Elements of Financial Statements: Usefulness in Investment Decisions

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Article Info	ABSTRACT
	Elements of financial statements are the main sources of financial information of a corporation to the external users. The main objective of the study is to measure the usefulness of the components of the financial statements in investment decisions to investors. A well designed questionnaire regarding the usefulness of the components in the decision making was provided among the investors living in the northern part of Bangladesh. Only 74 investors provided their opinion through online platform. Then the data is analyzed using descriptive statistics, cornbach alpha, correlation and measures of association. After analyzing the result of the study, it is found that financial statements have a significant influence on several investment decisions of the investors. The result of study will encourage investors to use the information contained in the financial statements for fruitful investment decision. It is tried to discover the real scenario of usefulness of the financial statements to the investors as if the study covers only a limited area of Bangladesh.

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1. INTRODUCTION

Organizations disclosed their related information through financial statements and investors use the information contained in the financial statement in taking investment decisions (Osuala, Ugwumba and Osuji, 2012). The purpose of disclosing financial statement is to provide information about the performance of operation and financial position of an organization both parent company and its subsidiaries (Maidoki, 2013). Financial statements were found as the important source of information for making proper investment decisions. Both internal and external users collect their necessary information from published financial statement which aid them effective decision making for their investment (Faboyede and Mukoro, 2012). But a different opinion is found by Osuala, Ugwumba & Osuji (2012). They claimed in his study that shareholders in developing countries avoid financial statements as a source of required information for making proper investment decisions compared to other sources of information.

There is a rumor in our society that organizations didn't provide fair information through their financial statements. That's why investors avoid using the information provided through the financial statements by the organizations. Rather they prefer other sources of information like brokers advice, rumor etc. The aim of the study is to find out the usefulness of financial statements in several decisions relating investment to the investors. The main reason behind the aim of the study is that Bangladesh

is one the member countries of developing economics and how the investors treat the financial statements as a source of information for their investment.

There are a wide variety of sources of information available to investor's i.e newspapers, rumors, brokerage house, financial statement etc. Among the several sources of information, how financial statements affect the judgments and decision making of the investors is the main concern of this study. This study will encourage users in utilizing the information provided through the several parts of financial statements and user's decisions regarding an organization will be more effective.

The main objective of the study is to find out the acceptance level of financial statements as a source of information for rational investment decision to the investors. The specific objectives of the study are the followings: (a) To measure the acceptance level of each components of financial statements, (b) To identify how the components of financial statements affect the decision making process.

Literature Review & Hypothesis Development, Qudah et al. (2021) pointed out in their study that the accounting industry is evolving, and associated developments in the social sciences in particular; management and economics as well as the demand for quantitative and financial data to support decision-making are also taking place. Giving information for decision-making and delivering pertinent information through financial statements to the users is of the priorities of accounting. Almagtome et al. (2020) also stated that providing financial information on a specific economic entity is the primary goal of accounting, and the Accounting Information System, the largest and most important branch of the Management Information System, is responsible for providing this financial information. An essential and crucial task of accounting is the preparation of financial statement and providing information for decision-making. Luo (2017), concluded in his study that agency issues and quality information through financial statements were found significantly correlated with each other. Reliable and rational decision making was heavily relied on the information contained in the financial statements. Merino (2018) stated in his both internal users and external users extract their required financial information of an organization from the report published manually and electronically by accounting and information systems for their decision making. Dabash and Khamili (2017) claimed in their study that investors consider published financial statements as a valuable source of information for their investment and take their investment decision on the basis of information contained in the statements. Ahlam (2016) claimed in his study that published financial statements play a vital role in decision making specially financing decision making. If users analyze the information contained in the published financial statements and make decisions thereon then the objectives of the decision making has the possibility to achieve their target. It is mentioned by Makarim and Noveria (2014) in their study that financial statement analysis plays a vital role in measuring the strength and weakness of an organization. Investors can also evaluate financial performance, market condition, risk of financing, current rate of return etc. through the analysis of financial statements. Khawla (2016) stated in his study analysis of financial statements enable investors to determine the status of an organization in the market place as well as help in financial decision making. Bamidele, M. M., Ibrahim J., & Omole (2018) stated that published financial statements have a vital significance on protecting the interest of the investors because they gather reliable and fruitful information regarding investment from the financial statements. Pangaribuan et al. (2022) and Dumisani, (2019) claimed in their study that in order to compare financial reports with prior periods and report of other entities, financial report must be prepared through strictly following the standards of accounting. Users avoid financial report as a reliable source of information because financial report lacks of quality. Baruch, (2018) stated in his study that information regarding periodic performance and financial condition of an entity is disclose through financial report like income statement and financial statement. It helps investors and other users in making rational decision. But now a day the usefulness of financial report declined to the users because of loss of relevance of the financial report. Ho: Information contained in the financial statement is not useful for investment decisions, H1: Information contained in the financial statement is useful for investment decisions.

2. RESEARCH METHOD

The main objective of the study is to measure the usefulness of financial statements in investment decision making to the investors. This study is on convenient sampling and covers only the northern part of Bangladesh only. Investors living in the northern part of Bangladesh were selected as respondents of this study. The size of sample of this study is not determined previously rather it is determined on the basis of response returned to hand. Only 74 responses were received and thus the size of the sample of this study is 74.

Only primary data is used to conduct the study. The main source of information for this study is the investors living in the northern of Bangladesh. A well-structured questionnaire was prepared to collect data from the respondents. The questionnaire is designed & prepared considering the objectives of the study. The study tries to discover the real scenario about the usefulness of financial statement in the decision making process of the investors.

Primary data was mainly used to find out the result of the study. For collecting data from the respondents, a questionnaire is prepared in proper structure and distributed among the respondents living in the northern part of Bangladesh. It was distributed and collected through online platform. The questionnaire is divided into two parts. The first part is concerned with the demographic information about the respondents and it was included as a supplementary part of the questionnaire. The second part of questionnaire was vital for conducting this study. It was concerned about the perceived usefulness of the financial statement for investment decision making & its impact on the decisions taken by the investors. 5-point likert scale was used to collect data regarding the usefulness of financial statements.

Firstly, the collected data was stored and analyzed using SPSS version 26. Reliability test of the data was done using Cronbach's Alpha to test the validity of data. Descriptive statistics was used to find out the usefulness of each component of financial statement separately. To find out the result of hypothesis correlation analysis, measures of association & ANOVA test were applied.

3. RESULTS AND DISCUSSIONS

The following table is added in this work as a supplementary evidence of using financial statements. This table shows the aging schedule of investment by the investors. If we carefully observe the table we may notice that about 64.2% investments were between 1-10 years aged. This table depicts the picture of how long the investors use financial statement as a source of information for their decision making.

Table 1: Investment Aging Schedule

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	below 5 years	24	32.4	32.4	32.4
	5-10 years	25	33.8	33.8	66.2
	10-15 years	14	18.9	18.9	85.1
	15 years & above	11	14.9	14.9	100.0
	Total	74	100.0	100.0	

Source: Data collected from Questionnaire

Table 2: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.962	.962	13

Source: Data collected from Questionnaire

Cronbach's alpha is a popular tool for testing the reliability of used data in a analysis which takes a value between 0 & 1. A value 0.70 of Cronbach's alpha is considered as acceptable value for further analysis but the preferable value of Cronbach's alpha is 0.80 and above (Bryman & Cramer, 1995; Huck & Cormier, 1996). In this study Cronbach's alpha test is applied to test the reliability of the

data collected through the questionnaire. It gives us an overall value of 0.962 which indicate that further analysis using these data will provide us reliable answer to our questions.

Table 3: Descriptive Statistics

	N	Mean	Std. Deviation
Income Statement	74	3.91	.762
Balance Sheet	74	4.41	.595
Statement of Cash Flow	74	3.95	.719
Notes to the Financial Statements	74	4.01	.767
Valid N (listwise)	74		

A 5 point likert scale is used to collect data regarding the usefulness of various sections included in the financial statements. Where 1 indicated that the statements are not useful at all for investment decision making and 5 indicated that the statements are most useful for investment decisions. After analysis the data using descriptive statistics we are in a position the all the sections of the financial statements were considered as useful source of information to the investors for their better investment decisions as almost all values were near to four or above four. We may conclude that our null hypothesis is rejected and alternative hypothesis is accepted.

Table 4: Correlation Analysis

		Informed investment decision	Investment Monitoring	Prediction of future revenue	Prediction of EPS	Assessment of Liquidity	Future Dividend prediction	Evaluation of performance over time	Performance comparison with other companies	Rational investment decision
Income Statement	Pearson Correlation	.725	.603	.907	.907	.612	.819	.897	.758	.664
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000	.000
	N	74	74	74	74	74	74	74	74	74
Balance Sheet	Pearson Correlation	.767	.703	.528	.528	.330	.729	.542	.713	.775
	Sig. (2-tailed)	.000	.000	.000	.000	.004	.000	.000	.000	.000
	N	74	74	74	74	74	74	74	74	74
Statement of Cash Flow	Pearson Correlation	.732	.780	.572	.572	.961	.578	.611	.629	.675
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000	.000
	N	74	74	74	74	74	74	74	74	74
Notes to the Financial Statements	Pearson Correlation	.673	.728	.306	.306	.653	.545	.357	.717	.744
	Sig. (2-tailed)	.000	.000	.008	.008	.000	.000	.002	.000	.000
	N	74	74	74	74	74	74	74	74	74

Source: Data collected from Questionnaire

Correlation analysis is applied to test the hypothesis of the study. The above table depicts that there is a high degree of positive correlation (In maximum cases) among the components of financial statements and several decisions taken by the investors. Major findings of correlation analysis were depicted below: (a) In this study, the first component of financial statement is income statement. Income statement has a great influence on investor's decision making process because it has a high

degree of positive correlation with the decision criteria of the investors. It helps investor's greatly in predicting firm's future revenues and their EPS. (b) Statement of financial position is taken as the second important source of information in the study. It is also considered as a significant source of information by the investors which were depicted through the correlation value in the above table. Information contained in the statement of financial position is used mostly by investors in taking informed investment decision, monitoring their investment, Comparing performance with other companies & taking rational investment decision. (c) The correlation analysis result of the third element of financial statements i.e statement of cash flow showed that it has a most significant influence in predicting the cash flow of the firm. It has also helps investors in taking informed investment decision & monitoring their investment significantly. Besides that it has a strong positive correlation with all the decisions taken by the investors. (b) Notes to the financial statement were taken as the fourth source of information in the study. The correlation analysis result of the fourth components of the financial statement showed that it has a strong positive correlation with the decisions taken by the investors.

After analyzing the correlation analysis results along with the major findings the study reveals that the null hypothesis of the study was rejected and the alternative hypothesis was accepted. The elements of financial statements help investors in taking decisions regarding their investment significantly.

Table 5: Measures of Association

Independent Variables	Dependent Variables	R	R Squared	Eta	Eta Squared
Income Statement	Informed investment decision	.725	.526	.754	.569
	Investment Monitoring	.603	.364	.612	.374
	Prediction of future revenue	.907	.823	.915	.837
	Prediction of EPS	.907	.823	.915	.837
	Assessment of Liquidity	.612	.375	.612	.375
	Future Dividend Prediction	.819	.670	.855	.731
	Evaluation of performance Over Time	.897	.805	.899	.808
	Performance comparison with other companies	.758	.575	.831	.690
	Rational investment decision	.664	.441	.727	.529
Balance Sheet	Informed investment decision	.767	.588	.771	.594
	Investment Monitoring	.703	.494	.703	.495
	Prediction of future revenue	.528	.279	.529	.280
	Prediction of EPS	.528	.279	.529	.280
	Assessment of Liquidity	.330	.109	.366	.134
	Future Dividend Prediction	.729	.531	.737	.543
	Evaluation of performance Over Time	.542	.294	.544	.296
	Performance comparison with other companies	.713	.508	.714	.510
	Rational investment decision	.775	.600	.787	.619
Statement of Cash Flow	Informed investment decision	.732	.536	.751	.563
	Investment Monitoring	.780	.609	.837	.701
	Prediction of future revenue	.572	.327	.572	.327
	Prediction of EPS	.572	.327	.572	.327
	Assessment of Liquidity	.961	.924	.963	.928
	Future Dividend Prediction	.578	.334	.599	.359
	Evaluation of performance Over Time	.611	.373	.617	.381
	Performance comparison with other companies	.629	.395	.632	.400
	Rational investment decision	.675	.455	.718	.515
Notes to the Financial Statements	Informed investment decision	.673	.453	.678	.460
	Investment Monitoring	.728	.530	.764	.584
	Prediction of future revenue	.306	.094	.307	.094

Prediction of EPS	.306	.094	.307	.094
Assessment of Liquidity	.653	.427	.666	.443
Future Dividend Prediction	.545	.297	.557	.310
Evaluation of performance Over Time	.357	.127	.363	.132
Performance comparison with other companies	.717	.514	.746	.557
Rational investment decision	.744	.554	.744	.554

Source: Data collected from Questionnaire

The above table shows the result of association of variables i.e Independent variables (income statement, statement of financial position, statement of cash flow & notes to the financial statements) with dependent variables (Informed investment decision, Investment Monitoring, Prediction of future revenue, Prediction of EPS, Assessment of Liquidity, Future Dividend Prediction, Evaluation of performance Over Time, Performance comparison with other companies & Rational investment decision). The result of the analysis showed that decision making process of investors was highly associated with the components of financial statements. Almost all the values of the analysis were above 50% which indicated the information supplied through the elements of financial statements was helpful in taking several decisions by the investors.

Table 6: ANOVA

		Sum of Squares	df	Mean Square	F	Sig
Between People		98.649	73	1.351		
Within People	Between Items	11.703	3	3.901	16.985	.000
	Residual	50.297	219	.230		
	Total	62.000	222	.279		
Total		160.649	295	.545		
Grand Mean = 4.07						

Source: Data collected from Questionnaire

The ANOVA test result shows that F value is 16.985 significant at α 0.000. This reveals the goodness of fit of the data used in this study. Besides that the ANOVA table shows a grand mean of the dependent variables of the study which is 4.07. So, the study reveals that components of financial statement i.e income statement, statement of financial statement, statement of cash flow & notes to the financial statements were provided useful information to the investors. So, the null hypothesis of the study is rejected and the alternative hypothesis is accepted.

4.   CONCLUSION

This study is limited to the usefulness of financial statements in the decision making process of investor. Investors generally collect their desired information from various sources i.e brokerage house, newspapers, investment rating agency report etc. Among the several sources of information, financial statements are considered as one of the crucial source of information. Most of decisions taken by the investors were based on the information provided through the elements of financial statement. So, organizations providing information should follow the full discloser principles, otherwise investor's decision making process will be affected. Through this study, it is tried to find out the importance of financial statements to the investors for their fruitful decision making. Reponses from the respondents was collected through a questionnaire using convenience sampling technique. That's why investors living in the northern part of Bangladesh were included as the respondents of this study. It is one of the limitations of this study. The result will be more appropriate if the study cover large area of Bangladesh. But it is tried to discover the real scenario of acceptance level of financial statements as a source of information to the investors. The study reveals that elements of financial statements were providing useful information to the investors. The result of the study will encourage users to use the information contained in the financial statements. The first limitation of the study is that it covers only the northern part of Bangladesh and the number of respondents is only 74. It will more reliable if it

covers larger area of Bangladesh along with more responses. Another limitation of the study is that the analysis and result of the study is based on the responses received from the respondents. It will depict the actual scenario only if they provide their responses with logically & reliably. Further study can be done on the quality of information provided through financial statements and whether organizations maintain the instructions of IFRS while producing their financial statements.

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