THE ROLE OF FINANCIAL STATEMENTS IN INVESTMENT DECISIONS
(A STUDY OF SELECTED BANKS IN ENUGU METROPOLIS, ENUGU STATE)

BY

EZIOKWU JULIET CHINENYE
ACC/2009/533

A PROJECT PRESENTED TO THE DEPARTMENT OF ACCOUNTANCY, FACULTY OF MANAGEMENT AND SOCIAL SCIENCES, CARITAS UNIVERSITY, AMORJI NIKE, ENUGU

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TITLE PAGE

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IN PARTIAL FULFILLMENT FOR THE AWARD OF BACHELOR OF SCIENCES (B.Sc) DEGREE IN ACCOUNTING

APPROVAL PAGE

This project, ***The Role of Financial Statements in Investment Decisions*** (A study of selected banks in Enugu metropolis, Enugu state) was carefully assessed and approved by the committee of the Department of Accountancy, Faculty of Management and Social Sciences.

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DEDICATION

With every sense of humility and gratitude, I dedicated this project to the Holy Trinity, the fountain of all wisdom and knowledge and also to the Blessed Virgin Mary.

ACKNOWLEDGEMENT

All praise and adoration to God almighty, for giving me the life, strength and ability to be alive.

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My gratitude goes to my parents Mr and Mrs Eziokwu, Damian. You are a precious gem whose this indelible mark of success will never be forgotten. May God enrich you with prosperity and keep you alive to ripe the fruits of your labour. To my siblings Eziokwu Ukamaka, Onyinyechi , Nkechi, Ifeoma, and Chinedu my only brother may you all be a light to your generation. To all my relations whose encouragement and support kept me going, I say thank you.

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The entire Caritas University is forever appreciated for giving me the opportunity to tap from their wealth of knowledge.

May God bless you all Amen.

Name: Eziokwu, Juliet.C.

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ABSTRACT

The research topic of this study is “*The role of financial statement in investment decisions”* – a study of selected banks in Enugu metropolis. The purpose is to identify the relationship between financial statement and investment decisions, and the impact of financial statement in investment decision making and also to know if investment decisions depends solely on financial statement. The study population is 125 persons who are the member of staff of the five major selected banks. Using the Yaro Yamani formula, the sample size calculated gave (95). The formulated hypotheses were tested using Z test with statistical technique at 5% level of significance. The researcher also made use of primary methods of data collection which included questionnaires and personal interviews. Also the secondary methods of data collection used are library research of relevant materials and existing documents from the selected banks. The researcher recommends that banks in Enugu metropolis should consult the financial statement before making investment decisions, and also it is recommends that all interested parties to financial statement should used required financial ratio analysis for decision making.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Every business prepares profit and loss Account or income statement to ascertain the net result of financial working of the business whether it has earned some income or profit or sustained any loss. It also prepare balance sheet to find out the financial position of the business. Profit and loss account or income statement, retained earnings statement and balance sheet are known as financial statements.

Gautam (2005) sees financial statement as financial information which is the information relating to the financial position of any firm; when presented in a concise and capsule form. Besides profit and loss account and balance sheet, some other statements are also prepared for deriving certain conclusions. A schedule of current assets and current liabilities of two years may be prepared to know the changes in working capital. Similarly a fund flow statement and cash flow statement may also be prepared to ascertain the future estimate of cash receipt and payment. Thus, financial statement include: profit and loss Account, income statement and balance sheet along with certain schedules and statement.

Ezeamama (2010) is of the opinion that rational decisions have to be taken to manage modern business successfully and for this rational decision to be taken in line with the firms' objective. Some analytical tools ought to be available and used based on the strengths and weakness of the firms. Thus, the financial strengths and weaknesses of a firm are revealed in its financial statement.

The nature of financial statement is that financial statement is that financial statements always relate to a past period and hence they are called historical documents. Financial statements are expressed in monetary terms and it indicates profit abilities of the business through balance sheet.

Financial statement are analyzed in order to use the information in financial statements to ascertain the profitability and financial soundness of the firm, to Judge the managerial efficiency for inter form comparison of similar nature and to make valuable for costs.

According to Remi Aborode (2006), financial statement need to be interpreted for better understanding and analysis and it can thus be interpreted using individual items contained in financial statement or/ and using ratios computed from items contained in financial statement (Ratio analysis).

The essentials of financial statements range from the fact that financial statements should disclose correct information about profitability and financial position of a business. The information disclosed should be presented in such a manner that it can be easily compared with the figures of the previous year or with those of other similar firms. The information so provided in financial statement should be that which can be verified from the relevant and prepared within a reasonable time after the end of accounting period. The information provided by financial statement should also be easily understood by the interested parties. Such as investors, creditors, lender and Bankers, customer's employees, government and other agencies, the public and stock exchange.

It can therefore be seen that financial information is very effective and essentials in making investment decisions in an organization be it private or public. Thus the role of financial statements in investment decision in some selected banks in Enugu metropolis will be critically evaluated.

1.2 STATEMENT OF THE PROBLEMS

Several investment decision tools are used an financial statement of firms and these has been used for several investment decisions, which most often pays off bearing in mind the definition of what a financial statement is. It is important to note the various roles it plays in investment decision.

However, the problems encountered by these investors include.

- Whether these financial statements represent a true and fair view of what it purports to represents.
- Whether all necessary disclosure have been made by the management of the enterprises, which can now convince a person that deductions made base on the financial statement is not misleading.
- What benefit is this financial statement to the external users particularly investors who are taking decision on a daily basis?
- How analytical tools are set to aid prospective investors in accessing the financial position of the corporate organization.
- How to determine the profitability of a company.

1.3 OBJECTIVE OF THE STUDY

The general objective of this research work is to determine the role of financial statement in investment decision of selected bank in Enugu metropolis. This research work has the following objective

- To identify the relationship between financial statements and investment decisions
- To evaluate the impact of financial statement in investment decision making.
- To identify factors influencing investment decisions on financial statements.

- To highlight the problems associated with financial statement in investment decision.
- To highlight the various tools used in investment decisions on financial statement.

1.5 RESEARCH QUESTIONS

The research questions were formulated from the objective such as:

- What significant relationship does financial statement have to do with investment decision?
- What impact does financial statement have with investment?
- Are there any factors that influence investment decision?
- Does making investment decisions depends depend solely on financial statement?
- What are the various tools used in investment decision on financial statement?

1.5 HYPOTHESES OF THE STUDY

The following questions were constructed to guide the researcher in her study.

H_0 = Financial statement does not have any significant relationship with investment decision.

H_l =Financial statement has significant relationship with investment decision.

H_0 = Financial statement does not have any impact in investment decision.

H_l =Financial statement has an impact on investment decision.

H_0 = Making investment decisions does not solely depend on financial statement.

H_l = Making investment decisions solely depend on financial statement.

1.6 SIGNIFICANCE OF THE STUDY.

This study will be of immense help to the prospective investors and other interested parties of the general public so as to know how to study the financial report of a business firm in order for them to make a decision as to whether or not to invest in such firm. It will help the government to determine the taxation due and as well as to determine if all the company's income has been included in the computation of taxes. By doing this, there will be an improvement in the overall assets and liabilities management and the management will also upgrade assets quality and lower cost of funds. The researcher is of the view that this research work will address the problem properly.

1.7 SCOPE AND LIMITATION OF THE STUDY.

This study is on the selected Banks in Enugu metropolis, the limitation is of the study in the selected Banks in Enugu metropolis Enugu state. This is due to some constraints; those constraints were financial difficulties which prevented the running down from one relevant selected Banks in Enugu to another for sources of information necessary for this study.

Another constraint is the time limit within my disposal, the demand from the academic activities and limit within this constitutes.

1.8 DEFINITION OF TERMS

- FINANCIAL INFORMATION

  Financial information summarize the economic performance and situation of a business when confronted with the information and it is useful to have a framework of analysis available to make an attempt to draw what is important from the mass of less important data

- FINANCIAL RATIOS

  Financial ratios provide a means by which various items in the financial accounts are related to an appropriate base and thereby enabling these items to be regarded in their proper perspective financial ratios permit comparative studies and therefore they are important tools of financial analysis.

- INVESTMENT

  Investment is the act of intelligently determining the uses to which saving can be put investment can also be defined as the defined as the sacrifice of current consumption for a future large gain of money or consumption which could be uncertain.

- INVESTMENT COMPANY

These are financial institutions organized for the purpose of enabling an individual investor to obtain the advantages of wide diversification in a single commitment.

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CHAPTER TWO

REVIEW OF RELATED LITERATURE

2:0 INTRODUTION

The preparation and presentation of business financial statements represents the medium through which Board of directors of Limited Liability Company presents the state of affairs of their company to shareholders of the company. It is through this that the shareholders and other interested members of the public such as the creditors, government, employees, bankers etc are able to assess the level of performance of the business and make a decision as to whether to invest in the company or not.

It is an indisputable fact that users of business financial statement can get better insight into the financial strength and weakness of a firm by analyzing the information contained in the statement. Business financial analysis, according to Panday (2010) is “the process of identifying the financial strengths and weakness of a firm by properly establishing relationships between the items of the balance sheet and profit and loss account.”

Interested parties to financial statement can be made to understand the financial information presented before them by the application of financial analysis tools and techniques and is through this that investment decision can be made, (Beaves, 1966).

A major area of financial analysis that is of interest in this study is the financial ratio analysis, which is the tool that enables management to analyze business situations and to monitor their performance as well as that of their competitors. It is also a means by which prospective and other interest users of financial statements can have an idea of the efficiency of the company. In a nutshell, financial ratio indicates quantitative relationships, which can in turn be used to make qualitative judgment, (Walter, 2007).

The financial statement analysis will enable investor make optimal decisions and as such, the degree of diligence put into play by the financial analyst is faced with the responsibility of examining the contents of the financial statements and the financial statements are expected to reveal the condition of profitability, liquidity, management efficiency, gearing, financial stability and investment appraisal of the company.

For the purpose of business financial statement analysis, individual figures for a financial period are not particularly helpful and to achieve meaningful result, necessary comparison have to be made between the different available data. Comparison has to be made of current figures of a company with the figures of previous periods (past performance) the usual period for comparison of financial statement is five year financial of summary. (Black, et al 2008). Other financial statement of importance to be discussed in this study includes the statement of cash flow and the value added statement.

2:1 HISTORICAL DEVELOPMENT OF BUSINESS FINANCIAL STATE ANALYSIS AND FINANCIAL RATIOS

Business financial statements analysis is an information processing system designed to provide data for decision makers. The information is basically derived from published financial statements.(Garbuilt, 2011).

The origin of business financial statement analysis and financial ratios is believed to have started in the United States of America and it dates back to the second half of the nineteenth century. Two major economic developments created the need for a systematic analysis of firm's financial data: (Vickery, 1973).

(i) The emergence of the corporation as the main organizational form of business enterprises, resulting in a separation of management from ownership.

(ii) The fast increasing role of financial institutions (e.g. bankers, investment and insurance companies) as the major suppliers of capital for business expansion requires a formal evaluation system of borrowers' credit worthiness.

Consequently, both investors and lenders began systematically analyzing corporate financial data. The former to evaluate operational performance (investment analysis) and the latter to determine solvency status (credit worthiness) (Vickery, 1973)

The next state in the development of financial statement analysis was marked by the use of financial ratios. This is the analysis of financial data. Since credit evaluation was still the major function of financial analysis, the indicator most currently used was the current ratio (current assets divided by current liabilities) which was believed to indicate the firm's solvency position. However the limitations of this ratio were soon realized and additional indicators intended to provide a more comprehensive view of the firm's economic situation were developed. Currently, ratio criteria such as the well known ratio 2:1 standard for the current ratio were established (Chukwuma, 2007). The formation of the Securities and Exchange Commission in the 1930s substantially increased the demand for detailed and dependable financial data. Thus the development of financial statement analysis in the 1920s and 1930s were characterized by the extensive data collection and by the proliferation of new ratios. This situation continued until recently without any major development.(Beaves, 1966)

In Nigeria, financial ratios can be said to have evolved in three stages:

First was the advent of financial institution notably the standard chartered Bank now known as First Bank of Nigeria. It was established in the year 1882. The second stage was evolved with the promulgation of the company's Act in 1968 now known as companies and Allied Matters Decree (CAMD 1990). This streamlined financial reporting in Nigeria enterprises promotion Decree of 1972, (Chukwuma, 1984)

2:2 ACCOUNTING INFORMATION TOOLS

The principal means of reporting general purpose financial information to person outside a business organization is a set of accounting reports called financial statements,(Akeju, 2003).

The companies and Allied Matters Decree (CAMD) 1990 section 334 requires every company to keep the following statements:

(i) The Balance Sheet

(ii) A Profit And Loss Account.

(iii) Statement Of Accounting Policies.

(iv) Notes on The Accounts.

(v) The Auditors Report.

(vi) The Director's Report.

(vii) The Chairman Statement.

(viii) The Cash Flow Statement.

(ix) A Value –Added Statement.

(x) A Five Year Financial Summary.

(xi) The Group Financial Statement in the Case Of Holding Company.

2:2:1 THE BALANCE SHEET

The balance sheet is a financial statement that gives a true and fair view of the state of affairs of a company as at the end of financial year, in order to ascertain the financial position of the company, (Akeju, 2003).

The major terms in a balance sheet include- fixed assets, current assets, current liabilities, long term liabilities and capital.

2:2:2 THE PROFIT AND LOSS ACCOUNT (INCOME STATEMENT)

This is a financial statement that shows the results of a business operation over a particular accounting period. It indicates whether there is a net profit or a net loss after all expenses incurred in a given period are set against the gross profit or loss which is derived from the trading account of the same accounting period. The detailed requirement of a profit and loss account include the following turnover, auditors' remuneration, depreciation, directors emoluments, employment emoluments investment income, taxation and appropriation (Ama, 2002).

2:2:3 STATEMENT OF ACCOUNTING POLICIES.

This statement is usually prominently disclosed as an integral part of the financial statements. A substantial number of alternative postulates, assumptions, principles and methods adopted by a reporting entity in the preparation of its accounts significantly affect its result of operation. It is therefore essential to disclose accounting policies adopted apart from the fundamental one in order to aid the understanding of the financial statements, statement of accounting standard (SAS) (2010).

2:2:4 DIRECTOR REPORTS

It is part of the financial statement and it is expected to disclose the following.

(i) A review of the development of the business during the year.

(ii) Principal activities of the company and the changes therein.

(iii) The profit and loss account (income statement)

(iv) Name of Directors.

(v) State of Affairs of the business

(vi) Charitable gifts

(vii) Employment policies

(ix) Name of distributions of the company's product etc Akeju (2003)

2:2:5 THE VALUE ADDED STATEMENT

This is a financial statement that reports the wealth created by the company during the year and its distribution among various interest groups as the employees, the government, creditors, proprietors and the company,

2:2:6 THE FIVE-YEAR FINANCIAL SUMMARY.

This is a financial statement that provides a report for comparison of five year or more of vital financial information SAS (2010).

2:2:7 THE AUDITORS REPORT

This is a report of an auditor made to the management, which states the truth and fairness of preparation of financial statements.

2:2:8 NOTES ON THE ACCOUNTS

This gives a detailed explanation on how the figures in the financial statement are arrived at by showing the computation of related figures in the financial statement.

2:2:9 CASH FLOW STATEMENTS

This is a statement prepared to determine the source and use of cash between two balance sheet dates. An analysis of cash is useful for short-term planning.

Sufficient cash is required to pay debts, interests, dividends and other expenses. A firm can make projection of cash flows and outflows for the near future to determined availability of cash.

This statement is similar to the statement prepared on working capital basis except that it focuses attention on cash instead of working capital;

2:3 QUALITATIVE CHARACTERISTIC OF ACCOUNTING INFORMATION

The influence problem of information can be considered from the stand point of the qualitative and quantitative characteristic of information. The quantitative characteristics of information are those attributes which information must possess in to be useful to influence decision makers.

According to Frederick (1984) qualitative characteristics of information useful to decision makers can be classified into the following.

(A) PRIMARY QUALITIES

(1) RELEVANCE: An information quality can make a difference to decisions through.

(i) **Timeliness**: Information should be received as and when required.

(ii) **Predictive Value**: It should be useful in predicting the future.

(iii) **Feed Back Valued**: Accounting information must be able to give result of activities.

(2) RELIABILITY: An information quality that makes information faithfully represents what it purports to represent through:

(i) Verifiability

(ii) Representational faithfulness

(iii) Neutrality, (Frederick, 1984)

(B) SECONDARY AND INTERACTIVE QUALITIES

Comparability: An information quality that enable information users to know the similarities in and differences between two set of economic phenomena.

(C) PERVASIVE QUALITIES

(i) **Benefits and Cost**: A quality that shows that the benefits of using a piece of information are greater than costs.

(ii) **Materiality**: The magnitude of an omission or miss-statement of accounting information that in light of surrounding circumstances makes a difference to a decision maker.

(D) USERS' SPECIFIC QUALITY

Understandability: An information quality that enables users to perceives the significance of the information received, (Frederick, 1984)

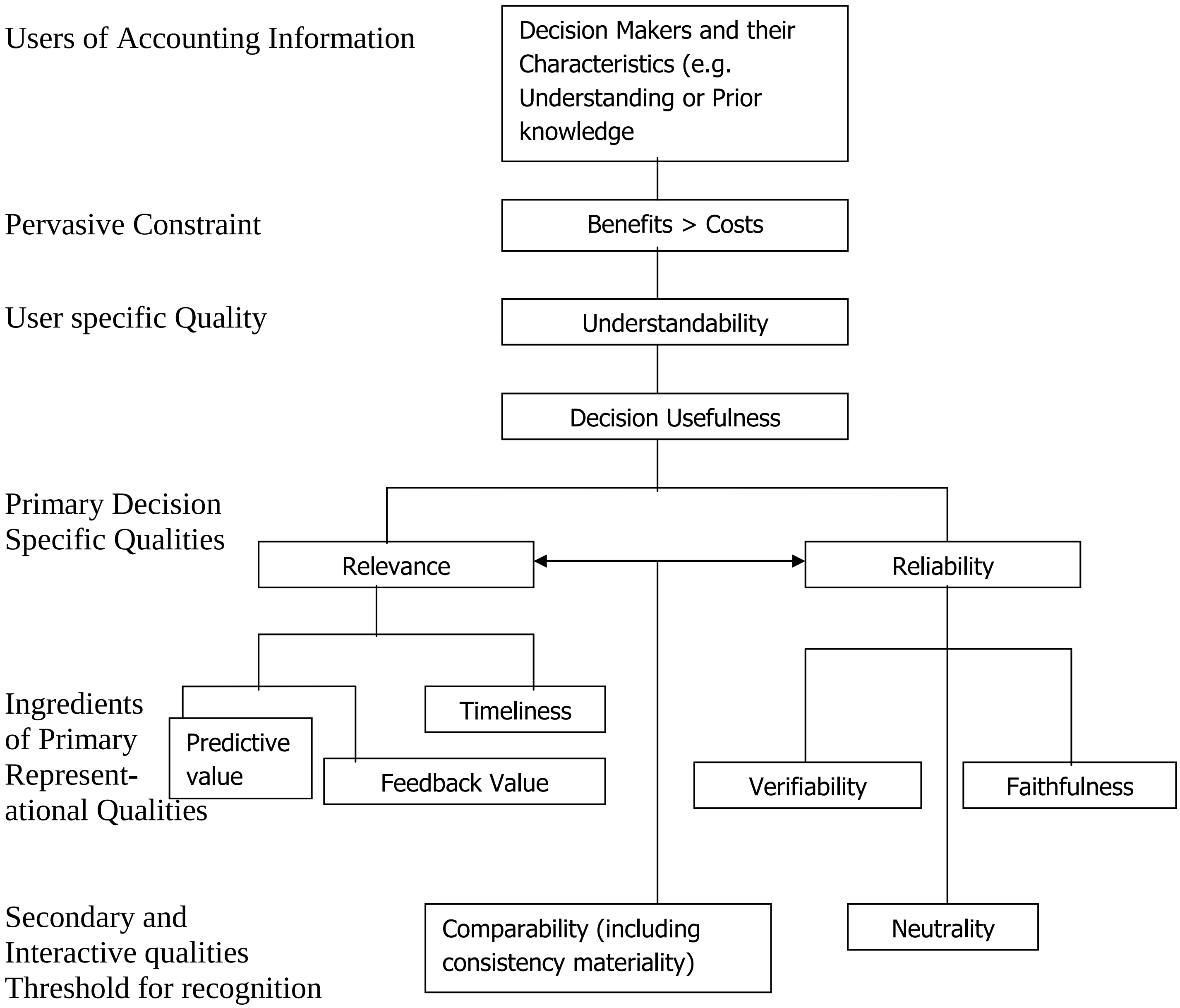

Figure 2.1: An Hierarchy of Accounting Qualities (Frederick, 1984)
Information is useful to users must be relevant and reliable. Relevant

Information is timely and posses the predictive or feedback value (attention directing). Reliable information is not biased, it is objectively verifiable, and portray phenomena faithfully. The comparability quality enables users to compare performance of one enterprise with that of another and therefore makes information relevant and reliable to users,(Frederick, 1984). Thus, the quality of comparability interacts with the qualities of relevant and reliability. Relevant and reliable information is subject to two constraints- materiality and cost benefits, also called pervasive qualities because they relate to other qualitative characteristics. The quality of materiality determines the significance or insignificance of information and usually is expressed in quantitative terms. The cost benefit quality is also a quantitative concept that helps rationalize user's behaviour providing information along with its cost/benefit. From the user's stand point, information must be understandability is a user – specific quality of information. The above description of the qualitative characteristics of accounting information is presented in a hierarchy in Figure 2:1,(Frederick, 1984)

2:4 USE OF ACCOUNTING INFORMATION BY DECISION MAKERS

The role of a decision maker is significant, whether as a manager, investor, professional person, owner of a business, or an interest citizen. Decision makers use various approach to select one solution to a given problem from among a set of several alternative solutions. Selection of the best alternative is the basic decision.

In reference to Welsh and short (1984) knowledge and interpretation of what has happened in the past can aid in making decisions because history may shed considerable light on what the future is likely to making is dependable and relevant historical data. Large portions of historical data that are relevant to business decision are expected in monetary term.

They include cost that is, resources expended revenue, and that is, resources earned assets, liabilities and owner owner's equity. Thus, accounting provide important information for decision – making. The information provided by financial reports must be understandable and relevant to the decision.

2:5 OBJECTIVES OF ACCOUNTING INFORMATION

Ama (2002) identified the following as objective of accounting information.

- **ACCURACY AND RELIABILITY**: Accounting information must be accurate and reliable, disclosing the economic resources and obligations of the business organization.
- **DISCIPLINE**: The discounting reports and information should contribute to organizational discipline by enforcing accountability and drawing attention to performance and result after a period of operations. Accounting information should encourage frugality, since

efficient managers are considered to be those who have spent the last resources in producing the largest output.

- **PROBLEM SOLVING**: Accounting information should direct attention to problem areas, thus facilitating the operation of management by exception. It should also be problem solving. Accounting information should point out the best course of future action; highlight possible alternative solutions to organizational problems, and aid in the establishment of a decision model for the selection of the best alternation.
- **EARNING POTENTIALS**: Accounting information should help in estimating the future earnings potentials of the business, and it should generally disclose information relevant to the users of financial statements.
- **EFFICIENCY** : Accounting information must aid efficiency, it must further the interest of the business organization by recommending changes for the improvement of the plans, policies, procedures and various phases of business operations.
- **TIMELY**: Accounting information must be timely because without that quality, the desired information becomes ancient history by the times it comes to the manager’s desk. Indeed, accounting information

is news, it is the basis for decision making and as such must be presented at quickly as possible, information that is not timely is useless,

- **OBJECTIVITY**: Accounting information must be objective. It must be specific as to items, facts and where possible, the effects of reported facts. The information must be clear, concise and consistent. The facts contained should not be contradictory. It should be direct and informative so presented as to meet the needs of management and decision makers for adequate information.

2:6 IMPORTANCE OF ACCOUNTING INFORMATION

Ama (2002) says that accounting information is importance in the following sense:

- **LIQUIDITY, PROFITABILITY AND VIABILITY**:

  Accounting information is needed by individuals' investors and financial institutions to determine the liquidity, profitability and viability of a business organization.

- **MANAGEMENT OF PERFORMANCE AND FINANCIAL POSITION OF THE ENTITY:**

  Accounting information is important to managers who use such information to measure performance plan and control business operations.

- **ASSESSMENT OF ENTERPRISE ABILITY** :

  Accounting information provides framework for assessing the ability of an enterprise to produce goods or to render services on a continuous basis.

- **IMPOSITION OF TAXES**: Government and regulatory bodies need accounting information in order to be able to impose and collect taxes, to regulate certain business activities and to plan execute and evaluate government projects.

- **STATUTORY OBLIGATION.**

  Quasi – government establishments need accounting information in order to meet their statutory obligations.

2:7 USERS OF ACCOUNTING INFORMATION AND THEIR OBJECTIVES.

Black, et al (2008) recognizes five major users group to whom the accounts must provide information. These groups of users are:

(a) Prospective and Present Investors

(b) Management

(c) Creditors and Prospective Creditors

(d) Government

(e) Employees

- **PROSPECTIVE AND PRESENT INVESTORS**

  This group includes prospective and present shareholders. The right of this group of users to information arises from the direct relationship or potential relationship between the group and the reporting entity. Investors require information to assist them in deciding whether or not to subscribe to new issues and in reaching voting decisions at general meeting (of member at that time).

  The decision making process usually involves making comparison with earlier years and other companies because investors are always interested information concerning future prospects.

- **MANAGEMENT**

  The accounting information helps management in her decision - making future of planning, organizing and controlling. The financial reports are also an indicator of management efficiency.

- **CREDITORS AND PROSPECTIVE CREDITORS:**

  This includes bankers, bond holders and suppliers of goods and services, they investigate the financial standing of an enterprise before deciding whether to extend credit to it at all, what amount to extend and under what terms. They pay primary attention to liquidity, the ability of the business to convert its property into money on short notice without less, and solvency, its ability to pay debts. They observe closely the trend of income overtime in order to estimate the degree of liquidity and solvency of the business at future date,(Black, et al 2008)

- **GOVERNMENT**

The government has interest on profit and taxes on those profits. The accounting information in the from sales, profit, investments, stocks, liquidity, dividend levels proportion of profits absorbed by taxation are considered important by government in evolving policies for managing the economy. The employees use accounting information for evidence of efficient and successful operations a large profit may be the signal for employees to demand bonus pays and allowances from management ,(Black, et al 2008).

2:8 FINANCIAL RATIO ANALYSES

Financial ratio is the relationship between financial data in the financial statement, to aid financial condition and performance of a firm. It is the technique of reducing aggregate financial data into meaningful ratios for the purpose of obtaining measure of liquidity, solvency, stability and profitability AMA (2002).

Financial ratio analysis will give and analyze a better insight into the understanding of financial statement than would be obtained by examining financial data alone.

Financial ratio brings together the result of the activities, which identify the key areas of success of a business; the choice of ratios will be determined by the need of the user of the information.(Beaves, 1966)

There are four major types of financial ratios. These are:

(1) short term solvency and liquidity ratios

(2) Long solvency and stability

(3) Efficiency and profitability ratios

(4) Potential and actual growth ratios

- **SHORT TERM SOLVENCY AND LIQUIDITY RATIOS**

  These are ratios that are used to judge the ability of a firm to meet its short term maturity obligation. They are the most common types of ratios that are used to measure the current balance position.

  A firm with high liquidity is one in which its assets can easily be converted into cash, while a firm with low liquidity is one in which its assets cannot be easily converted into cash.

  The following are the types of liquidity ratios:

(1) CURRENT RATIO = $\frac{\text{TOTAL CURRENT ASSETS}}{\text{TOTAL CURRENT LIABILITIES}}$

It indicates the ability of the business to meet its short – term liabilities as they fall due.

(ii) LIQUID (ACID OR QUICK TEST RATIO =

$$\frac{CURRENT\ ASSETS-(\ STOCK+PREPAYMENT}{CURRENT\ LIABILITIES}$$

It indicates the relative amount of asset which can be quickly converted to cash to meet short – term liabilities.

(iii) STOCK TURNOVER = $\frac{COST\ OF\ SALES}{AVERAGE\ STOCK}$

This indicates the velocity in number of times per period at which the average figure of trading stock is being turned over i.e, sold Jennings (2007)

(iv) DEBT TURNOVER = $\frac{CREDIT\ SALES}{TRADE\ DEBTORS}$

This ratio indicates the rate at which customers are paying up and should approximate to the terms allowed by the business.

(v) DEBTORS COLLECTION PERIOD = $\frac{TRADE\ DEBTORS}{CREDIT\ SALE} \times 365$

It measures the average number of days for which trade debtors remain uncollected.

(vi) CREDITOR PAYMENT PERIOD = $\frac{TRADE\ CREDITORS}{CREDIT\ PURCHASE} \times 365$

It measures the average number of days for which trade creditors remain unpaid Jennings (2007)

(vii) CREDITORS TURNOVER = $\frac{CREDIT\ PURCHASES}{TRADE\ CREDITORS}$

- LONG TERM SOLVENCY AND STABILITY (DEBT EQUITY RATIO)

This ratio can also be known as gearing or financial leverage ratio. It measures the extent to which a company is financing its asset with debt or equity. Leverage ratios are ratios used to express the relationship that exists between credit financing AMA (2002) the ratios are as follows:

(i) DEBT RATIO = $\frac{CURRENT\ LIABLITIES+LONG-TERM\ LOANS}{TOTAL\ ASSETS}$

It means the proportion of the company's total assets which are paid for by both long term and short – term debts.

(ii) CAPITAL GEARING RATIO =

$$\frac{FIXED\ INTEREST\ LOAD - DEBENTURE\ PREFERENCE\ SHARE}{ORDINARY\ SHARE\ CAPITAL} \times 100$$

This is concerned with the relationship between shareholders equity and the sum of long-term debts and the company's preferred stock. If the equity is very high, the company is said to be low geared, but if the fixed interest capital is very high, the company is said to be high geared. When the ratio 1:1. It means that the company operates a neutral gearing, AMA(2002).

(iii) DEBT EQUITY RATIO $= \frac{LONG\ TERM\ DEBTS}{SHAREHOLDER'S\ EQUITY}$

It measures the security for creditors since it relates creditors funds to the investment of owners of the company, AMA (2002)

(iv) PROPRIETARY RATIO $= \frac{SHAREHOLDERS\ FUNDS}{TOTAL\ ASSETS}$

It indicates the degree to which unsecured creditors are protected against loss in the event of liquidation.

(v) LEVERAGE RATIO $= \frac{TOTAL\ ASSETS}{SHAREHOLDER'S\ EQUITY}$

It shows the relationship between the total asset of a company and shareolders'equity. It is an indication of the degree of risks which management is willing to assume in anticipation of large profits. A low leverage tends towards stability, security and high quality in equity shares. (Ama, 2002)

(vi) FIXED INTEREST COVER = $\frac{NET\ PROFIT\ BEFORE\ INTEREST\ \&\ TAX}{FIXED\ INTEREST}$

It indicates the number of time fixed interest is covered by profit.

(vii) FIXED DIVIDEND COVER =$\frac{PROFIT\ AFTER\ TAX}{FIXED\ DIVIDEND}$

It indicates the number of times fixed dividends are covered by taxed profit, Jenning (2007)

- **EFFICIENCY AND PROFITABILITY RATIOS**

Profitability ratios can be described as the accounting ratios used to measure the overall profit performance of a company. The basic aim of profitability of a company's operation. The ratio also reveal the extent of management efficiency. Usually, management's efficiency is measured by the returns on capital employed and the intensity of capital usage,(Ama, 2002).

These ratios are as follows:

(i) RETURN ON CAPITAL EMPLOYED (ROCE)

$$=\frac{NET\ PROFIT\ BEFORE\ INTEREST\ AND\ TAX\ (PBIT)}{CAPITAL\ EMPLOYED}$$

This ratio is an efficiency gauge to show the intensity and profitability of overall capital usage. It disclosed the rate at which invested capital of a company is bring turned over in it net operating profit. The ratio is used in determining rate of returns on capital employed wit a view to ensure efficient use of resources.(Ama 2002)

(ii) RETURN ON EQUITY =$\frac{NET\ PROFIT\ AFTER\ INTEREST\ AND\ TAX\ (PAIT)}{SHAREHOLDERS\ FUNDS\ (EQUITY)}$

This is the ratio of net profit after tax to the total equity funds and it is shows the efficiency with which the equity funds was employed.

(iii) NET PROFIT MARGIN = $\frac{NET\ PROFIT}{SALES} \times 100$

Net profit margin is the measure of proportion of the naira sales, which remains after the deduction of all expenses. The ratio indicates the new profit earned on each naira on sales and as such a very low ratio shares that operating expenses are eating deep into sales revenue, (Ama, 2002)

(iv) GROSS PROFIT MARGIN = $\frac{GROSS\ PROFIT}{SALES} \times 100$

It is a measure of the efficiency of a company’s sale operations with respect to the cost of goods sold. A low gross profit margin is an indication that cost of goods sold is relatively too high.

- **POTENTIAL AND AUTUAL GROWTH RATIOS**

The ratio which measures this, include:

(i) EARNING PER SHARE = $\frac{TOTAL\ EARNINGS}{NO.\ OF\ ORDINARY\ SHARES}$

It indicates the amount of net profit after tax (but before taking account of extraordinary (terms) attributable to each ordinary share in issue and ranking for dividend during the period (Jenning. 2007)

(ii) DIVIDEND PER SHARE = $\frac{TOTAL\ DIVIDEND}{NO.\ OF\ ORDINARY\ SHARES}$

It indicates the dividend and retention policy of the company when used in conjunction with EPS.

(iii) PRICE/EARNING RATIO = $\frac{MARKET\ PRICE\ PER\ ORDINARY\ SHARE}{EARNING\ PER\ SHARE}$

It indicates the number of year's purchase of the earnings and is regarded internationally as an indicator of future performances, (Jennings, 2007)

(iv) EARNING YIELD =$\frac{EARNING\ PER\ SHARE}{MARKET\ PRICE\ PER\ ORDINARY\ SHARE} \times 100$

Indicates potential return on investment and also it highlights the amount earned on the shares relative to their market price.

(v) DIVIDEND YIELD = $\frac{DIVIDEND\ PER\ SHARE}{MARKET\ PRICE\ PER\ SHARE}$

It indicates current return on investment dividend per share is usually taken to mean the net dividend plus its associated tax credits.

(vi) NET BOOK VALUE PER ORDINARY SHARE $=\frac{NET\ BOOK\ VALUE}{NO.\ OF\ ORDINARY\ SHARE}$

It indicates the historical base to which the price per ordinary share relates, (Jenning, 2002)

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CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This is chapter describes the various methods that is, explicit step- by-step procedures of collecting data on this study as well as the statistical methods of analyzing them. The data for the study were sourced from both primary and secondary data.

3.1 RESEARCH DESIGN

For the purpose of carrying out a sound analysis and then arriving at a reasonable conclusion, this work entails the collection of data from the cross section of the Banks. Hence, the research design employed in the study is the survey research data this will make for easier acceptance, the evaluative assessment and comments of respondents as representing the roles of financial statement in investment decisions in the banks

3.2 SOURCES OF DATA

According to Olakunori (1997), the research employed two types of data in the course of this research work. These are:

i. **Primary Data**: This was collected through responses from questionnaire and interviews.

a. **Questionnaire**: This was the main instrument of measurement used for the collection of primary data. It contains series of written questions on financial statement in investment decisions in Nigeria. The questions are twenty in number and were administered to a statistically determined sample size. The questionnaire contains simple structured with alternatives answers from which the respondents could choose from. They were designed and distributed by the researcher to the member of staff of the various banks which involves: Access Bank Plc, Eco Bank Plc, Diamond Bank Plc, Fidelity Bank Plc and Sky Bank Plc in Enugu.

b. Interview: The researcher also used oral/personal interview in collecting primary data. This method served very useful purpose in obtaining certain facts and data that were possible through the questionnaire method.

ii. **Secondary**: This data was also source from relevant journals, annual report book, existing research materials from learned scholars and available textbooks on the research topic.

3.3 RESEARCH INSTRUMENT

The instrument used for this research work is the questionnaire.

Questionnaire involves presenting questions in relevant questions in respect of the research work. The questions in the questionnaire will be primarily formed, revolving around the hypothesis that is meant for the research. They will be prepared consciously to ensure that the questions will not be misunderstood by the respondents.

3.4 RELIABILITY/VALIDATION OF RESEARCH INSTRUMENT

Reliability is a test measure of the extent to which a research instrument will yield the same results under the same conditions, that is consistency.

Validation test is a test of the extent to which a research instrument is

Capable of measuring what is intended to measure. It is done to test the usefulness of the instrument as we as to ensure that it possesses the characteristics which a good measuring instrument should have.

Both validity and reliability test will be carried out to ensure that the instrument eventually used for the study would solicit the expected information and would consistently do so.

3.5 POPULATION OF THE STUDY

Population can be defined as a group from which a sample is drawn. It can be anything depending on what you are studying.

In line with the research subject topic, the population for this study involves all the employees of the selected banks in Enugu metropolis, Enugu State which involves Access Bank Plc, Eco Bank Plc, Diamond Bank Plc, Fidelity Bank Plc, and Sky Bank Plc.

POPULATION DISTRIBUTION TABLE FOR THE FIVE BANKS:

Section of the workers	Frequency				
	Access	Eco	Diamond	Fidelity	Sky
Management	6	5	6	5	4
Senior Staff	8	7	8	6	8
Junior Staff	14	13	12	10	13
Total	28	25	26	21	25

Source: Field Survey - 2013
The total population for the five Banks is 125

3.6 SAMPLE SIZE AND SAMPLING TECHNIQUE

According to Egbu (1998), sampling involves the selection of a number of study units from a defined study population. A sample is therefore, a small representative of a larger population. In drawing a small for the study, the researcher considered how many people that are needed in the sample and their category and banks to be selected.

A sample size (n) was determined using the formula by Yaro Yamane.

Thus, the formula is:

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

Where:
n= Sample size

N= Population size (125)

e= Level of significance (5% or 0.05)

1= Constant value

Substituting the above values into the formula, we have that,

$$n = \frac{125}{1 + 125(0.05)^2}$$

$$= \frac{125}{1 + 0.3125}$$

$$= \frac{125}{1.3125}$$

$$= 95.23$$

$$= 95$$

The sample size of the population is 95 and the researcher issue the same number of questionnaire to the staff of the five banks to the responses in this study.

The sampling technique used in this study is the probability sampling. Probability sampling can be simple or stratified random sampling. The simple random sampling formula is Bowleys Proportional allocation formula.

Thus:

$$nh = \frac{n \times Nh}{N}$$

Where:

nh = Number of questionnaire allocated to each bank

n = Total sample size

Nh = Number of employees in each section of the population

N = Population size

Access Bank Plc

Management staff: nh = $\frac{19 \times 6}{28} = 4$

Senior staff: nh = $\frac{19 \times 8}{28} = 5$

Junior staff: nh = $\frac{19 \times 14}{28} = 10$

Eco Bank Plc

Management staff: nh = $\frac{19 \times 5}{25} = 4$

Senior staff: nh = $\frac{19 \times 7}{25} = 5$

Junior staff: nh = $\frac{19 \times 13}{25} = 10$

Diamond Bank

Management staff: nh = $\frac{19 \times 6}{26} = 4$

Senior staff: $nh = \frac{19 \times 8}{26} = 6$

Junior staff: $nh = \frac{19 \times 12}{26} = 9$

Fidelity Bank Plc

Management staff: $nh = \frac{19 \times 5}{21} = 5$

Senior staff: $nh = \frac{19 \times 6}{21} = 5$

Junior staff: $nh = \frac{19 \times 10}{21} = 9$

Sky Bank Plc

Management staff: $nh = \frac{19 \times 4}{25} = 3$

Senior staff: $nh = \frac{19 \times 8}{25} = 6$

Junior staff: $nh = \frac{19 \times 13}{25} = 10$

Variables	Access Bank		Eco Bank		Diamond bank		Fidelity Bank		Sky bank	
	No of staff	No of sample	No of staff	No of sample	No of staff	No of sample	No of staff	No of sample	No of staff	No of sample
Management	6	4	5	4	6	4	5	5	4	3
Staff	8	5	7	5	8	6	6	5	8	6
Junior	14	10	13	10	12	9	10	9	13	10
Total	28	19	25	19	26	19	21	19	25	19

Source: Field Survey - 2013

3.7 ADMINISTRATION OF RESEARCH INSTRUMENTS

The questionnaires were administered through hand delivery to the selected respondents with explicit explanation where necessary. The researcher made sure that each section gets the complete number of questionnaire allocated to them. Respondents to be administered with questionnaires in each section were systematically selected.

The inferences that were gotten from the analysis based on the questionnaire were used to represent the entire population of the selected banks.

3.8 METHOD OF DATA ANALYSIS

In this work, all the questionnaire will be collected, scrutinized and analyzed based on simple percentage. After all this, hypotheses formulated will be tested with Z test distribution method, which is an estimate of hypotheses testing, normally used when comparing the observed distribution of data with the expected distribution.

The Z test distribution formula is adopted for this research work because the researcher has to deal with the respondents directly.

Thus, the Z test formula is stated as follows:

$$Z = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{(SD_1)^2}{n_1} + \frac{(SD_2)^2}{n_2}}}$$

Where:

Z = Test statistics

$\bar{x}_1$= Mean of sample 1

$\bar{x}_2$= Mean of sample 2

SD_1 = Standard deviation for sample 1

SD_2 = Standard deviation for sample 2

n_1 = Sample size for sample 1

n_2 =Sample size for sample 2

3.9 DECISION CRITERION FOR VALIDATION OF HYPOTHESIS

Reject the null hypothesis (H_0) and upheld alternative hypothesis (H_l), if the Z calculated value exceeds the Z critical value otherwise do not reject the null hypothesis (H_0).

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 DATA PRESENTATION

This chapter focused on the analytical aspect of the research work the general report of activities conducted on the primary data collected from the sample population was made for proper presentation and analysis of responses generated from the administered questionnaires.

Tables and percentage method was used for the analysis. A total of 95 (ninety – five) questionnaire were distributed to the respondents by the researcher but only 78 (seventy eight) of it were retrieved.

The analysis of the questionnaire distributed is stated below

Table 4.1 DISTRIBUTED AND RETURN OF QUESTIONNAIRE

OPTIONS	NUMBERS OF QUESTIONNAIRE DISTRIBUTED	NUMBER RETURNED	PERCENTAGE
Management	20	15	19
Senior staff	27	21	27
Junior staff	48	42	54
Total	95	78	100

Source: Field survey – 2013

4.1.2 ANALYSIS OF DATA

TABLE 4.2.1

QUESTION 1: SEX

OPTIONS	RESPONDENTS	PERCENTAGE %
Male	41	53
Female	37	47
Total	78	100

Source: Field Survey – 2013

From the analysis above 53% representing 41 respondents are male while 37% representing 47 respondents are female.

QUESTION 2: AGE

OPTIONS	RESPONDENTS	PERCENTAGE%
Below 20 years	21	27
20 – 30	21	27
31 – 40	22	28
Above 40 years	14	18
Total	78	100

Source: Field Survey – 2013

The table above shows that 27% representing 21 respondents are age below 20 years, 27% representing 21 respondents are age between 28% representing 14 respondents are age above 40 years.

QUESTION 3: MARITAL STATUS

OPTIONS	RESPONDENTS	PERCENTAGE%
Single	36	46
Married	42	54
Total	78	100

Source: Field survey – 2013

The table shows that 46% representing 36 respondents are single while 54% representing 42 are married.

QUESTION 4: EDUCATIONAL QUALIFICATION

OPTIONS	RESPONDENTS	PERCEENTAGE%
FSLC	5	6
O' level	10	13
OND/NCE	8	10
B.SC/HND	55	71
Others	-	-
Total	78	100

Source: Field survey – 2013

From the analysis above, 6% representing 5 respondents are with FSLC, 13% representing 10 respondents are with O'level certificates; 10% representing 8 respondents OND/NCE, 71% representing 55 respondents are B.SC/HND holders while no respondent for other qualifications.

QUESTIONS: 5 HOW LONG BEEN IN THE BANK?

OPTIONS	RESPONDENTS	PERCENTAGE%
1 – 5 years	40	52
6 -10 years	12	15
11 – 15 years	15	19
16 years and above	11	14
Total	78	100

Source: Field survey – 2013

The table above shows that 52% representing 40 respondents have served the bank between 1 to 5 years, 15% representing 12 respondents have served between 6 to 10 years are 19% representing 15 respondents and 14% representing 11 respondents have served for 16 years and above.

QUESTION 6: WHAT GRADE OF STAFF DO YOU BELONG?

OPTIONS	RESPONDENTS	PRECENTAGE%
Management	15	19
Senior staff	21	27
Junior staff	42	54
Total	78	100

Source: Field survey – 2013

The table above shows that 19% representing 15 respondents belong to the management grade, 27% representing 21 respondents are senior staff and 54% representing 42 respondents are junior staff.

QUESTION 7: ACCOUNTING TECHIQUES ARE VERY IMPORTANT FOR THE SMOOTH RUNNING OF A COMPANY?

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	58	74
Agree	15	19
Disagree	2	3
Strongly disagree	-	-
Undecided	3	4
Total	78	100

Source: Field survey – 2013

The table above shows that 74% representing 58 respondents strongly agree that accounting technique are very important for the smooth running of a company, 19% representing 15 respondents agree, 3% representing 2 respondents disagree, 4% representing 3 respondents remained undecided and no respondents for strongly disagree.

QUESTION 8: DO YOU THINK THAT THERE IS A SIGNIFICANT RELATIONSHIP BETWEEN FINANCIAL STATEMENT AND INVESTMENT DECISIONS?

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	56	72
Agree	16	21
Disagree	1	1
Strongly disagree	-	-
Undecided	5	6
Total	78	100

Source: Field survey – 2013

The table shows that 72% representing 56 respondents strongly agree that there is a significant relationship between financial statement and investment decision, 21% representing 16 respondent agrees, 1% representing 1 respondents disagrees, 6% representing 5 respondents are undecided, while no respondent for strongly disagree.

QUESTION 9: DO YOU AGREE THAT FINANCIAL STATEMENTS HAS AN IMPACT ON INVESTMENT DECISIONS.

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	60	77
Agree	15	19
Disagree	3	4
Strongly disagree	-	-
Undecided	-	-
Total	78	100

Source: Field survey – 2013

The table above shows that 77% representing 60 respondents strongly agrees that financial statements has an impact on investment decision, 19% representing 15 respondents agrees, 4% representing 3 respondents disagree while no respondent for neither strongly disagree or undecided.

QUESTION 10: THERE IS A NEED FOR SPECIAL TRAINING PROGRAMME BEFORE ONE CAN BE INVOLVED IN THE PREPARATION, PRESENTATION AND ANALYSIS OF FINANCIAL INFORMATION.

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	35	45
Agree	28	36
Disagree	5	6
Strongly disagree	6	8
Undecided	4	5
Total	78	100

Source: Field survey – 2013

The table above shows that 45% representing 35 respondents strongly agree that there is need for special training programme before one can be involved in the preparation, presentation and analysis of financial information, 36% representing 28 respondents agrees, 6% representing 5 respondents disagrees, 8% representing 6 respondent strongly disagrees, 5% representing 4 respondents are undecided.

QUESTION 11: THERE HAVE BEEN SOME POSITIVE CHANGES OR IMPROVEMENT IN THE ACCOUNTING INFORMATION SYSTEM IN THE COMPANY

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	35	45
Agree	16	21
Disagree	15	19
Strongly disagree	7	9
Undecided	5	6
Total	78	100

Source: Field survey – 2013

From the table above 45% representing 35 respondents strongly agrees that there have been some positive changes or important in the accounting information system in the company 21% representing 16 respondents agree to it , 19% representing 15 respondents disagree. 9% representing 7 respondents strongly disagree while 6% representing 5 respondents are undecided.

QUESTION 12: DO YOU AGREE THAT FINANCIAL REPORTS ARE PRESENTED AT THE TIME AT WHICH THE INTERESTED PARTIES EXPECT THEM?

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	56	72
Agree	7	9
Disagree	5	6
Strongly disagree	2	3
Undecided	8	10
Total	78	100

Source: Field survey – 2013

From the table above 72% representing 56 respondents strongly agrees that financial reports are presented at the time at which the interested parties expect them, 9% representing 7 respondents agrees, 6% representing 5 respondents disagrees, 3% representing 2 respondents strongly disagrees while 10% representing 8 respondents are undecided.

QESTION 13: THE MAKING OF INVESTMENT DECISIONS DEPENDS SOLELY ON FINANCIAL STATEMENTS

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	20	26
Agree	25	32
Disagree	12	15
Strongly disagree	6	8
Undecided	15	19
Total	78	100

Source: Field survey – 2013

From the table above, 19% representing 15 respondents strongly agree that making of investment decisions depends solely on financial statement, 26% representing 17 respondents disagree to this opinion; 15% representing 12 respondents strongly disagrees while 18% representing 14 respondents are undecided.

QUESTION 14: SOME INVESTMENT DECISIONS CAN BE MADE WITHOUT FINANCIAL STATEMENT

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	45	58
Agree	10	13
Disagree	5	6
Strongly disagree	4	5
Undecided	14	18
Total	78	100

Source: Field survey – 2013

From the table above it is shown that 58% representing 45 respondents strongly agree that some investment decisions can be made without financial statement, 13% representing 10 respondents agrees to the option, 6% representing 5 respondents disagree, 5% representing 4 respondents strongly disagree while 18% representing 14 respondents are undecided.

QUESTION 15: FINANCIAL INFORMATION PLAYS AN IMPORTANT ROLE IN INVESTMENT DECISION ANALYSIS

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	40	51
Agree	22	28
Disagree	2	3
Strongly disagree	4	5
Undecided	10	13
Total	78	100

Source: Field survey – 2013

The table above shows that 51% representing 40 respondents strongly agrees that financial information plays an important role in investment decision analysis; 28% representing 22 respondents agrees, 3% representing 2 respondents disagree with this statements, 5% representing 4 respondents strongly disagree while 13% representing 10 respondents are undecided.

QUESTION 16: FINANCIAL STATEMENT DOES NOT REQUIRE MUCH TIME FOR ITS PREPARATION DO YOU AGREE?

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	19	24
Agree	10	13
Disagree	18	23
Strongly disagree	15	19
Undecided	16	21
Total	78	100

Source: Field survey – 2013

The table above shows that 24% representing 19 respondents strongly agrees that financial statements does not require much time for its preparation; 13% representing 10 respondents agrees 23% representing 18 respondents disagreed 19% representing 15 respondents strongly disagree while 21% representing 16 respondents are undecided.

QUESTION 17: FINANCIAL REPORTS INSPIRES A POTENTIAL INVESTOR TO INVEST IN A COMPANY DO YOU AGREE TO THAT?

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	62	79
Agree	12	15
Disagree	2	3
Strongly disagree	-	-
Undecided	2	3
Total	78	100

Source: Field survey – 2013

The table above indicate that 79% representing 62 respondents strongly agree that financial reports inspires a potential investor to invest in a company; 15% representing 12 respondents agree to it, 3% representing 2 respondents are undecided while no respondent for strongly disagree.

QUESTION 18: MOST MEMBERS OF THE ACCOUNTS DEPARTMENT OF THE ORGANIZATION ARE PROFESSIONALLY QUALIFIED ACCOUNTANTS

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	68	87
Agree	4	5
Disagree	2	3
Strongly disagree	-	-
Undecided	4	5
Total	78	100

Source: Field survey – 2013

The table above show that 87% representing 68 respondents strongly agree that most members of the account department of the organization are professionally qualified accountants; 5% representing 4 respondents agreed to it, 3% representing 2 respondents disagreed 5% representing 4 respondents are undecided while no respondent for strongly disagree.

QUESTION 19: DO YOU AGREE THAT INTERNAL AUDIT DEPARTMENT IS NECESSARY IN ALL ORGANIZATION?

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	55	71
Agree	15	19
Disagree	6	8
Strongly disagree	1	1
Undecided	1	1
Total	78	100

Source: Field survey – 2013

The tables above shows that 71% representing 55 respondents strongly agree that internal audit department is necessary in all organization, 19% representing 15 respondents agreed, 8% representing 6 respondents disagreed, 1% representing 1 respondent strongly disagree while only one (1) respondent represent 1% is for undecided.

QUESTION 20: THE INTERNAL AUDITORS IN THE ORGANIZATION ARE THREATS TO THE MEMBER OF THE ACCOUNTING DEPARTMENT.

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	15	19
Agree	2	29
Disagree	30	38
Strongly disagree	8	10
Undecided	3	4
Total	78	100

Source: Field survey – 2013

The table above indicates that 19% representing 15 respondents strongly agree that internal auditors in the organization threat to the members of the accounting department; 29% representing 2 respondents agree to it, 38% representing 30 respondents disagreed and 10% representing 8 respondents strongly disagreed while 4% representing 3 respondents are undecided.

4.2 TESTING OF HYPOTHESES

The hypothesis earlier stated in chapter 1.5 will be tested using Z test for uncorrelated data.

$$Z = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{(SD_1)^2}{n_1} + \frac{(SD_2)^2}{n_2}}}$$

Where:

Z = Test statistics

X_1=Mean of sample 1(i.e. group of respondent that agree)

X_2=Mean of sample 2(i.e. group of respondents that disagree)

SD_1= Standard deviation for sample 1

SD_2 = Standard deviation for sample 2

n_1= Sample size for sample 1

n_2 =Sample size for sample 2

4.2 HYPOTHESIS ONE

H_0: Financial statement does not have any significant relationship with investment decision

H_l: Financial statement has significant relationship with investment decision.

QUESTION 8: DO YOU THINK THAT THERE IS A SIGNIFICANT RELATIONSHIP BETWEEN FINANCIAL STATEMENT AND INVESTMENT DECISION?

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	56	72
Agree	16	21
Disagree	1	1
Strongly disagree	-	-
Undecided	5	6
Total	78	100

Source: Field survey – 2013

STAFF	RESPONDENTS	GROUP THAT AGREE($\bar{X}_1$)	GROUP THAT DISAGREEE ($\bar{X}_2$)
Management	15	12	-
Senior	21	20	-
Junior	42	40	1
Total	78	72	1

Source: Field survey – 2013

Using the Z test formula

$$Z = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{(SD_1)^2}{n_1} + \frac{(SD_2)^2}{n_2}}}$$

$$Z = \frac{24 - 0.3}{\sqrt{\frac{(14.42)^2}{3} + \frac{(0.58)^2}{3}}}$$

$$Z = \frac{23.7}{\sqrt{\frac{207.94}{3} + \frac{0.34}{3}}}$$

$$Z = \frac{23.7}{\sqrt{69.31 + 0.11}}$$

$$Z = \frac{23.7}{\sqrt{69.42}}$$

$$Z = \frac{23.7}{8.33}$$

$Z = 2.85$

Note:

(i) The level of significance is 0.05

(ii) Decision states that the H_o (i.e Null hypothesis should be accepted if the Z calculated is less than the Z critical value of 1.96 and the alternative hypothesis (H_o) should be rejected if it is greater than Z critical value 1.96

(iii) The 1.96 is the critical value of Z for a two tailed test at 0.05 level of significance, thus the critical value is 1.96

Decision Rule:

Since the calculated value Z is greater than the critical value we shall accept the alternative hypothesis that states that financial statement has significant relationship with investment decision and reject null hypothesis that states that financial that financial statement does not have any significant relationship with investment decision.

4.2.2 HYPOTHESIS TWO

H_o: Financial statement does not have any impact on investment decision.

H_l: Financial statement has an impact on investment decision.

QUESTION 9: DO YOU AGREE THAT FINANCIAL STATEMENTS HAS AN IMPACT ON INVESTMENT DECISIONS.

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	60	77
Agree	15	19
Disagree	3	4
Strongly disagree	-	-
Undecided	-	-
Total	78	100

Source: Field survey – 2013

STAFF	RESPONDENTS	GROUP THAT AGREE($\bar{X}_1$)	GROUP THAT DISAGREEE ($\bar{X}_2$)
Management	15	15	-
Senior	21	21	1
Junior	42	39	2
Total	78	75	3

Source: Field survey – 2013

$$Z = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{(SD_1)^2}{n_1} + \frac{(SD_2)^2}{n_2}}}$$

$$Z = \frac{25 - 1}{\sqrt{\frac{13.08}{3} + \frac{1}{3}}}$$

$$Z = \frac{24}{\sqrt{4.36 + 0.33}}$$

$$Z = \frac{24}{\sqrt{4.69}}$$

$$Z = \frac{24}{2.17}$$

Z = 11.05

Thus: critical value =1.96

Calculated value =11.05

Decision Rule:

Since the calculated value of Z is greater than the critical value of Z, we reject the null hypothesis that states that financial statement does not have any impact on investment decision and accept the alternative hypothesis (H_i) which states that financial statement has an impact on investment decision.

4.2.3 HYPOTHESIS THREE

H_0: Investment decision does not solely depend on financial statement.

H_1: Investment decision solely depends on financial statement.

QUESTION 13: THE MAKING OF INVESTMENT DECISIONS DEPENDS SOLELY ON FINANCIAL STATEMENT.

OPTIONS	RESPONDENTS	PERCENTAGE%
Strongly agree	20	26
Agree	25	32
Disagree	12	15
Strongly disagree	6	8
Undecided	15	19
Total	78	100

Source: Field survey – 2013

STAFF	RESPONDENTS	GROUP THAT AGREE($\bar{X}_1$)	GROUP THAT DISAGREEE ($\bar{X}_2$)
Management	15	5	6
Senior	21	15	4
Junior	42	25	8
Total	78	45	18

Source: Field survey – 2013

$$Z = \frac{\overline{x}_1 - \overline{x}_2}{\sqrt{\frac{SD_1)^2}{n_1} + \frac{(SD_2)^2}{n_2}}}$$

$$Z = \frac{15 - 6}{\sqrt{\frac{10}{3} + \frac{2}{3}}}$$

$$Z = \frac{9}{\sqrt{3.33 + 0.66}}$$

$$Z = \frac{9}{\sqrt{3.99}}$$

$$Z = \frac{9}{1.99}$$

Z = 4.5

Thus: critical value= 1.96

Calculated value = 4.5

Decision Rule:

Since the calculated values of Z is greater than the critical value of Z, we reject the null hypothesis (H_o) which states that making investment decision does not depend solely on financial statement and accept the alternative hypothesis (H_l) which states that making investment decision depends solely on financial statement.

CHAPTER FIVE

SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

The role of financial statements in investment decisions was the study carried out by the researcher in this research exercise. Selected Banks in Enugu metropolis Enugu state formed the focus of this study.

The researcher study in consideration of it objective had made some useful finding from the data collected through personal interviews, questionnaire administration and library research and also from the hypothesis formulated and tested.

Based on the outcome of the investigation, a summary of the findings made are as follows:

- That financial statement has significant relationship with investment decisions as creditors use it as a criterion to lend to companies, though. Thought it serves as one of the basic requirement to be provide before investment decisions can taken.
- Financial statement has an impact on investment decision. This is because it serves as a basis for ascertaining the financial standing and health of the organization that interest is focused on.

- Investment decision depends solely on financial statement because financial statements provide various facts of a business such as, accurate records of its income and expenses and also it assets and liabilities.
- The amount of capital involved in any investment do not help to determine the decision to invest or not
- Ratio analysis is a veritable tool for investment decisions of financial statements.
- The net present value (NPV) is a tool used in investment decision.
- Financial statement help users to know the states of affair
- Financial statement reveals the competences of the management of companies.

Finally, the basis 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 for parameter for assessing the profitability and the risk of investing in such a venture and the aim of financial statement is to provide financial information about an entity to interested parties

5.2: CONCLUSION

It can be concluded from this study that in order to make appropriate investment decisions for adequate understanding of the financial information presented in financial statements, the interested parties to financial statement must have an in-depth understanding of the items contained in the financial statements. For this reason, the interpretation of accounts was considered a major aspect of the study and the items in the financial statement s were analyzed and explained for the purpose of those who have little or no knowledge of such statements. The two major financial statements are balance sheets and profit and loss accounts. The former give a true and fair view of the state of affairs of a company at the end of a financial year to ascertain the financial position of the company while the latter shows the results of a business over a particular accounting period.

Financial ratio analysis also serves as a major tool for making good investment decision. It is used to determine a company's utilization of its assets and liabilities in order to know the overall efficiency and effectiveness of the company.

Based on the findings it can be concluded that financial statement has an impact on investment decisions as this will portray the strengths and weaknesses of the organization which is of paramount important to the interested parties.

It is further concluded that there is a significant relationship between financial statement and investment decisions as another finding concluded to prove this postulation by asserting that investment decisions depends solely on financial statement meaning that financial statement is a criteria for making investment decisions.

5.3: RECOMMENDATIONS

Considering the importance of investment decision by prospective investors, it would be pertinent to proffer some recommendations, which will help in making good investment decision by the selected banks.

The recommendations are

- In order to take investment decisions, proper investigations should be made on all financial statements, that is apart from the balance sheet and the profit and loss account, an in – depth investigation should be made on other statement such as cash flow statement, value added statement, report of the auditors, report of the directors, chairman’s statement and the five year financial summary all these statements are contained in the published annual reports of banks.
- This goes to affirm the finding that financial statement has a significant relationship with investment decision
- At the beginning. Financial statement has great impact on investment decisions as/it is recommended that all interested parties to financial statement require financial ratio analysis for decision making. This is

because it would enable potential shareholders to know the profitability, stability, potential growth and dividend policy of the company. It will enable creditors to know the company's ability to pay interest and repayment of loan.

It is also recommended that all organization should consult the financial statement before making investment decision as it in drawn from findings that investment decisions depends solely on financial statement.

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APPENDIX A

Department of Accountancy,
Caritas University,
Amorji-Nike, Enugu.
P.M.B. 01784.
19 June, 2013.

Dear respondent,

COMPLETION OF QUESTIONNAIRE

I, Eziokwu, Juliet, Chinenye a final year student of the above mentioned department and institution hereby request that you help me complete the questionnaire to aid me in my research work on the topic ***" The Role of Financial Statement in Investment Decisions"*** (The study of selected banks in Enugu Metropolis, Enugu State).

I solicit that you provide answers to the questions with deep sense of sincerity as I promise that the information so provided will be treated as CONFIDENTIAL and used ONLY for academic purposes.

Thanks in anticipation of kind gesture.

Yours faithfully,

Eziokwu, Juliet Chinenye

QUESTIONNAIRE

Please tick (√) in the appropriate box as it suits your response.

SECTION A

1. Sex: a. Male ( ) Female ( )

2. Age: a. below 20years ( ) b. 20 – 30years ( ) c. 31 – 40years ( )

d. 41 and above ( )

3. Marital Status: a. Single ( ) b. Married ( )

4. Educational qualification: a. FSLC ( ) b. O'Level ( ) c. B.S.C/HND ( )

5. How long have you been in the bank?

a.1 – 5years ( ) b. 6 – 10years ( ) c. 11 – 15years( ) d.16years and above( )

6. What grade of staff do you belong to?

a. Management ( ) b. Senior staff ( ) c. Junior staff ( )

SECTION B

QUESTION 7: Accounting techniques are very important for the smooth running of a company? a. Strongly agree ( ) b. Agree ( ) c. Disagree ( ) d. Strongly disagree ( )

QUESTION 8: Do you think that there is a significant relationship between financial statement and investment decisions? a. Strongly agree ( ) b. Agree ( ) c. Disagree ( ) d. Strongly disagree ( )

QUESTION 9: Do you agree that financial statement has an impact on investment decisions. a. Strongly agree ( ) b. Agree ( ) c. Disagree ( ) d. Strongly disagree ( )

QUESTION 10: There is a need for special training programme before one can be involved in the preparation, presentation and analysis of financial information. a. Strongly agree ( ) b. Agree ( ) c. Disagree ( ) d. Strongly disagree ( )

QUESTION 11: There have been some positive changes or improvement in the accounting information system in the company? a. Strongly agree ( ) b. Agree ( ) c. Disagree ( ) d. Strongly disagree ( )

QUESTION 12: Do you agree that financial reports are presented at the time at which the interested parties expect them? a. Strongly agree (   ) b. Agree (   ) c. Disagree (   ) d. Strongly disagree (   )

QESTION 13: The making of investment decisions depends solely on financial statements? a. Strongly agree (   ) b. Agree (   ) c. Disagree (   ) d. Strongly disagree (   )

QUESTION 14: Some investment decisions can be made without financial statement? a. Strongly agree (   ) b. Agree (   ) c. Disagree (   ) d. Strongly disagree (   )

QUESTION 15: Financial information plays an important role in investment decision analysis? a. Strongly agree (   ) b. Agree (   ) c. Disagree (   ) d. Strongly disagree (   )

QUESTION 16: Financial statement does not require much time for its preparation do you agree? a. Strongly agree (   ) b. Agree (   ) c. Disagree (   ) d. strongly disagree (   )

QUESTION 17: A financial report inspires a potential investor to invest in a company do you agree to that?

a. Strongly agree (   ) b. Agree (   ) c. Disagree (   ) d. Strongly disagree (   )

QUESTION 18: Most members of the accounts department of the organization are professionally qualified accountants

a. Strongly agree ( ) b. Agree ( ) c. Disagree ( ) d. Strongly disagree ( )

QUESTION 19: Do you agree that internal audit department is necessary in all organization? a. Strongly agree ( ) b. Agree ( ) c. Disagree ( ) d. Strongly disagree ( )

QUESTION 20: The internal auditors in the organization are threats to the member of the accounting department.

a. Strongly agree ( ) b. Agree ( ) c. Disagree ( ) d. Strongly disagree ( )

APPENDIX B

HYPOTHESIS 1

a. Determining the mean for the two group

$$\bar{X}_1 = \frac{\sum x_1}{n_1} = \frac{72}{3} = 24$$

$$\bar{X}_2 = \frac{\sum x_2}{n_2} = \frac{1}{3} = 0.3$$

b. Determining the standard deviation for the two groups

GROUP 1 (SD_1)			GROUP 2 (SD_2)		
x_1	$x_1-\bar{x}_1$	$(x_1-\bar{x}_1)^2$	x_2	$x_1-\bar{x}_2$	$(x_1-\bar{x}_2)^2$
12	-12	144	-	-0.3	0.09
20	-4	16	-	-0.3	0.09
40	16	256	1	0.7	0.49
72		416	1		0.67

GROUP 1 (SD_1)

$$SD_1 = \sqrt{\frac{(x_1-\bar{x}_1)^2}{n-1}}$$

$$SD_1 = \sqrt{\frac{416}{3-1}}$$

$$SD_1 = \sqrt{\frac{416}{2}}$$

$$SD_1 = \sqrt{208}$$

$$SD_1 = 14.42$$

GROUP 2 (SD_2)

$$SD_2 = \sqrt{\frac{(x_2-\bar{x}_2)^2}{n-1}}$$

$$SD_2 = \sqrt{\frac{0.67}{3-1}}$$

$$SD_2 = \sqrt{\frac{0.67}{2}}$$

$$SD_2 = \sqrt{0.335}$$

$$SD_2 = 0.58$$

HYPOTHESIS 2

a. Determining the mean for the two group

$$\bar{X}_1 = \frac{\sum x_1}{n_1} = \frac{75}{3} = 25$$

$$\bar{X}_2 = \frac{\sum x_2}{n_2} = \frac{3}{3} = 1$$

b. Determining the standard deviation for the two groups

GROUP 1 (SD_1)			GROUP 2 (SD_2)		
x_1	$x_1-\bar{x}_1$	$(x_1-\bar{x}_1)^2$	x_2	$x_1-\bar{x}_2$	$(x_1-\bar{x}_2)^2$
15	-10	100	-	1	1
21	-4	16	1	-	-
39	14	196	2	1	1
75		342	3		2

GROUP 1 (SD_1)

$$SD_1 = \sqrt{\frac{(x_1-\bar{x}_1)^2}{n-1}}$$

$$SD_1 = \sqrt{\frac{342}{3-1}}$$

$$SD_1 = \sqrt{\frac{342}{2}}$$

$$SD_1 = \sqrt{171}$$

$$SD_1 = 13.08$$

GROUP2 (SD_2)

$$SD_2 = \sqrt{\frac{(x_2-\bar{x}_2)^2}{n-1}}$$

$$SD_2 = \sqrt{\frac{2}{3-1}}$$

$$SD_2 = \sqrt{\frac{2}{2}}$$

$$SD_2 = \sqrt{1}$$

$$SD_2 = 1$$

HYPOTHESIS 3

a. Determining the mean for the two group

$$\bar{X}_1 = \frac{\sum x_1}{n_1} = \frac{45}{3} = 15$$

$$\bar{X}_2 = \frac{\sum x_2}{n_2} = \frac{18}{3} = 6$$

b. Determining the standard deviation for the two groups

GROUP 1 (SD_1)			GROUP 2 (SD_2)		
x_1	$x_1-\bar{x}_1$	$(x_1-\bar{x}_1)^2$	x_2	$x_1-\bar{x}_2$	$(x_1-\bar{x}_2)^2$
5	10	100	6	0	0
15	-	-	4	-2	4
25	10	100	8	2	4
45		200	18		8

GROUP 1 (SD_1)

$$SD_1 = \sqrt{\frac{(x_1-\bar{x}_1)^2}{n-1}}$$

$$SD_1 = \sqrt{\frac{200}{3-1}}$$

$$SD_1 = \sqrt{\frac{200}{2}}$$

$$SD_1 = \sqrt{100}$$

$$SD_1 = 10$$

GROUP2 (SD_2)

$$SD_2 = \sqrt{\frac{(x_2-\bar{x}_2)^2}{n-1}}$$

$$SD_2 = \sqrt{\frac{8}{3-1}}$$

$$SD_2 = \sqrt{\frac{86}{2}}$$

$$SD_2 = \sqrt{4}$$

$$SD_2 = 2$$