

# Published Financial Statement as a Correlate of Investment Decision among Commercial Bank Stakeholders in Nigeria

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**Abstract**—This study investigated published financial statement as correlate of investment decision among commercial bank stakeholders in Nigeria. A correlation research design was used in the study. 180 users of published financial statement were purposively sampled from Lagos and Ibadan. Data generated were analyzed using Pearson correlation and regression. The findings of the study revealed that, balance sheet is negatively related with investment decision ( $r = -.483$ ;  $p < .01$ ) while income statement ( $r = .249$ ;  $p < .001$ ), notes on the account ( $r = .230$ ;  $p < .001$ ), cash flow statement ( $r = .202$ ;  $p < .001$ ), value added statement ( $r = .328$ ;  $p < .001$ ) and five-year financial summary ( $r = .191$ ;  $p < .01$ ) are positively related with investment decision. Findings also revealed that components of published financial statement significantly predicted good investment decision ( $R^2 = .983$ ;  $F_{(5,175)} = 284.5$ ;  $p < .05$ ) for commercial bank stakeholders. Therefore, it was suggested that Nigeria banks and professional bodies should instigate programs that will increase the knowledge of stakeholders on published financial statement.

**Keywords**—Commercial banks, Financial statement, Income Statement, Investment decision, Stakeholders.

## I. INTRODUCTION

ALLOCATING resources to investment without knowing the financial statement and operation performance of a company is a lot like throwing darts in a darkroom. Investment decision which involves an individual, investors or firm's decision to invest its current fund most efficiently in the long term assets in anticipation of an expected flow of benefit over a series of years include; expansion, acquisition, modernization and replacement of the long term assets, sales of a division or business (divestment), change in the method of sales distribution, advertisement campaign, research and development program etc. needs a well formulated strategy [1].

In recent time, the system of financial reporting is no more a choice as many banks look at it in the past but now a requirement throughout the world. This is as a result of decision making which becomes a daily affair of every

investor. The quality of investment decisions made relies on the value of the essential information that forms the source of that investment decision making. Of enormous value is the information published by financial statements, which generally provides a synopsis of all the other activities of the organization. To be of significance to investors and decision makers, published financial statement is generally suggested to be comprehensive both in content and quality [2], [3]. Sufficient guarantee has to be provided to make the information reliable and reduce uncertainty [4].

In this high opinion a lot of regulations exist both in Nigeria and abroad to defining the content and form of financial reporting. International Financial Reporting Standards (IFRSs) defines the recognition and measurement of accounting transactions and the mandatory disclosures to be made in the financial statements [5]. In Nigeria, different acts such as Companies Allied Matter Act, Banking Act and Insurance Act also put regulations on the content of financial statements [6]. The Companies Allied Matter Act Cap 1990 and Central Bank of Nigeria (CBN) put an obligation that bank's opinion be expressed as a guarantee of compliance with the act's requirements, by the company [7], [8].

Financial statements provide an overview of a business financial condition in both short and the long term. Financial statement is generally explained as financial information which is the information relating to financial position of any firm in a capsule form [9], [4], [10]. Nigeria Accounting Standard Board (NABS) describes financial statement as the method of communicating to interested parties information on the resource obligations and performances of the reporting entity [6]. Published financial statement is an approach of communicating accounting information to both internal and external users [7], [10]. It is also refers to a document prepared and published annually or periodically, depending on the need by the users; which will bring the information about an organization, mostly financials to the outside world [11]. These statements are what the potential and existing investors in the global world rely upon in taking investment decisions.

Published financial statement provides essential information for a wide variety of decision, investors draw information from the statement of the firm in whose security they contemplate investing [12].

Decision makers who contemplate acquiring total or partial ownership of an enterprise expect to secure returns on their investment such as dividends and increase in the value of their investment i.e. capital gain. Both dividends and increase in the

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value of shares of company depends on the future profitability of the enterprise. So investors are interested in future profitability [12]. Past income dividend data are used to forecast returns from dividend and increase in share prices.

In Nigeria, commercial banks are obligated a duty to fully disclose matters concerning their operations so as to aid investors in making investment decisions and to satisfying the legislating requirement tend to retain existing investors and to attract potential ones through the publication of their financial statements where the capital stock of a corporation is widely held and its affairs are of interest to general public relations [12]. Nevertheless, the value of published financial statement has been under pressure due to rising public expectation [13]. This is a result of a series of financial failures and the distress particularly in Nigeria banking sector. The existence of errors and irregularities in different published financial statements along with unethical approach made by some banks in Nigeria lead them to be disintegrated and lose their corporate identity. Examples are Oceanic bank, Afribank, Bank PHB etc. Therefore, the discussions and illustrations of this study examined the published financial statement as correlate of investment decision among commercial bank stakeholders in Nigeria.

#### *A. Problem Statement*

In spite of growing interest and efforts of regulatory agencies to fixed and regulate the content and quality of financial statement, high level of errors in financial statement is still a major public challenge facing commercial bank stakeholders in Nigeria. One of the main causes discovered as been responsible for this worrisome situation is the way commercial bank managers acted in a manner detrimental to the interest of their depositors and creditors by given out huge amount of loans without following adequate measures and precautions. As a result, using published financial statement in making investment decision among the commercial bank stakeholders is a problematic issue of great concern. It is in this light that this study investigates the relationship among components of published financial statements and investment decision in Nigeria. It is apparent that one cannot use a financial statement contain errors and abnormalities to make vital decision. For this reason, balance sheet, income statement, notes on the accounts, cash flow statement, value added statement, and five-year financial summary being the components of published financial statement are look into whether they significantly predict adjustment of investors' attitudes toward making an investment decision. Although, scholars in time past have explained the relevance of financial reporting to bank decision while its findings have been widely documented, yet the unavoidable role of published financial statement about its quality, usefulness and value to the investors needs scholarly and professional attention. This current study therefore addressed these gaps by examined the interrelationship of the components of published financial statements and how they predict investment decision among commercial bank stakeholders in Nigeria.

#### *B. Objectives of the Study*

The foremost aim of the study examines the correlation pattern that exists between published financial statement and investment decisions among commercial bank stakeholders in Nigeria. Specifically, the following objectives are set to:

- (i) Investigate the relationship that exists among the components of published financial statements.
- (ii) Examine if the components of published financial statements will significantly predict investment decisions of commercial bank stakeholders.

Stakeholders need understandable and fairly stated financial information to facilitate them make successful and proficient investment decision. Such information is anticipated to be completely embedded in the published financial statements of the banks of interest to the stakeholders. In order to empirically investigate the significant correlation of the information contents of financial statements on stakeholder's investment decision, the following hypotheses stated in their null form have been formulated:

**Ho<sub>1</sub>:** There is no significant correlation among balance sheet, income statement, notes on the accounts, cash flow statement, value added statement, five-year financial summary and stakeholders' investment decision.

**Ho<sub>2</sub>:** The respective variables (balance sheet, income statement, notes on the accounts, cash flow statement, value added statement and five-year financial summary) will not significantly predict stakeholders' investment decision.

## II. LITERATURE REVIEW

Financial statement can be described as financial information with reference to the economics activities of a firm. The important of financial statement is to assist both management (internal users) and investors (external users) in decision making regarding day-to-day operations and long-term plan of a company. Financial statements have been defined as "the main source of information for major investment decisions including whether to lend money to a firm by investing in its bonds, to acquire an ownership stake in a firm by buying its preferred and common stock, or to buy warrant or options on a firm's stock" [10]. Financial statements are documents prepared on financial activities of a business [12]. Financial statements are provided to aid decision makers inside and outside the organization to take proper decisions before embark on investment. Financial statements convey essential accounting information to both internal and external users. Internal users of financial statements are refers to the management while external users range from investors, shareholders, government to even the general public [10].

Financial statement is a standard practice of any organization to prepared in a clear form for stakeholders in agreement with the board authority that regulate of accounting information. Most of the time, financial statement is audited by registered auditors, government agencies e.g. tax so as to guarantee accuracy [14], [15]. In Nigeria, the components of

financial statements are specified by two bodies that is Company and Allied Matter Act (CAMA) and Statement of Accounting Standards. SAS No. 2 was issued in late 1984 by the Nigerian Accounting Standards Board (NASB) [6]. The bodies state that “all accounting information of an entity should be disclosed and presented in a logical, clear and understandable manner” [6], [10]. As highlighted by SAS, financial statement requires the following components which are; Statement of Accounting Policies, Balance Sheet, Profit and Loss Account or Income Statement, Notes on the Accounts, Cash Flow Statement, Value Added Statement, Five – Year Financial Summary [6], [10].

The most essential components of financial statements to look when investigating the quality of entire business or making decision for the future are: balance sheet, income statement, cash flow statement, value added statement and five-year financial summary.

**Balance Sheet:** According to Zager and Zager [13], balance sheet is “the fundamental financial statement that represents company’s financial position and is the basis for estimating the security of business”. The fundamental rudiments of balance sheet are: assets, liabilities and owners equity. The structure of assets, liabilities and equity is especially important, together with the correlation and interdependence of assets, liabilities and capital [13].

**Income Statement:** This is also refers to earnings reports operating statement. According to Amedu [12] income statement cover a year of operations and its objective includes the measurement of capital maintenance and income distribution. In this statement, operations are divided into two transaction groups which are sales and revenue. In financial firm, net incomes are gained once taxes are subtracted at current rate.

**Cash Flow Statement:** This is a statement exemplifying movements or changes of cash or its equivalent during a given period. This statement is generally prepared at the end of a fiscal period to reveal how cash was affected by the business operating, investing and financing activities during the accounting period [12]. Most often, this statement is prepared from income statement and changes in the working capital. Cash can be inflow or outflow. The inflows of cash are those that increase the position of cash in a firm while the outflows of cash are those that decrease the position of cash [17], [12]. Net result of cash flow statement is to verify the closing cash balance after adjusting all items of cash inflows with opening balance and all items of cash outflow [12].

**Value Added Statement:** This statement highlighting on the partnership’s performance in creating wealth. The importance of value added statement relies extensively upon its value to a potential user. It provides a sound base for more realistic decision making [18].

**Five-year Financial Summary:** This is refers to an extraction of financial information in the balance sheet and the profit and loss account [11]. Financial summary gives the benefit of understanding the movements of the financial analysis of a firm, which will aid the investor to decide on either to invest on short term or long term basis. For the time

being, with the universal issues relating with falling down of many banks, it is obligation to examine the process of generating the information on the published financial statements as this will be aid effective investment decision making.

#### *A. Investment Decision*

It is the duty of every investor to utilize profitably the resources that have been placed at its disposal, and to carry out investment function many decisions have to be made. Investment decision can be considered one of the most important decisions taken by investors, if not the most important one. The investment decision making process influence the investors affirmation in turbulent business environment and increase its market share [17]. It concerns the issue of capital allocation for fixed assets or financial assets; central place returns to fixed assets, acquired as a result of capital investment. By this decision, financial resources at investors’ disposal are allocated efficiently to acquire more market share. In addition, the available liquidities may be placed respecting the efficiency criteria on the capital market, to purchase financial assets [16], [17]. In any case of the chosen alternatives, the investment decision ought to be subordinated to achieve the investment objectives at long-term. Bucataru [19] explains in another that, investment decisions are those concerning the conversion of capital money in material form such as machinery, equipment, buildings, through operations of acquisition of these assets.

#### *B. Empirical Review*

Investment decisions are not made on a vacuum [12]. For this reason; there are bedrocks to which every decision stands. Financial statement summarizes a company’s assets, liabilities and shareholders’ equity at a specific point in time, and these three segments give investors an idea as to what the company owns and owes, as well as the amount invested by the shareholders [20]. Balance sheet provides a deep understanding for stakeholders to know the company’s financial position and aids stakeholder to see whether profit is realized in a company for a particular year [15], [21].

Stakeholders make decisions based entirely on the reported earnings from the statement of income without checking the balance sheet or cash flow statements [4], [14]. For every investment analysis, it is essential for stakeholder to understand and able to express the income statement analysis [22]. Understanding income statement analysis bestows good approaches for stakeholders to known how management effectively manages expenses, income and expenses, along with the actual taxes paid [23]. Cash flow statement captures both the current operating results and the accompanying changes in the balance sheet, therefore, cash flow statement may perhaps make available considerable information for stakeholders about what is really happening in a firm before making investment decision [15], [23]. Cash flow statement aids investors to evaluate future growth [23].

Furthermore, prospective stakeholder particularly the lenders may benefit from studies of the company’s value

added disclosure, consequently the possible effects of high wage and low company allocations on the company's future prospect for growth and further wealth creation can be realistically established [12]. Put differently, therefore, value added statement is a measure of wealth creation of a firm and its employees.

### III. METHODOLOGY

This section focuses on the procedures and methods employed in collecting data used for the study. In the study, a correlational design was used. One hundred and eighty copies of structured questionnaire were administered to commercial bank stakeholders in Lagos and Ibadan through purposive sampling techniques. The data set for the study was subjected to analysis and hypotheses were tested using t-test, regression and Pearson correlation analysis at 0.05 level of significance. Cronbach's Alpha was used to test for the internal consistency of the data and item-by-item reliability test ranges between 0.68 – 0.74 which suggests the adequacy of the measurement.

### IV. FINDING

The illustration in Table I below demonstrates the distribution of commercial bank stakeholders sampled for the study. Out of one hundred and eighty sampled, 19.4 percent of the majority indicates the general public follow by equal 16.7 percent of bankers and investors and 10 percent were tax authority. 7.2 percent to the total sample were customers of commercial banks while 6.1 percent represent the government agencies. 5.6 percent and 4.4 percent of the respondents representing financial analysts and auditors respectively. Hence, the result reveals that majority of the commercial bank stakeholders sampled were drawn from commercial bank staff and investors.

TABLE I  
DISTRIBUTION OF COMMERCIAL BANK STAKEHOLDERS

Category of Nigeria Bank Stakeholder	Frequency	Percentage (%)
Tax authority	18	10.0
Government agency	11	6.1
Banker	30	16.7
Shareholder	15	8.3
Financial Analyst	10	5.6
Investor	30	16.7
Auditor	8	4.4

TABLE II  
USEFULNESS OF FINANCIAL STATEMENTS COMPONENTS IN DECISION MAKING

		USEFULNESS			
		Very useful	Somewhat useful	Not very useful	Not at all useful
FINANCIAL STATEMENT COMPONENTS	Balance Sheet	14.0%	15.1%	46.5%	24.4%
	Profit and Loss Account or Income Statement	53.5%	24.4%	14.0%	8.1%
	Notes on the Accounts	19.8%	47.7%	17.4%	15.1%
	Cash Flow Statement	12.8%	45.3%	19.8%	22.1%
	Value Added Statement	59.3%	14.0%	10.5%	16.3%
	Five-Year Financial Summary	22.1%	36.0%	27.9%	14.0%

Educator	5	2.8
General public	35	19.4
Customer	13	7.2
Creditor	5	2.8
Total	180	100.0

Furthermore, the result revealed the level of understanding of the users of published financial statements. As illustrated in Fig. 1 below, 50 percent of commercial bank stakeholders which form the majority have limited knowledge of published financial statement while 18.6 percent have adequate knowledge of financial statement published by banks and 31.4 percent possessed know knowledge of financial statement. Therefore, the result implies that majority of the commercial bank stakeholders have limited understand of most of the financial statements published by Nigeria banks.

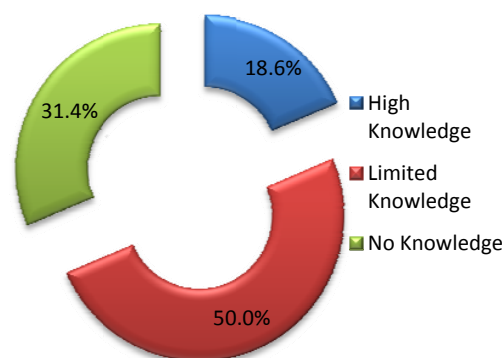


Fig. 1 Level of understanding of commercial bank stakeholders on published financial statements

The result of Table II reveals the order of usefulness of published financial statements components. The result signifies that out of the six components of financial statements published by Nigeria banks, value added statement was ranked to be the most very useful in making investment decision, followed by income statement. The result also revealed that notes on the accounts, cash flow statement and five-year financial summary are only useful to some extent while balance sheet was ranked 'not very useful' by the majority of the commercial bank stakeholders.

**H<sub>01</sub>:** *There is no significant correlation among balance sheet, income statement, notes on the accounts, cash flow statement, value added statement, five-year financial summary and stakeholders' investment decision.*

Illustration in Table III reveals that the components of financial statement are positively related with one another. Similarly, balance sheet is negatively related with investment decision ( $r = -.483$ ;  $p < .01$ ) while income statement ( $r = .249$ ;  $p < .001$ ), notes on the account ( $r = .230$ ;  $p < .001$ ), cash flow

statement ( $r = .202$ ;  $p < .001$ ), value added statement ( $r = .328$ ;  $p < .001$ ) and five-year financial summary ( $r = .191$ ;  $p < .01$ ) are positively related with investment decision. This indicates that among all the components of financial statement only balance sheet has negative relationship with investment decision while others like income statement, notes on the accounts, cash flow statement, value added statement and five-years financial summary was found to have positive relationship with investment decision of commercial banks' stakeholders.

TABLE III

CORRELATIONS COEFFICIENT OF JOINT RELATIONSHIP BETWEEN COMPONENTS OF FINANCIAL STATEMENT AND INVESTMENT DECISION OF COMMERCIAL BANK STAKEHOLDERS IN NIGERIA

	Balance Sheet	Income Statement	Notes on the account	Cash flow Statement	Value added statement	Five-year financial summary	Investment Decision
Balance sheet	1						
Income statement	.914***	1					
Notes on the account	.639***	.574***	1				
Cash flow	.385***	.278***	.211**	1			
Value Added St	.436***	.545***	.350***	.207**	1		
Five-year summary	.217**	.326**	.539***	.441***	.599**	1	
Investment decision	-.483**	.249***	.230***	.202***	.328***	.191**	1

\* $p < .05$ ;

\*\* $p < .01$ ;

\*\*\* $p < .001$

**H<sub>02</sub>:** *The respective variables (balance sheet, income statement, notes on the accounts, cash flow statement, value added statement and five-year financial summary) will not significantly predict stakeholders' investment decision.*

The result in Table IV reveals the shows the correlation of financial statement components with investment decision. The result signifies that income statement ( $\beta = .442$ ,  $p < .05$ ), Notes on the accounts ( $\beta = .267$ ,  $p < .05$ ), Cash flow statement ( $\beta = .299$ ,  $p < .05$ ), value added statement ( $\beta = .128$ ,  $p < .05$ ) and five-year financial summary ( $\beta = .291$ ,  $p < .05$ ) has positive correlation with investment decision while balance sheet ( $\beta = -.038$ ,  $p > .05$ ) correlate negatively with investment decision. This implies that out of six components of financial statement, only balance sheet negatively correlated with investment

decision while other variables such as income statement, notes on the account, cash flow statement, value added statement and five-year financial summary correlate positively with investment decision. Furthermore, the coefficient determination of ( $R$ ) is .991 which is positively correlated at 0.05 at level of significant ( $R^2 = .983$ ;  $F_{(5,175)} = 284.5$ ;  $p < .05$ ). This result indicates that components of published financial statement have significant correlation with investment decisions of commercial bank stakeholders. Statistically,  $R^2$  value of .983 signifies that 98 percent variance in components of published financial statement will predict good investment decision. This implies that the components of published financial statement significantly predicted good investment decision among commercial bank stakeholders in Nigeria.

TABLE IV

REGRESSION ANALYSIS SHOWING COMPONENTS OF PUBLISHED FINANCIAL STATEMENT ON STAKEHOLDERS INVESTMENT DECISION

Variables	$\beta$	t	P	R	$R^2$	F	P
Balance Sheet	-.038	-.429	Ns				
Income Statement	.442	5.165	.000				
Notes on the accounts	.267	2.662	Ns	.991	.983	2844.49	<.05
Cash flow Statement	.299	4.830	.000				
Value Added Statement	.128	1.329	.001				
Five-year Financial Summary	.291	4.165	.000				

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