TITLE PAGE

ROLE OF FINANCIAL STATEMENT IN INVESTMENT DECISION MAKING.

(A CASE STUDY OF FIRST BANK OF NIGERIAN PLC)

BY

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A RESEARCH PROJECT SUBMITED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE BACHELOR OF SCIENCE (B. SC) DEGREE IN ACCOUNTANCY.

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CERTIFICATION

It is hereby certified that the research work embodied in this presentation has been duly read and approved in partial fulfilment of the requirement for the award of Bachelor of Science (B. SC) degree in accountancy, Caritas University, Amorji Nike Emene Enugu state.

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ABTRACT

Corporate organizations owe a duty to fully disclose matters concerning their operations so as to aid investors in making investment decisions because Investment decision makers rely on information obtained from financial statements to predict future rates of return. Without the financial statement, there will be a problem of how to determine the profit of a company, and evaluation of performance of a company. The general objective is to ascertain the role of financial statement in investment decision making. The study will be based on survey and questionnaire will be used to gather information. There is a total population of 70 personnel but the sample size is 60 using Taro Yamane's formula. The methods used in analysing this study are simple percentage and chi-square. We discovered from the test of hypotheses that financial statement is relied upon in investment decision making and financial statements are useful for forecasting company's performance. Concluded was drawn based on the findings that financial statement plays a vital role in investment decision making and recommends that no investment decision should be taken without the consideration of a company's financial statements.

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CHAPTER ONE

1.0 INTRODUCTION

Corporate organizations owe a duty to fully disclose matters concerning their operations so as to aid investors in making investment decisions. Both large and small organizations in addition to satisfying the legislating requirement tend to retain existing investors and to attract potential ones through the publication of their financial statements where the capital stock of a corporation is widely held and its affairs are of interest to general public relations. The discussions and illustrations of the study will be centered on the financial statement presented to shareholders and also available for potential investors, bond holders and trade creditors as a tool of information for investment decision. Financial statement based on result on past activities are analyzed and interpreted as a basis for predicting future rate of returns and assessment of risk.

Financial statement provides important information for a wide variety of decision, investors draw information from the statement of the firm in whose security they contemplate investing. Decision makers who contemplate acquiring total or partial ownership of an enterprise expect to secure returns on their investment such as dividends and increase in the value of their investment [capital gain]. Both dividends and increase in the value of shares of company depends on the future profitability of the enterprise. So investors are interested in future profitability. Past income dividend data are used to forecast returns from dividend and increase in share prices.

1.1 HISTORICAL BACKGROUND

For the purpose of this research, first bank plc. Anyigba branch kogi state is selected as a case study for academic purpose

According to google.com [electronic library] first bank of Nigerian Plc. was established in 1894 as the first bank in Nigeria, a premier in West African and the leading financial service solution provider in Nigeria. From being the only bank for decades, weathered the banking exposure of the 1930,s to 1950s followed by the era of government ownership and control to a flurry consolidations and then gradual growth in number banks up to the early 1980s, then yet another industry growth spurt in early 1990s when the banking sector was deregulated, leading to an industry shake-up in the late 1990s, which reduced the number of banks from 126 to 77. At later resuscitation and growth to 89 banks leading al through the seasons, first bank plc has remained resilient dependably dynamic and truly the first.

Based on the researchers' oral interview with the bank officials, the Anyigba branch of first bank plc. was established in the then kwara state in the 1978. They render other services than safe keeping of money like giving loan to their customers and hire purchase. The branch presently has about 288 customers.

1.2 STATEMENT OF THE PROBLEM

It is observed that the role of financial statements in investment decision making in Nigeria has some problems to both investors and managers of business organizations who are either not aware of the importance of interdependence relationship that exist between investors and business organizations. Such problems include;

i. How analytical tools are set to aid prospective investors in accessing the financial position of the corporate organization.
ii. Evaluation of performance of a company in investment decision making.
iii. How to determine the profitability of a company.

The above listed problems are the problems to look into in this research work. The problems analyzed tend to scare away both existing and potential investors. The reason of this study is to adequately look into the above problems and suggest possible solution to any of them. Nevertheless this research will find possible key factors to solving these problems because financial statement in investment decision making in Nigeria is the life blood of every organization to the potential investor.

1.3 OBJECTIVE OF THE STUDY

The general objective is to ascertain the role of financial statement in investment decision making. The specific objective is as follows;

i. To examine how a set of analytical tools will aid prospective investors in assessing the financial position of the corporate organization.
ii. To evaluate the performance of a company for investment decision making.
iii. To determine the profitability of the company.
iv. To appraise the fundamental use of financial statement information, this is to provide information for investment decision making.

1.4 RESEARCH HYPOTHESE

Hypothesis according to the English dictionary is an unproved theory, proposition sent forth as an explanation of something, often as the basis for further investigation. Hypothesis is the guides for the investigators in the entire process of research endeavor and they keep the researcher on the main line of the study, in this research, the following hypothesis are formulated for the study;

H_o; financial statements are not used to be relied upon in investment decision making in a company.

H_1; financial statement are used to be relied upon in investment decision making in a company.

H_o; financial statements are not useful for forecasting company's performance.

H_2; financial statements are useful for forecasting company's performance.

H_o; financial statement does not determine the profitability of a company.

H_3; financial statement determines the profitability of a company.

H_o; financial statement does not project new investors.

H_4; new investors are projected by financial statement.

1.4 RESEARCH QUESTIONS

According to Uzoagulu [1998; 96], research questions guide the researcher in constructing the questionnaires. Therefore the researcher raised the following research questions to guide her in constructing her questionnaire which are instruments in the study. The questions are as follows;

i. To what extent is financial statements used in the investment decision making in a company?
ii. Are financial statements useful for forecasting company's performance?
iii. Do financial statements determine the profitability of an organization?
iv. Do financial statement projects new investors?

1.6 SIGNIFICANCE OF THE STUDY

This study will be of immense benefit to banks by improving the banking performance financial analysts, investors, companies and financial organizations. This is because the study intends to help these stockholders in decision making. The study will help in widening knowledge financial statement in investment decision making, it will also make the organization to appreciate the importance of sound financial statement in the provision of information necessary for decision making. It will review the improvement in the organization handling the financial statement and show equally the ways through which improvement could be accomplished finally this research will equally serve as a reference to students in this noble institution and other school who may be interested to embark on a further research study of this nature and above all, report of this study shall definitely add to existing knowledge in research methodology.

1.7 SCOPE OF THE STUDY

This study will be limited to a geographical entity known as Nigeria and specifically first bank plc. Anyigba branch, kogi state of Nigeria.

1.8 LIMITATION OF THE STUDY

There are some limitations encountered by the researcher in the process of this research which limited the scope to only first bank plc. Anyigba branch, some of the limitations are as follows;

i. Uncooperative attitudes of the respondents; the researcher could not get some necessary information from the respondents because of their negative attitude in their response to the oral interview with the bank officials and the questionnaires.
ii. Time constraints; despite the time provided, it was not still enough for the researcher to go all the relevant places like banks and company etc to get relevant information and due to the combination of project and academics work.
iii. Financial constraints; financial constraints is also another factor that limited the researcher to go to many branches of first bank and even other banks and organizations. The researcher lacked finance for transportation, electronic library etc. and as such was limited to only Anyigba branch of first bank plc.

CHAPTER TWO
LITERATURE REVIEW

1.0 INTRODUCTION

The basis of financial planning analysis and decision making is the financial information. Financial information is needed to predict, compare and evaluate a firm's earning ability. It is also required to aid in economic decision making investment and financing decision making. The financial information of an enterprise is contained in the financial statements.

Financial statement according to V. S Gavtam (2005:215) is defined as financial information which is the information relating to financial position of any firm in a capsule form.

Financial statement according to J. A Ohison (1999) was defined as a written report that summarizes the financial status of an organization for a stated period of time. It includes an income statement and balance sheet or statement of the financial position describing the flow of resources, profit and loss and the distribution or retention of profit.

Financial statement according to Academic of organization Dictionary is a document which sets out the assets, income, expenses and debts of a company to allow a third person to assess that company's health.

Financial statements according to Nigeria accounting standard Board (NABS) are the areas of communicating to interested parties information on the resource obligations and performances of the reporting entity.

Financial statement can also be defined as the process whereby information relating to the organization as a whole is reported to the outside world. They are reports on management and not to management. It deals with most external financial transactions of the organization.

Financial statements are source documents of accounting information. They are referred to as the final accounts.

2.1 FEATURES OF FINANCIAL STATEMENTS

The basic features of financial statements are;

i. Financial statements always relate to past period and hence there are called historical document.
ii. Financial statement is expressed in monetary terms.
iii. Financial statements indicate profitability of the business through income statement and financial position through the statement of financial position.

2.2 FUNCTIONS OF FINANCIAL STATEMENTS

i. Financial statements provide various facts of a business organization. The accounting department in an organization plays important and vital role in the business management. As the primary aim of a business is maximization of profit, such profit can only be determined through accurate records of income and expenses which is shown in the financial statement.
ii. Accounting for the scare resources of our society, under any form of economics arrangement, decisions as to where capital should

be invested are made on the basis of information contained in the financial statement.

iii. Financial statement helps the management to make decisions that are necessary for the continuity of the business. It also provides information about the financial strength, performance and changes in information position of an enterprise that is useful to wide range of users in making economic decisions.

2.3 OBJECTIVES OF FINANCIAL STATEMENT

The basic objective of financial statement is to assist in decision making. The other objectives are;

i. To provide reliable financial information about economic resources and obligations of a business enterprise.
ii. To provide reliable information about changes in the net reserves (resource obligation) of the business.
iii. To provide information that assist in estimating the earning potential of enterprise.
iv. To disclose to the extent possible, other information related to the financial statements that are relevant to the statement users.

2.4 ANALYSIS OF FINANCIAL STATEMENTS

Users of financial statements can get further insight about financial strength and weakness of a company if they properly analyze information reported in these statements. Therefore, financial analysis is the process of identifying financial strength and weakness of a company by properly establishing relationships between the items in the balance sheet or statement of financial position and income statement.

Financial analysis can be undertaken by the management of the company or by parties outside the company e.g. shareholders, creditors, investors and others. The nature of the analysis will differ depending on the purpose of the analyst.

2.5 USERS OF FINANCIAL STATEMENT

The persons who receive accounting reports are termed the users of financial statements. The type of information a specific user requires from the financial statements depends upon the kind of decision that, that person must made. This it is said that financial statement is user oriented.

The various user of financial statement can be grouped into two broad divisions, internal and external users. The internal users are the:

i. **MANAGEMENT TEAM:** This is the management of the entity itself. They are concerned with the overall financial worth of the enterprise. Management has the overall responsibility to see that the resources of the firm are used most effectively and efficiently and that the firm's financial position is always sound. They need the financial statement for planning, controlling and decision making on the day to day operations and long range (strategic) plan of the organization.
ii. **EMPLOYEES:** Employees and trade union are more concerned about long term survival and profitability of the firm, as such its ability to pay higher wages, salaries, bonus and better working conditions.

The external users are persons or agencies outside the organization and they include;

i. **PROSOECTIVE INVESTORS:** Investors who wish to become shareholders of the firm are more concerned about the firm's long-run survival and earnings. They bestow more confidence in those firms that show steady growth in earnings. As such they concentrate on the analysis of the firm's present and future profitability.

ii. **TRADE CREDITOR:** Trade creditors like suppliers and other short term lenders are more interested in the firm's ability to meet their claims over a very short period of time. They will confirm their analysis on the evaluation of the firm's liquidity position based on the analysis of the firm and determine the terms and conditions of any lending (or supply) to the firm e.g. security, repayment time etc.

iii. **SUPPLIERS**: Suppliers of long-term debt would be more concerned with the firm's long-term solvency and survival. They analyze the firm's profitability over time, its ability to generate cash to be able to pay interest and repay principal and the relationship between various sources of funds (capital structure relationship). Long-term creditors do analyze the historical financial statement but they place more emphasis on the firm's projected or pro-forma financial statements to make analysis about its future solvency and profitability.

iv. **BANKS AND OTHER FINANCIAL INSTITUTION:** They study a company's financial statements to enable them grant loans.

v. **GOVERNMENT:** They study the financial statement of a company to enable them impose tax on profit.

vi. **EDUCATIONAL/RESEARCH INSTITUTION:** They require the accounting information for teaching and research purpose.

vii. **PUBLIC**: Public are interested in many ways especially the economic life and the standard of living.

viii. **STOCK EXCHANGE**: Stock exchange may derive several conclusions from the figures of financial statement such as performance, profitability prospects of change in the share value and health of the company.

ix. **CUSTOMERS:** Customers who buy or subscribe for the services or goods of the firm are more concerned about the long-run survival of the firm to continue to supply goods or services.

x. **POTENTIAL BUYERS**: Potential buyers of the firm through acquisition or merger are more concerned about the potential profitability of the firm in the future as such they decide on the reasonable price to pay and the actions to be taken on the purchase of the firm or merger.

2.6 ATTRIBUTES OF AN IDEAL FINANCIAL STATEMENT.

Financial statement may be defined as financial data about the economics activities of a business organization. The essence of financial statement is to aid management in decision making about day to day operations and long-term plan to supply money in the business or who have other interest in the business. The ideal financial statement therefore, is one that is relevant as far as problem solving is concerned, since management decisions which the financial statements aim at aiding and facilitating are basically in the nature of solutions to problems. Unfortunately, some accounting system provides inadequate information either because in experienced staff produced or analyzed such information or the staff strength is inadequate. In this, profit figures in such situation are often distorted.

According to the company act sec 140 (1) a company will not be deemed to have kept proper book unless it has kept books that are necessary to give time and fair view of the state of the company's affairs and to explain its transactions. To this extent a sound accounting system that communicate economics measurement and information about the resources and performance of the reporting entity, useful to those having reasonable rights to such information becomes highly important and should have peculiar characteristics.

Some important attributes of an ideal financial statement are;

i. **RELEVANCE:** For information that is disclosed in the financial statement to be useful at all, it is legally relevant. That is, it must be associated with the decisions it is designed to aid and facilitate. What is relevant for one group of financial statements users may not be relevant for another group of financial statement users, thus, there is no such thing as all-purpose financial statement in the context.
ii. **CAPABLE OF VERIFICATION:** Financial statement should disclose information which can be verified from the records of the company. Qualified individuals working independently of one another should be able, upon examination of the same data or to derive similar conclusion.
iii. **UNIFORMITY:** Accounting practices should be uniform both within the corporations and other organizations. Ideal financial statement of one enterprise should be readily comparable with those of another in the same industry. Nevertheless, adoption of different accounting policies like in the method of depreciation and stock pricing has made this difficult.
iv. **CONSISTENCY**: This states that any accounting method adopted by any organization should be used consistently over a period of time.

However, the consistency provision demands that a enough notice be given before a change in the accounting method is affected.

v. **UNSTANDABLE**: Preparation of financial statement should be in accordance with accepted accounting principles so that the parties interested in this statement can easily understand it. The financial statement are intended to be understandable by users who have reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently.

vi. **COMPLETENESS:** The information should provide users with a sounded picture of the economic activities of the reporting entity. By this, it means that every aspect of the business which can be reported in money terms should be reported as far as possible to give information concerning the result completely.

vii. **TIMELINESS:** The data of the publication of any financial statement or report should be soon after the end of the period to which the report relates, as corporation is geared towards the provision of information for decision making. Unnecessary delay in the preparation of financial statement may lose their relevance.

viii. **ACCURACY:** The financial statement should disclose correct and accurate information about the profitability and financial position of a business. They should only factual information. No false information is to be included. False information could lead to wrong decision making.

2.7 TYPES OF FINANCIAL STATEMENT

Financial statement is an accounting statement which shows the state of an organization. They are many types of financial statements which includes;

a) Statement of accounting policies
b) Statement of the financial position
c) Income statement
d) Cash flow statement
e) Statement of retained earnings
f) Note to the account
g) The auditor's report
h) The director's report
i) A statement of source and application of fund
j) A value added statement for the year
k) A five year financial summary
l) In the case of holding company, the group financial statement.

Some of the above listed types of financial statement are explained below;

i. **STATEMENT OF FINANCIAL POSITION:** This is a financial statement showing the assets liabilities and net equity of a company as of a given point in time usually at the end of the year. The main objective or purpose of statement of financial position of a company at the end of the financial year. The fact and figures shown must be true and correct.
ii. **INCOME STATEMENT:** It is a financial statement that gives a company operating results for a specific period of time. Also referred to as earnings reports operating statement. Statements normally cover a year of operations. Its objectives include the measurement of capital maintenance and income distribution. Operations divide into two categories of transactions, sales and revenue. A typical manufacturing company sells products to its customers which, net of

return results in net sales less all expenses. Net incomes are obtained after taxes are deducted at prevailing rate. Net income is available to be invested in the business and pay dividend.

iii. **CASH FLOW STATEMENT:** Cash flow statement is prepared at the end of a fiscal period to show how cash was affected by the business operating, investing and financing activities during the accounting period. Simply stated, cash flow statement means a statement showing changes or movement of cash or cash equivalent during a given period. Briefly it may be stated as showing various sources of cash inflows and various heads of cash outflows. It is prepared from income statement and changes in the working capital (current assets less current liabilities).

Cash inflows are those which increase the cash position and cash outflows are those which decrease the cash position. Cash inflows may also arise due to the operating activities. Similarly, cash outflows may arise due to cash purchasing, payment to creditors, payment to operating expenses and income tax, payments of loan and dividend and interest, repayment of long term loans and redemption of preference shares or debentures (financing activities) and purchase of fixed assets including investments (investment activities). The net result of cash flow statement is to verify the closing cash balance after adjusting all items of cash inflows with opening balance and all items of cash outflow.

These cash inflows and outflows changes the balance of the cash in bank account. The corporate financial position for the current accounting period reports the change in the balance of cash in bank but does not provide the reasons for the change. These details are reported in the cash flow statement. The cash flow statement has the following objectives;

a) Reveals inflow of cash from various activities.
b) Reveal actual cash position
c) Helps in short term planning
d) Revealing liquidity of the firm
e) Forest of weakness
f) Comparison with budget

iv STATEMENT OF RETAINED EARNINGS: This statement explains the changes in a company's retained earnings over the reporting period.

V THE AUDITOR'S REPORTS: The role of auditors has become increasingly important since audit was first made compulsory under the companies and Allied matters Act (CAMA 2004) as amended. An audit must be carried out by accountants belonging to a recognized body by the department of trade, auditors are guiding the presentation of accounts not only by the legal requirements as confirmed by Olumhense A. Imoisili (the Nigerian accountant) but also by:

a) Recommendation of accounting principles and
b) Statement of standard accounting principles (SSAP)

One of the first tasks of any user of financial report write R. G May, G. G Mueller and T. H. Williams (1995) is to check to see that the auditors have not qualified their approval in any way. The reports and the accounts must be sent to all their shareholders and holders of the debentures and loan stocks not less than 21 days before the annual general meeting (AGM). A copy must be lodged with the registrar of companies not more than 7 months after the company's financial year ends.

Auditing standard paragraph 6 "the auditors' operational standard" 1st April 1990, the auditing practices committee (APC), auditing guidelines on review of financial statement states that:

The auditors should carry out a review of the financial statement as in conjunction with the conclusions drawn from the audit evidence obtained, is sufficient to give him a reasonable basis for his opinion in the financial statement.

The general purpose of the auditors review: the auditor is required to form opinion on the enterprise's financial statement as the whole. Having accumulated audit evidence about individual items or group of items in the accounts, the auditor should therefore carry out an overall review of the financial statement to satisfy him that a true and fair view is presented.

Vi THE DIRECTOR'S REPORTS: The director's report gives certain factual information relating to the year under review which has to be disclosed by law. The details required by status to be disclosed in the director's report include statements of the following;

a) The statement of the company affairs
b) Recommended dividend
c) Propose transfers to reserves
d) Political or charitable contributions
e) Share on debentures issued during the years
f) Names of directors who served during the year
g) Directors shares and debenture ownership

h) Significant changes in fixed assets
i) Average number of employees on the payroll throughout the year where they exceed 100 and their aggregate remuneration.

Vii VALUE ADDED STATEMENTS: The relevance of value added statement depends upon its value to a potential user, writes Dr. A. B Akinsoyime says that it provides a sound base for more realistic decision making. The value added statement emphasis on the partnership's performance in creating wealth, argued Galutier and under down (1992). Further, they wrote that it does not treat the shareholders or potential investors with exclusive status afforded by convention statement of cash flow. Yet existing and prospective shareholder (and lenders) may benefit from studies of the company's value added disclosure, thus the potential effects of high wage and low company allocations on the company's future prospect for growth and further wealth creation can be realistically established. Put differently, therefore, value added statement is a measure of wealth creation of a firm and its employees.

Viii SOURCES AND APPLICATION OF FUNDS: For many years, the basic financial statements of a business were the balance sheet and the income statement many company also prepared the third financial statement called a statement of source and application of funds or simply a funds statement. According to Geoff Black (1999:171) statement of source and application of funds provides a line between the two, by showing the ways which the company generated funds during the year and as importantly what use it made of those funds. In other words, it explains why the balance sheet values at the year and was different from those at the start of the year. The main source of funds in a healthy business is likely to the net profit, which is derived from its trading operations. This will rarely be the same figure as it shown in the profit and loss arising on the disposal of fixed assets.

Ix INTERPRETATION: A statement of source and application of funds can help the user of accounting information to gain additional knowledge of the company's progress in the years.

2.8 DEFINITION AND NATURE OF INVESTMENT DECISIONS

As postulated by I. M Pandeg (2005:141) investment decisions or analysis has to do with an efficient allocation of capital. It involves decision to commit the firm's funds to the long-term assets. Such decisions are of considerable importance to the firm since they tend to determine its value size by influencing its growths, profitability and risk

Investment decision of a firm is one which is expected to produce benefits to the firm over a long period of time and it can pass both tangible and intangible assets (porter field J. T. S 1995:170)

The investment decisions of a firm are generally known as the capital budgeting decision may be defined as the firm's decision to invest its current funds most efficiently in the long-term assets in anticipated of an expected flow of benefits over a series of years. According to Canada and White (4) is the series of decisions by individual economic units as to how much and where resources will be obtained and expected for future. Situation where capital expenditure decisions are made or taken, they are based primary with measurement of capital productivity which provides an objective means of measuring the economic worth of individual investment proposals in order to have a realistic basis for choosing among the firm’s long run property. (Pandey 2005:141). The long-term asset is those which affect the firms operation beyond the are year period. The firm’s investment decision would generally include expansion acquisition, modernization and replacements of the long-term assets. Sales of division or business divestment are also analyzed as an investment decision. Activities such as change in the methods of sales distribution or undertaking an advertisement campaign or a research and development programmes have long-term implications for the firms expenditures and benefits, and therefore, they may also be evaluated as investment decisions. It is important to note that investment in long-term assets invariably requires funds to be tied up in the current assets such as inventories and receivables, some of the features of investment decisions are as follows;

a) The exchange of current funds for future benefits
b) The funds are invested in long-term assets
c) The benefits will occur to the firm over a series of years

The two importance aspects of investment decisions are;

a) The evaluation of the prospective profitability of new investments.
b) The measurement of a cut-off rate against that the prospective return of new investment could be compared.

Future benefits of investment are difficult to measure and can not be predicted with certainty. Risk in investment arises because of the uncertain returns. Investment proposals should therefore, be evaluated in terms of expected return and risk. Beside the decision to commit funds in new investment proposals, capital budgeting also involves replacement decisions that are decision of recommitting funds when an asset becomes less productive or non profitable. The correct cut-off rate in investments is the opportunity cost of capital which is the expected rate of return that an investor could earn by investing in financial assets of equivalent risk.

It is significant to emphasize that expenditures and benefits or an investment should be measured in cash. In an investment analysis, it is cash flow which is important, not the accounting profit. It may also be pointed out that investment decisions affect the firm's value. The firm's value will increase if investments are profitable and add to the shareholder's wealth. These increases are reflected in the financial statement of the firm, which invariably are used as tool for investment decisions owing to certain analysis inherent in them.

2.9 IMPORTANCE OF INVESTMENT DECISION

Investment decisions require special attention because of the following reasons;

a) They influence the firm's growth in the long-term
b) They affect the disk of the firm
c) They involve commitment large amount of funds
d) They are irreversible or reversible at substantial loss
e) They are among the most difficult decisions to make. (Quirin, 1997:200)

GROWTH: the effects of investment decisions extend into the future and have to be endured for a longer period than the consequences of the current operating expenditures. A firm's decision to invest in long-term assets has a decisive influence on the rate and directions of its growth. A wrong decision can prove disastrous for the firm. On the other hand, inadequate investment in assets would make it difficult for the firm to complete successfully and maintain its market share.

RISK: A long-term commitment of funds may also change the risk complexity of the firm. Risk arises in investment clue to the inability to anticipate the occurrence of the possible future events with certainty and consequently, can not make any adoption of an investment increase average gain but causes frequent fluctuations in its earnings, the firm will become more risky. Thus, investment decisions shape the basic character of a firm.

FUNDING: Investment decision generally involve large amount of funds which make it imperative for the firm to plan investment programmes very carefully and make an advance arrangement for procuring financial internally or externally.

IRREVERSIBLITY: Most investment decision is irreversible. It is difficult to find a market for such capital items once they have been acquired. The firm will incur heavy losses if such assets are scrapped.

COMPLEXITY: Investment decisions are among the firms most difficult decisions. They are an assessment of future event which are difficult to predict. It is really a complex problem to correctly estimate the future cash flow of an investment. The uncertainty in cash flow is caused by economic, political, social and technological forces.

2.10 TYPES OF INVESTMENT DECISION

Investments are classified in many ways such as;

1) Expansion of existing business
2) Expansion of new business

3) Replacement and modernization

1 **EXPANSION AND DIVERSIFICATION:** A firm may decide to add more capacity of its existing products line to expand existing operation. Sometimes a firm may expand its activities in a new business. Note, the expansion of a new business requires investment in new activity within the firm.

However, a situation whereby a firm acquires existing firm to expand its business in either case, the firm makes investment in the existing or new products may be called revenue expansion investment. Following this procedure which is adopted by first bank of Nigeria plc which is the case study of this research work. During prof. soloudo's 25% capital base strategy mapped out, to be adopted by all banks.

2. REPLACEMENT AND MODERNIZATION: the main objective of modernization and replacement is to improve operating efficiency and reduce costs. Cost saving will reflect in the increased profit, but the firm's revenue may remain unchanged. Assets become outdated and obsolete with technological changes. The firm must decide to replace those assets with new assets that operate more economically and therefore is called cost reduction investments. These investments can be classified as follows;

i. Mutually exclusive investments
ii. Independent investments
iii. Contingent investment

MUTUALLY EXCLUSIVE INVESTMENT: This investment serves the same purpose and competes with each other, if one investment is undertaken others will have to be excluded.

INDEPENDENT INVESTMENT: the investment serves different purposes and do not compete with each other. Depending on their profitability and availability of funds, the firm can undertake both investments.

CONTINGENT INVESTMENT: These investments are dependent projects; the choice of one investment necessitates undertaking one or more other investments.

2.11 INVESTMENT EVALUATION CRITERIA

There are three steps involved in the evaluation of an investment:

- Estimation of cash flows rate and inflows
- Estimation of the required rate of return
- The opportunity cost of capital
- application of aspersion rule for making the choice

The investment decision rules may be referred to as capital budgeting technique or investment criteria. A sound appraisal technique should be used to measure the economic worth of an investment project. The essential property of a sound technique is that, it should maximize the shareholders wealth Porterfield (1995:287) submits that as a corolkry to the above, that a sound investment evolution criterion should posses the following others characteristics.

i. It should consider all cash flows to determine the true profitability of the projects
ii. It should provide for an objective and unambiguous way of separating good project from bad projects.
iii. It should help ranking of projects according to their true profitability

iv. It should recognize the fact that bigger cash flows are preferable to later ones
v. It should help to choose among mutually exclusive project that project which maximizes the shareholders wealth
vi. It should be criterion which is applicable to any conceivable investment project independent of others.

A number of capital budgeting techniques are in practice. They may be grouped in the following two categories.

1. Discounted cash flow (DCF) criteria
   - Net present value (NPV)
   - Internal rate of return (IRR)
   - Profitability index (PI)
   - Discounted pay back period
2. Non discounted cash flow criteria
   - Pay back period (PB)
   - Accounting rate of return (ARR)

In view of Colin Darury (2004:498), by discounted cash flow techniques and calculating the NPV, IRR, PI, PB, ARR.

1. **Net Present Value Method**: This method is the present value of the net cash inflow less the project's initial investment out lay if the rate of return from the project is greater than the return from an equivalent risk investment in financial market, the NPV will be positive. Alternatively, if the rate of return is lower, the NPV will be negative. A positive NPV indicates that an investment should be accepted, while a negative value indicates that it should be rejected.

Thus, zero NPV indicates that firm should be indifferent to whether the project is accepted or rejected. The NPV can be expressed as;

$$NPV = \frac{FV_I}{(1+k)^1} + \frac{FV_2}{(1+K)^2} + \frac{FV_3}{(1+K)^3} + \ldots\ldots \frac{FV_n}{(1+K)^h} - 1_0$$

2. **INTERNAL RATE OF RETURN (IRR):** This represents the true interest rate earned on an investment over the course of its economic life. The interests rate "K" that when used to discount all cash flows resulting from all investment will equate the present value of the cash receipts to the present value of the cash outlays. In other words, the discount rate causes the net present value of an investment to the zero. Alternatively, the IRR can be described as the maximum lost of capital that can be applied to finance a project.

   The IRR is found by solving for the value of K

$$IRR = 1_0 = \frac{FV_1}{(1+K)^1} + \frac{FV_2}{(1+K)^2} + \frac{FV_3}{(1+K)^3} + \frac{FV_N}{(1+K)^A}$$

3. **PROFITABILITY INDEX (PI):** The third method of evaluating investment proposals also takes into account the time value of money. This is the ratio of the present value of cash inflows at the required rate of return, to the initial cash outflow of the investment. In situations where the PI is greater than one, the investment should be accepted, whereas it is less than one, the investment should be rejected, in cases where the PI is equal to one the investment may be accepted, the formula for calculating PI is as follows.

$$PI = \frac{\text{present value of cash inflows}}{\text{Initial cash outlay}}$$

$$= \frac{PV(c+)}{Co} = \frac{E\ \ Ce}{t=1^{(1+k)t}} \div Co$$

4. **PAY BACK (PB):** This is one of the simplest and most frequently used methods of capital investment appraisal. It is defined as the length of time that is required for the cash proceeds from an investment to recover the original cash outlay required by the investment. If the cash flows from the investment is constant each year, the payback period can be calculated by dividing the total initial cash outlay by the amount of the expected annual cash proceeds. But if the expected proceeds is not constant from year to year, the payback period is determined by adding up the cash inflows expected in successive year until the total is equal to the original outlay. It is calculated by

$$PB = \frac{\text{Initial investment}}{\text{Annual cash inflow (annuity)}} = \frac{Co}{C}$$

5. **DISCOUNT PAYBACK PERIOD:** This is the number of periods taken in recovering the investment outlay on the present value basis of which the discounted value are then used to calculate whether an investment is likely to be profitable, but it cannot estimate how profitable the investment will be.
6. **ACCOUNTING RATE OF RETURN (ARR):** This is also known as return on investment (ROI), is the ratio of the average after tax profit

divided by the average investment. The average investment would be equal to half of the original investment if it were depreciated constantly. Alternatively, it can be found out by dividing the total of the investment's book values after depreciation by the life of the project. The ARR can be determined by the following equation

$$ARR = \frac{\text{Average income}}{\text{Average investment}} \times \frac{100}{1}$$

It is worthy to mention among the above mentioned criteria, that the net present value (NPV) criterion is the most valid techniques of evaluating an investment project. It is generally consistent with the objective of maximization of the shareholders wealth which are shown in the financial statement.

2.12 THE ROLE OF FINANCIAL STATE IN INVESTMENT DECISION

The aim of financial statement is to provide financial information about an entity to interested parties. The information contained in the reports, however, it can only become meaningful through financial interpretations derived from the analysis of the reported data. This interpretations and decision unveils the essence of financial statements as the major custodian of financial information necessary for any investment decisions. Investment decisions are not made on a vacuum hence; there are bedrocks on which they will stand.

One major tool for these investment decisions is the ratio analysis. Ratio analysis is the judgmental process which aims at evaluating the current and past financial positions and the results of an entity the primary objectives of determining the best possible estimate about the future conditions and performances. It provides a quick diagnostic look at an entity's financial health and trigger off subsequent financial and operational analysis Okwoli, (1992:9) from the foregoing, the figures that are used in the financial analysis are being dedicated from the financial statements which in turn inform our investment decisions. Several ratios exists but this research work will only X-ray the major ones that are used in investment decision and the major issue to note here is that financial statements are the major source of the raw materials for the investment decisions.

Simply put by U.S Gavtan (2005:236) it is a process of determining and interpreting the relationship between the items of financial statement to provide a useful understanding of the performance, solvency and profitability of an enterprise. More so, for ratio to be useful investment decision, it must be compared with earlier periods to indicate trends or compared with similar organizations in the industry to determine strengths and weaknesses ideally compared with the industrial average.

2.13 TYPES OF RATIO AND THEIR USES

The ratio analysis involves comparison of useful interrelated figures over a number of years to establish a trend. There is no common ratio that can serve the purpose of assessing the financial statement of a company for as banks. As a matter of fact, ratios have been chosen and applied by various banks according to its nature of business and purpose.

In assessing the financial statement of any particular firm, banks try to know how the firm had been operating over the last three years from the answer they get by using ratio analysis; they would then be able to know whether things are going well with the firm.

Banks therefore, in consideration of its objectives closes applicable ratio that can accommodate the banks interest. In line with this argument, the ratio used will reflect the nature of the business that is being treated and the classification that best satisfies this show by Weston J. F and Brigham E.F, (1984:154). They divided the ratio into six fundamental types, which are;

1. **Liquidity Ratio:** this ratio measures the firms ability to meet it's maturing short-term (current) obligations.
2. **Leverage Ratio:** this ratio measures the proportion of debt and equity in financing the firm's assets.
3. **Activity Ratio:** This ratio measures how efficiently and effectively the firm is utilizing its resources management overall effectiveness as shown by the returns generated on sales and investment.
4. **Growth Ratio:** measures the firm's ability to maintain its economic position in the growth of the economy and industry.
5. **Valuation Ratio:** which are the most complete measures of performance because they reflect risk ratios (first two) and the returns ratio (the following three). Valuation ratios are of great importance since they related directly to the goal of maximizing the value of the firm and shareholders wealth. As noted earlier the list of ratios are not exhaustive rather it is tailored to the nature of the problem, which it is intended to help in solving. (pickles 1982:262) states in his book that effective use of ratios in a business can be maximized by calculating, on the basis of past figures and

experiences relevant ratios, trends, noted, investigated and accounted for.

Ratio in isolation is virtually useless. To be of value they must be compared with corresponding ratios of other periods and in certain cases with those of other firms in the same industry or with the industry average. It should be stated at this point that the industry average is not a magic number that all firms should strive to maintain. In fact, some well managed firms are above it and other good firms are below it.

However, if a firm's ratio is very far from the average of its industry, the bank must have a different comment to make about such firm then the comment it will make concerning a firm that is above the industry average. One important thing in this analysis is the necessity of comparing ratio. Current and previous period ratios compared show trends, either a decrease or improved comparisons. May also provide realistic quantitative assessment of a scope of increases productivity and efficiency in the industry.

There is no doubt that ratios can be an invaluable aid to banks and others who are interested in analyzing the operation and the state of affairs of the firm, to assist banks in making a better lending decision. The usefulness as well as the informative feature of ratios depends on the ability of the banks to interpret, which the ratio derived. The interpretation of ratios is as well as a science than as an art, and one can compare ratios analysis to putting together.

CONCLUSION

Ratio are invaluable aids to management for interpretation of financial reports because they bring out clearly what inspection may not review it the eyes but we must caution here that they are not ends by themselves, but sign posts out areas requiring further operational analysis.

In this review so far, readers would be impressed of the fact that the entire literature review on the topic is purely based on financial accounting view point, this of course is precisely the nature of financial statements.

Finally and essentially, accounting information must be in a summary form, accounting systems handles numerous amounts of details in recording of day to day transactions. As they appear, these details may not be of interest to an investor or a manager but his interest is in the summaries that are drawn from the financial statements and it is on these he or she relies on.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter deals exclusively with the methods, procedures, and systems which the researcher employed in the collection of the necessary data and information for the research work.

Every stage of research process focuses on some kind of sampling. This is so because it becomes apparently impossible to include the entire variables, which might provide useful information or to use all the data gathered in the final report.

3.1 RESEARCH DESIGN

This study was basically a survey research and therefore required the use of survey method of investigation. In this survey research, a questionnaire is designed to gather information relevant to this project topic. The questionnaire has option Yes and No.

3.2 AREA OF THE STUDY

In this research work, the researcher used first Bank of Nigeria plc. Anyigba branch Kogi State. A government owned and profit making organization as her case study.

3.3 POPULATION OF THE STUDY

The population of the study comprises the key staff and functional heads of the branch of the bank selected for the study that is first bank of Nigeria plc. Anyigba branch, kogi state. There were a total of 70 personnel's in the various departments, whose views and knowledge can derive the study.

3.4 SAMPLE SIZE AND SAMPLE TECHNIGUE

It is important to note that it is not possible to study the entire population as a result of time constraint and limited resources available for effective handling of the study. Therefore, only a portion of the population is studied. The opinions and views sampled (A part of population which the study is focused) from the staff of the organization. To ensure the determination of accurate sample size, the statistical formula derived by Taro Yamane (1964) was employed.

The formula states thus:

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

Where n = sample size

N = population of the study which is 70

e = margin of error and in this case, e = 5% (chosen by the researcher)

1 = constant

Therefore;

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

$$n = \frac{70}{1+70(0.05)}$$

$$n = \frac{70}{1 + 70\ (0.0025)}$$

$$n = \frac{70}{1 + 0.175}$$

$$n = \frac{70}{1.175}$$

$$n = 60$$

3.5 INSTRUMENTS FOR DATA COLLECTION

The researcher made use of the following instrument in obtaining the needed information;

- Questionnaire
- Personal interview
- Surveys
- Library research

Through the help of these instruments, it was possible for the research to get the necessary information from the respondents.

3.6 SOURCES OF DATA COLLECTION

This refers to where the information originates. In carrying out this study, the researcher made uses of both primary and secondary sources of data.

3.6.1 PRIMARY SOURCES: primary data are original or first nature. The advantage of this type of data is that the exact information wanted is obtained. The primary sources of data were obtained from oral interview with top management staff questionnaire were also drafted and administered to enable the researcher obtain wide range of information which were not possible using oral interview due to lack of time and opportunity.

3.6.2 SECONDARY SOURCES: the secondary source of data involves information gotten from already conducted research work that relates to the study. This includes textbooks, journals, magazines, internet language to avoid ambiguity in understanding of the questions. The reliability of the instrument is based on the accounting theorist.

3.7 METHODS OF DATA COLLECTION

This is the technique used by the researcher to obtain data for analysis. The researcher used questionnaire, interview and personal observation. Formulated questions relevant to the subject matter were used and printed with instructions to guide the respondents and enable them express their opinion. The personal observation was made by the researcher as she listened to the respondents thereby drawing conclusion.

3.8 METHOD OF DATA PRESENTATION AND ANALYSIS

The tools used in analyzing the data include; tables, frequency and simple percentage method and chi-square method. These tools made it possible for the researcher to make proper analysis of the data which were collected during the course of carrying out the study. The methods are as follows;

Percentages: The simple percentage methods were used for the analysis of the result obtained from the questionnaire. The formula is given below as:

$$\frac{X}{\sum X} \times \frac{100}{1} = X\%$$

Where;

X = values of subgroup

$\sum X$ = total value (sum) of sub group

$X\%$ = percentage of sub group in total sum

Chi-square (X^2); chi-square method is used to test the null hypothesis formulated in chapter one. It is used to compare differences between observed and expected theoretical frequencies.

The formula is given as;

$$X^2 = \sum \frac{(F0 - Fe)^2}{Fe}$$

Where;

X^2 = chi-square

$\sum$ = summation of value

F0 = observed frequency

Fe = expected frequency

Once you have computed your X2, you then state the decision.

Decision Rule: if chi-square value (X2) is greater than the table value at the appropriate level of significance and degrees of freedom, the null hypothesis will be rejected and alternative accepted but where it is lesser than the value read out of chi-square table, then the null hypothesis is accepted and alternative rejected.

3.9 VALIDITY OF INSTRUMENT USED

The validity of the instruments used in this research work where highly controlled by the researcher. There is clear information as how to complete the questionnaire by the respondents and the researcher personally administered and collected them to ensure high rate of turn.

3.10 RELIABILITY OF THE INSTRUMENT USED

The truthfulness of the instrument used in collecting data cannot be defined. This is because analysis relied on future researchers. Reliability of instrument can be based on the statistical roll employed as used for data analysis. Questionnaires were tested by an accountant who makes it reliable and they assist the researcher in achieving the aims and objective of the research questions and hypothesis which are also to be tested.

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 DATA PRESENTATION

In this chapter, we are concerned with analysis of the answers to the questions in the questionnaires administered to the respondents. The use of table will be used or adopted to clearly show the responses obtained in each question of the questionnaires and the research hypothesis from chapter one will be used to test hypothesis guiding the study through the use of percentages and chi-square (X^2) techniques.

4.2 DATA ANALYSIS

According to the table below, out of 60 questionnaires distributed to the respondents, a total of 53 were returned, out of which 3 were not completed, and 7 were not returned at all. Therefore, the total of 50 questionnaires is used for the analysis and it took the duration of one month for the administration of the questionnaires. The below table shows the distribution of the questionnaires

TABLE 1: Presentation of total questionnaires distributed.

Responses	Respondents	Computation	Percentage (%)
Total returned	50	$\frac{50}{60} \times \frac{100}{1}$	83%
Total not returned	10	$\frac{10}{60} \times \frac{100}{1}$	17%
Total	60	60 ÷ 60 x 100	100%

Source: field survey 2012.

From the table above, the total returned questionnaires are 50 (83%) of the respondents, while total not returned of questionnaires are 10 (17%) respondents.

Question 1: does financial statement play any role in investment decision making?

Table 4.2.1

Options	Number of responses	Percentage %
Yes	50	100
No	0	0
Total	**50**	**100**

Source; field survey 2012

Table 4.2.1 shows that all 50 respondents agree that financial statement play roles in investment decision making, while none of the respondents disagree.

Question 2: does financial statement reveal the competence of management of the company?

Table 4.2.2

Options	Number of responses	Percentage %
Yes	50	100
No	0	0
Total	**50**	**100**

Source: field survey 2012

Table 4.2.2 shows that all 50 of the respondents agree that financial statement reveal the competence of management of the company while none of the respondents disagree.

Question 3: is it appropriate to believe in the ability of past financial statement in forecasting future performance?

Table 4.2.3

Options	Number of responses	Percentage %
Yes	45	90
No	5	10
Total	**50**	**100**

Source: field survey 2012

Table 4.2.3 shows that 45 of the respondents agree that it is appropriate to believe in the ability of past financial statement in forecasting future performance which is 90% and 5 respondents (10%) disagreed.

Question 4: Is there any relationship between financial statement and investment decision making?

Table 4.2.4

Options	Number of responses	Percentage %
Yes	50	100
No	0	0
Total	**50**	**100**

Source: field survey 2012

Table 4.2.4 shows that all 50 respondents agree that there is a relationship between financial statement and investment decision making while none of the respondents disagree

Question 5: Does the state of the financial statement influence the investors to buy shares from the company?

Table 4.2.5

Options	Number of responses	Percentage %
Yes	48	96
No	2	4
Total	**50**	**100**

Source: field survey 2012

Table 4.2.5 shows that 48 of the respondents (98%) agree that the state of financial statement influence the investors to buy shares from the company while 2 of the respondents (4%) disagree

Question 6: Does the financial statement of a company predict the future financial stand of a company?

Table 4.2.6

Options	Number of responses	Percentage %
Yes	43	86
No	7	14
Total	**50**	**100**

Source: field survey 2012

Table 4.2.6 shows that 43 respondents (86%) agree that the financial statement of a company predict the future financial stand of a company while 7 respondents (4%) disagree

Question 7: Does the financial statement afford users the opportunity of using funds flow analysis?

Table 4.2.7

Options	Number of responses	Percentage %
Yes	42	84
No	8	16
Total	**50**	**100**

Source: field survey 2012

Table 4.2.7 shows that 42 respondents (84%) agree that the financial statement afford users the opportunity of using funds flow analysis while 8 respondents (16%) disagree.

Question 8: Is ratio analysis a veritable tool for investment decision making?

Table 4.2.8

Options	Number of responses	Percentage %
Yes	50	100
No	0	0
Total	**50**	**100**

Source: field survey 2012

Table 4.2.8 shows that all 50 respondents agree that ratio is a veritable tool for investment decision making while none of the respondents disagree.

Question 9: Does the cash flow on investment serve as a tool on investment decision making?

Table 4.2.9

Options	Number of responses	Percentage %
Yes	40	80
No	10	20
Total	**50**	**100**

Source: field survey 2012

Table 4.2.9 shows that 40 respondents (80%) agree that cash flow on investment serve as a tool on investment decision making while 10 respondents (20%) disagree.

Question 10: Is it net present value the only tool used for investment decision?

Table 4.2.10

Options	Number of responses	Percentage %
Yes	8	18
No	42	84
Total	**50**	**100**

Source: field survey 2012

Table 4.2.10 shows that 8 respondents (16%) agree that net present value is the only tool used for investment decision while 42 respondents (84%) disagree

Question 11: Is financial statement used for investment decision making in a company?

Table 4.2.11

Options	Number of responses	Percentage %
Yes	50	100
No	0	0
Total	**50**	**100**

Source: field survey 2012

Table 4.2.11 shows that all 50 respondents agree that financial statement is used for investment decision making in a company while none of the respondents disagree

Question 12: Does financial statement help users to know the state of affairs of the companies?

Table 4.2.12

Options	Number of responses	Percentage %
Yes	49	98
No	1	2
Total	**50**	**100**

Source: field survey 2012

Table 4.2.12 shows that 49 respondents (98%) agree that financial statement help users to know the state of affairs of the companies while 1 respondent (2%) disagree

4.3 TEST OF HYPOTHESES

HYPOTHESIS ONE

H_0: Financial statements are not used to be relied upon in investment decision making.

H_1: Financial statements are used to be relied upon in investment decision making.

Table 4.3.1

Options	**Table 4.2.2**	**Table 4.2.6**	**Total**
Yes	50	43	93
No	0	7	7
Total	**50**	**50**	**100**

Calculation of frequency expected

$$\frac{\text{Column total x Row total}}{\text{Grand total}} = \text{frequency expected}$$

$$\text{Yes} = \frac{50 \times 93}{100} = 46.5$$

$$\text{No} = \frac{50 \times 7}{100} = 3.5$$

Table 4.3.2

Contingency table

Opinion	**F0**	**Fe**	**Table 4.2.2** **Fo – Fe**	**$(Fo – Fe)^2$**	**$\frac{(Fo – Fe)^2}{Fe}$**
Yes No	50 0	46.5 3.5	3.5 -3.3	12.25 12.25	0.263 3.5
Yes No	43 7	46.5 3.5	Table 4.2.6 -3.5 3.5	12.25 12.25	0.263 3.5
Total	**100**	**100**	**0**	**49**	**7.526**

Calculated value of X^2 (from table 4.3.2)

$$X^2 = \sum \frac{(Fo - Fe)^2}{Fe} = 7.526$$

Where $X^2 = 7.526$

A + 5% significant level and 95% confidence level at one degree of freedom, table value is 3.841

$X^2 = (R - 1)(C - 1)$

$X^2 = (2 - 1)(2 - 1)$

$X^2 = 1 \times 1 = 1$

$X^2 = 3.841$

Decision Rule: b since table value (3.841) is less than calculated value (7.526) we reject H_0 (null hypothesis and accept H_1 (alternative hypothesis) that financial statement are used to be relied upon in investment decision making.

HYPOTHESIS TWO

H_0: Financial statements are not useful for forecasting company's performance.

H_2: Financial statements are useful for forecasting company's performance.

Table 4.3.3

Options	Table 4.2.7	Table 4.2.10	Total
Yes	42	8	80
No	8	42	50
Total	**50**	**50**	**100**

Calculation of frequency expected

$$\frac{\text{Column total} \times \text{Row total}}{\text{Grand total}} = \text{frequency expected}$$

$$\text{Yes} = \frac{50 \times 50}{100} = 25$$

$$\text{No} = \frac{50 \times 50}{100} = 25$$

Table 4.3.4

Contingency table

Column Row	F0	Fe	Table 4.2.7 (Fo – Fe)	$(F0 – Fe)^2$	$\frac{(F0 – Fe)^2}{Fe}$
1	42	25	17	289	11.56
2	8	25	-17	289	11.56
			Table 4.2.10		
1	8	25	-17	289	11.56
2	42	25	17	289	11.56
Total	**100**	**100**	**0**	**1156**	**46.24**

Calculated value of X^2 (from table 4.3.4)

$$X^2 = \frac{\sum (Fo - Fe)^2}{Fe} = 46.24$$

Therefore, $X^2 = 46.24$

At 5% significant level and 95% confidence level and 1 degree of freedom; the table value reads 3.841

$X^2 = (R - 1)(C - 1)$

$X^2 = (2 - 1)(2 - 1)$

$X^2 = 1 \times 1$

$X^2 = 1$

$X^2 = 3.841$

Decision Rule: Since table value (3.841) is less than the calculated value (46.24) we reject H_0 (null hypothesis) and accept H_1 (alternative hypothesis) financial statements are useful for forecasting company's performance.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

This study set out to study the role of financial statement in investment decision making. (A case study of First Bank of Nigerian plc.).

From the test of hypotheses, we discovered the following;

1. Financial statement is used to be relied upon in investment decision making.
2. Financial statements are useful for forecasting company's performance.
3. There is a positive and significant relationship between financial statement and investment decision making.
4. Financial statements provide various facts of a business such as, accurate records of its income and expenses and also its assets and liabilities.
5. The respondents agree that the financial statement plays an important role in investment decision making.

Finally, the basic aim of this study is to determine the role of financial statement in investment decision making. This is because prospective investor's uses financial statement of concerns as a major parameter for assessing the profitability and the risk of investing in such ventures and the aim of financial statement is to provide financial information about an entity to interested parties.

The information can become meaningful through financial interpretations and decisions unveil the essence of financial statement as the major custodian of financial information necessary for any investment decision. Investment are not made on a vacuum hence, there are bedrocks on which they will stand.

5.2 CONCLUSION

The researcher concludes by saying that financial statement plays a vital role in investment decision making; for instance, where companies invest hundreds of billions of naira every year in fixed assets. By their nature, these investment decisions have the potential to affect the firm's fortunes over several years. For a good decision can boost earning sharply and dramatically increase the value of the firm. This financial information can be subjected to various scrutiny and analysis depending on the investors before making their investment decisions. This is quickly appreciated in the banking sector as one of the major criteria's the demand from their borrowers at the financial statements of the concern for various years. This is subjected to their analysis and interpretations before they can go ahead in the loan negotiation concerning any company. Hence it is opined that companies should try as much as possible to posit financial statements that reflects a true and fair view of what is propose to represent as a way of appreciating their companies the more.

5.3 RECOMMENDATIIONS

Having gone through this study the researcher recommend the following as a way of incurring that financial statement plays a vital rule in investment decisions

1. Every company should ensure that all material fact is reflected in their financial statement.
2. These should be prompt provision of the financial statement at the end of each financial year.
3. Investment decision should not be on a vacuum or rule of thumb rather, the financial statements should be used as bedrock.
4. Every company should adhere to the demand of subjecting their financial statements to statutory audit as a way of authenticating their contents
5. No investment decisions on a company should be taken without the consideration of a company's financial statements.

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APPENDIX

Caritas University,

Amorji – Nike,

Enugu, Emene,

Enugu state.

30th may, 2012.

Dear respondents,

REQUEST FOR COMPLETION OF QUESTIONNAIRE.

I, am a final year student of the Department of Accountancy, Caritas University, Enugu. I am conducting a research on "The Role of Financial Statements in Investment Decision Making: A study of First bank Branch, Anyigba". The research is for my first degree project and it is purely academic research.

As a way of gathering data for this study, I decided to use questionnaire as one of my data collection method. I shall be grateful if you can complete the questionnaire for me.

Please, be assured of your anonymity, as the information you offer will be treated in strictest confidence.

Thanks for your co-operation.

Yours faithfully,

Amedu Mercy .A

ACC/2008/

QUESTIONNAIRE

This question is not meant for a third party consumption and the information provided will be kept confidential. It is strictly for academic purpose. Please tick [ ] for YES or "X" for NO in the box provided below.

SECTION A

PERSONAL INFORMATION

1. What is your sex?
   Male [ ]
   Female [ ]

2. What is your age?
   18 – 30 [ ]
   30 – 40 [ ]
   40 – 50 [ ]
   50 and above [ ]

3. What is your educational qualification?
   WASSEC / SSEE [ ]
   OND [ ]
   B.SC / HND [ ]
   M.BA /M.SC [ ]
   OTHRES SPECIFY [ ]

4. Rank in service?
   Senior [ ]
   Intermediate [ ]
   Junior [ ]

5. Years in service?
   1 – 10 [ ]
   10 -20 [ ]
   20 – 30 [ ]
   31 and above [ ]

SECTION B

1. Does financial statement play any role in investment decision making?
   Yes [ ]
   No [ ]

2. Does the financial statement reveal the competence of management of the company?
   Yes [ ]
   No [ ]

3. Is it appropriate to believe in the ability of past financial statement in forecasting future performance?
   Yes [ ]
   No [ ]

4. Is there any relationship between financial statement and investment decision making?
   Yes [ ]

No [ ]

5. Does the state of the financial statement influence the investors to buy shares from the company?

   Yes [ ]

   No [ ]

6. Does the financial statement of a company predict the future financial stand of a company?

   Yes [ ]

   No [ ]

7. Does the financial statement affords users the opportunity of using funds flow analysis?

   Yes [ ]

   No [ ]

8. Is ratio analysis a veritable tool for investment decision?

   Yes [ ]

   No [ ]

9. Does the cash flow on investment serve as a tool on investment decision?

   Yes [ ]

   No [ ]

10. Is the present value the only tool used for investment decision?

Yes [ ]

No [ ]

11. Is financial statement used for investment decision making in a company?

Yes [ ]

No [ ]

12. Does financial statement help users to know the state of affairs of the companies?

Yes [ ]

No [ ]