sample area of this study is Lagos state situated in the south-western zone of Nigeria.

3.3 Population of the study.

The population of the study comprised all senior staff of the Administrative department, the finance department, the marketing department and the internal Audit department of the five insurance companies totalling 150 as shown below, five insurance companies out of the insurance companies in Lagos were selected, based on their high profitability declared according to their financial statements and proximate to the researcher.

3.4 SAMPLE SIZE DETERMINATION

	INSURANCE COMPANIES					
DEPARTMENTS	Leadway Assurance Company	NEM Insurance Plc	OASIS Insurance	Sovereign trust insurance Plc	Great Nig insurance Plc	***TOTAL***
Administrative Department.	5	5	4	4	8	26
Finance Department	10	10	9	9	15	53
Marketing Department	8	7	8	6	10	39
Internal Audit Department	7	6	7	5	7	32
TOTAL	30	28	28	24	40	150

The researcher used Yaro Yamone, 1973 to determine the sample size. This is used when the population of the study is known and the formula is as follows

$$S = \frac{N}{1+N(e)^2}$$

Where **S** = required sample size; **N** =Population ; **1** =A constant ; **e**= Level of confidence/significance @ 5%

1. LEADWAY ASSURANCE COMPANY.

$$\mathbf{S} = \frac{30}{1+30(0.05)^2} = \frac{28}{1.075} = 26$$

2. NEM INSURANCE COMPANY.

$$\mathbf{S} = \frac{28}{1+28(0.05)^2} = \frac{28}{1.07} = 26$$

3. OASIS INSURANCE COMPANY.

$$\mathbf{S} = \frac{28}{1+28(0.05)^2} = \frac{28}{1.07} = 26$$

4. SOVEREIGN TRUST INSURANCE COMPANY.

$$\mathbf{S} = \frac{24}{1+24(0.05)^2} = \frac{24}{1.06} = 23$$

5. GREAT NIGERIA COMPANY.

$$\mathbf{S} = \frac{40}{1+40(0.05)^2} = \frac{40}{1.1} = 36$$

Grand sample for the study (26+26+26+23+36) **137**

3.5 Sources of data.

Two sources of data were used in the study (1) the primary sources which constitute information generated by the researcher through personal interview and questionnaire generation and (2a) the secondary source which is the financial statement of the companies and (2b) publication of scholars through the net and empirical studies.

3.6 Research instrument.

A self-designed questionnaire was the major instrument used to obtain data for the study. The design includes close-ended questions and four point Rensis Likert ordinal scale of strongly disagree, disagree, agree and strongly agree the questions were simplified and structured in a way devoid of any ambiguity and technical details. Thus most of the questions simply require respondents to thick (√) against the appropriate response, which is, graded 2,3,4 and 5 respectively.

3.7 Method of Data Analysis.

Data collected for this study were analysed using mean, The formulated hypothesis was tested using standard deviation and Z statistics. This method is applicable if one wants to test whether the mean of two population differ. The researcher wish to know whether the response differ from the selected population mean. A mean score of 3.5 and above is regarded as an accepted mean score, while a mean score of 3.49 will be rejected. The formula is highlighted below:

$$Mean = \overline{X} = \frac{\Sigma fx}{\Sigma f}$$

$$\text{Mean of Population} = (\mu) = \frac{XxYn}{n}$$

$$S\tan dardDeviation = \sigma = \sqrt{\frac{\Sigma(X-\overline{X})^2}{n}}$$

$$\text{Mean of sample} = \frac{\overline{X} = \Sigma X}{n}$$

4.0 Data Presentation and Analysis.

This section deals with the presentation and analysis of the data collected via questionnaire. Data were analysed using mean and standard deviation. Regression analysis with SPSS 17 and Minitab 15 and Z statistics were used to test the hypothesis because the sample size was about 5 in number. The test was based on 5% level of significance.

Decision rules apply thus:

If **Z** calculated >**Z** table (reject H0 and accept H1)

If **Z** calculated <**Z** table (accept H0 and reject H1)

4.1 Presentation of Data.

The questionnaire present in appendix 1 was administered to one hundred and thirty nine respondents who were senior staff in the Administrative department, Finance department, Marketing department and the Internal Audit department of the following insurance companies, Leadway Assurance company, NEM insurance plc, OASIS insurance plc, Sovereign Trust insurance plc and Great Nigeria plc. However, one hundred and thirty (130) 93.5% were returned while (9) 6.5% were not returned.

4.2.1 Research question one..

The responses of the respondents as to what extent would disaggregating the financial statements into operating and financing activities would improve management decision in forecasting the future profitability of the business.

S/N	**STATEMENTS**	**SD**	**D**	**A**	**SA**	**TOTAL**	**X**	**REMARK**
1	Incremental cost of disaggregating financial statement presentation affect decision on incremental usefulness	16 32	18 54	40 160	56 224	130 470	470 130 3.62	A
2	Disaggregating of financial would increase prompt payment of indemnity by the insurer to the insured	16 32	17 51	57 228	40 200	130 511	511 130 3.93	A
3	Disaggregating of financial statement would increase prompt payment of premium by the insured	14 28	18 54	54 216	44 220	130 518	518 130 3.98	A
4	Incremental cost of disaggregating financial statement would increase the participation of more customers in the business.	12 24	17 51	54 216	47 235	130 526	526 130 4.05	A
5	Disaggregating of financial statement would re-design service delivery of organization to the customers	15 30	16 48	45 180	54 270	130 528	528 130 4.06	A

6	Disaggregating of financial statement would bring edge among insurance companies	12 24	17 51	50 200	51 204	130 479	479 130 3.68	A
7	Disaggregating of financial statement would increase organization profitability index	12 24	16 48	52 208	50 250	130 530	530 130 4.08	A
8	Disaggregating of financial statement would increase the prospect of sources of fund to the companies	13 26	17 51	48 192	52 260	130 529	529 130 4.07	A
9	Disaggregating of financial statement would bring instrumental usefulness to the accounting users	12 24	15 45	53 212	50 250	130 531	531 130 4.08	A
10	Disaggregating of financial statement increase Government reliance on insurance company	14 28	16 48	48 192	52 260	130 528	528 130 4.06	A

Source: Researcher's field work.

4.2.2 Research Question Two.

The responses of the respondents as to what extent would disaggregation of financial statement into operating and financing activities presentation affect the decision on incremental usefulness on how one item in one financial statements relate to the other information presented in the other financial statements.

S/N	STATEMENTS	SD	D	A	SA	TOTAL	X	REMARK
1	Incremental cost of disaggregating financial statement presentation affect decision on incremental usefulness	16 32	18 54	40 160	56 224	130 470	470 130 3.62	A
2	Disaggregating of financial would increase prompt payment of indemnity by the insurer to the insured	16 32	17 51	57 228	40 200	130 511	511 130 3.93	A
3	Disaggregating of financial statement would increase prompt payment of premium by the insured	14 28	18 54	54 216	44 220	130 518	518 130 3.98	A
4	Incremental cost of disaggregating financial statement would increase the participation of more customers in the business.	12 24	17 51	54 216	47 235	130 526	526 130 4.05	A

5	Disaggregating of financial statement would re-design service delivery of organization to the customers	15 30	16 48	45 180	54 270	130 528	528 130 4.06	A
6	Disaggregating of financial statement would bring edge among insurance companies	12 24	17 51	50 200	51 204	130 479	479 130 3.68	A
7	Disaggregating of financial statement would increase organization profitability index	12 24	16 48	52 208	50 250	130 530	530 130 4.08	A
8	Disaggregating of financial statement would increase the prospect of sources of fund to the companies	13 26	17 51	48 192	52 260	130 529	529 130 4.07	A
9	Disaggregating of financial statement would bring instrumental usefulness to the accounting users	12 24	15 45	53 212	50 250	130 531	531 130 4.08	A

10	Disaggregating of financial statement increase Government reliance on insurance company	14 28	16 48	48 192	52 260	130 528	528 130 4.06	A

Source: Researcher's field work.

4.2.3 Research Question Three.

The responses of the respondents as to examine whether disaggregation of financial statement into operating and financing activities would identify infrequent items that are often analysed on entity's finance performance independently of its capital structure and improve the forecast for future profitability.

S/N	STATEMENT	SD	D	SA	A	TOTAL	X	REMARK
1	Disaggregation of earnings expose infrequent item of the company through operating activities	15 30	17 51	48 192	50 250	130 523	523 130 4.02	A
2	Selling of infrequent item would improve future profitability of the company	14 28	16 48	52 208	48 240	130 524	524 130 4.03	A
3	Unnecessarily keeping of infrequent items retard operating activities of the company	12 24	14 42	54 216	50 250	130 532	532 130 4.09	A
4	Profit realised from the sales of infrequent items would serve as a source of fund to the company	13 26	15 45	50 200	52 260	130 531	531 130 4.08	A
5	Incessant maintenance of infrequent item jeopardise the forecast of future profitability	14 28	16 48	48 190	52 260	130 528	528 130 4.06	A

6	Changing of infrequent items from obsolete to the new one would improve future profitability of the company	12 24	18 54	47 188	53 265	130 531	531 130 4.08	A
7	Identification and disposal of infrequent items by the insurance company would increase future profitability	10 20	19 57	45 180	56 280	130 537	537 130 4.13	A
8	Disaggregation of financial statement would eliminate the infrequent item of the company	15 30	18 54	50 200	47 235	130 519	519 130 3.99	A
9	Disaggregation of financial statement would reduce unnecessary spending on the fixed asset of the company	12 24	17 51	51 204	50 250	130 529	529 130 4.07	A
10	Disaggregation of earnings would identify infrequent items and would improve the forecast of future profitability	13 26	18 54	55 220	44 220	130 520	520 130 4.00	A

Source: Researcher's field work.

TEST OF HYPOTHESIS

Hypothesis 1.

H0: Disaggregation of financial statements into operating the financing activities would not significantly improve the management decisions in forecasting future profitability of the business.

Table I Calculation of Variance

S/N	**X**	$\bar{X}$**- X**	**($\bar{X}$-X)^2**
1	487	487-508=-21	441
2	525	525-508=17	289
3	530	530-508=22	484
4	530	530-508=-22	484
5	491	491-508=-17	289
6	485	485-508=-23	529
7	530	530-508=22	484
8	485	485-508=-23	529
9	530	530-508=22	484
10	491	491-508=-17	289
Total	**5084**		**4302**

Source: Researcher's field work.

Means of population (μ) = $\frac{3.5\times130\times10}{10}$ =455

Mean of sample X = $\frac{\sum X}{N}$ = $\frac{5084}{10}$ =508

Standard deviation σ= $\sqrt{\frac{\sum(X-\bar{X})^2}{N}}$ =$\sqrt{\frac{4302}{10}}$ =20.74

Z-test = $\frac{\bar{X}-\mu}{\sqrt{N}}$

X-μ = $\overline{5}$08-455 =503

Standard deviation = 20.74

∴ $\frac{53 \text{ x } 3.16}{20.74}$ =8.08

***Decision*:** since Z- test calculated = 8.08>1.96 z-test value at 5% significant value we reject null hypothesis and accept the alternate hypothesis.

Hypothesis II

Ho: Disaggregation of financial statement into operating and financing activities have no significant influence in identify infrequent items that are often analysed on entity's performance independently of its capital structure and improvement of future profitability

Table ii Calculation of variance

S/N	X	$\bar{X}$- X	$(X-\bar{X})^2$
1	470	470-505 =-35	1225
2	511	511-505=6	36
3	518	518-505=13	169
4	526	526-505=21	441
5	528	528-505=23	529
6	479	479-505=-26	676
7	480	480-505=-25	625
8	529	529-505=24	576
9	481	481-505=-24	576
10	528	528-505=23	529
TOTAL	**5050**		**5382**

Source: Researcher's field work.

Mean of population (μ) $= \dfrac{3.5x\ 130x10}{10}$ $=455$

Mean of sample X $= \dfrac{\sum X}{N} = \dfrac{5050}{10}$ $=505$

Standard deviation $= \dfrac{\sqrt{\sum(X-\bar{X})^2}}{N} = \dfrac{\sqrt{5382}}{10}$ $=23.20$

Z-test $= \bar{X}-\mu$ $= \dfrac{505-455}{\sqrt{n}}$ $=50$

$= \dfrac{50x3.16}{23.20}$ $= 6.81$

Decision: since **Z**- test calculated = 6.81>1.96 **z**-test value at 5% significant value we reject null hypothesis and accept the alternate hypothesis.

Hypothesis III

H0: Disaggregation of financial statement into operating and financing activities has no significant influence on the incremental cost of usefulness on how on one items in one financial statements relates to the other information presented on the other financial statements.

Table iii Calculation of variance

S/N	**X**	**X- $\bar{X}$**	**$(X-\bar{X})^2$**
1	523	523-527=-4	16
2	524	524-527=-3	9
3	532	532-527=5	25
4	531	531-527=4	16
5	528	528-527=1	1
6	531	531-527=4	16
7	537	537-527=10	100
8	519	519-527=-10	100
9	525	525-527=-4	16
10	520	520-527=-9	81
TOTAL	5270		380

Source: Researcher's field work.

Mean of population $= \frac{3.5 \times 130 \times 10}{10} = 455$

Mean of sample X $= \frac{\sum X}{N} = \frac{5270}{10} = 527$

Standard deviation $= \frac{\sqrt{\sum(\bar{X}-X)^2}}{N} = \frac{\sqrt{380}}{10} = 6.16$

Z-test $= X-\mu = \bar{527}-455 = 72$

$= \frac{72 \times 3.16}{6.16} = 36.93$

Decision: since Z- test calculated = 36.93>1.96 z-test value at 5% significant value we reject null hypothesis and accept the alternate hypothesis.

5.0 SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY OF FINDINGS

The data analysis revealed that:

- Before disaggregation of financial statement profit of the business were concealed, thereby making it difficult for managers of the business to make useful decision to improve forecast of future profitability of the business but with the disaggregation of financial statement into operating and financial activities show the profit of the insurance company and managers of the company would be able to improve decisions on the forecast of future profitability of the companies.
- Not disaggregating the financial statement into financing and operating activities would not have significant influence identifying infrequent items often analysed in an entity financial performance independently of its capital structure, but with disaggregation of financial statement into operating and financing activities it would significantly influence in identifying infrequent items, often analysed in an entity's financial performance independently of its capital structure and improvement of future profitability.
- It was also observed that before disaggregation of financial statement into operating and financing activities, investing into the business of insurance was difficult, because there was no understanding on how financial information in one statement of insurance company relates to the others in the other financial statement but with the introduction of disaggregation, the financial statement into operating and financing activities would have significant influence in the investing of insurance business because there would be understanding in the relationship of one financial statement to the other.

5.2 CONCLUSION

From the above findings, disaggregation of financial statement into operating and financing activities would have significantly improve management decisions in forecasting future profitability ,it will also improve investing in the business of insurance and would also have influence in identification of infrequent items analysed independently .

5.3 RECOMMENDATION.

In the light of the findings, the following recommendations were suggested:

- Insurance company should disaggregate their financial statement into operating and financing activities so that management of the companies would be able to make decision that would improve the profit of the business.
- Insurance companies should disaggregate the financial statement into operating and financing activities so as to be able to identify infrequent items that would bring about incremental in the profit of the business and would also show how one item in one statement could relates to the other financial statement.

Insurance companies should disaggregating their financial statement into operating and financial activities so that it would have effect on identifying infrequent items that is often analysed one entity's finance performance independently of its capital structure and they would also be able to confirm with other insurance companies global

REFERENCES

American Institute of Certified Public Accountant (AICPA). (2009), Response to FASB's discussion paper.

Beaver N.H. (2002), ***Perspectives as Recent Capital Market Research***. The Accounting Review.

Bloom Field R.F. Hodge P Hophins and K Renekamp, (2010), ***Does Classification and Disaggregation Financial Statement Information Help Credit Analyst Recognise Firm Cost Structure***

Callen J.I. & D Segan (2005) and Feltham Ohslom, (1995), ***Empherical Test of the Modern Review of Accounting Study***. 10:421-425.

Christensen T.K Merkley . J Tucker and S. Venkataramam, (2009). ***Do special items Encourages special guidance of Street Earnings?*** Working Paper Brigham Young University.

Financial Accounting Standard Board (FASB 2010), Board Minutes Related to Financial Statement Presentation.

International Financial Reporting Standard (2010), **Staff draft on exposure draft**.

Modigilian, F and M.H. Miller (2008), ***The Cost of Capital, Corporation, Finance and the Theory of Investment.*** American Review 48(3):261-297

Ohsolon J.A. (1995), ***Earning Book Value and Dividend in Equity Valuation*** Contemporary Accounting Research. 11(2): 661-686.

Oladele Ayeleso (), ***Nigeria at 50, Insurance in Retrospect .***http/www.tribune.com Nig/Index.php/insurance/11686

Olasehinde O.D. (2009), ***Introduction to Insurance Integrity*** , DPP Publishers. Ado Ekiti