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Role of Financial Statement in Investment Decision Making Process

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ABSTRACT

It is believed that financial statements are the key documents for any organizations for the investment decision making. Investment decision making depends upon the quality information obtained by the various sources and it is concluded in this research which is based on the findings that financial statement plays a vital role in investment decision making and recommends that no investment decision should be taken without the consideration of a company's financial statements.

Key Words: Accounting process, financial information, decision making process, financial statements

INTRODUCTION

Financial statement may be defined as financial data about the economics activities of a certain business organization. The essence of financial statement is to aid management in decision making about day to day operations and long-term plan to supply money in the business or who have other interest in the business. The ideal financial statement therefore, is one that is relevant as far as problem solving is concerned, since management decisions which the financial statements aim at aiding and facilitating are basically in the nature of solutions to problems. Unfortunately, some accounting system provides inadequate information either because in experienced staff produced or analyzed such information or the staff strength is inadequate. In this, profit figures in such situation are often distorted. So, the financial information must have the some of the peculiar characteristics such as they must be relevant, accurate, understandable, uniform and consistent. The most significant financial statements that we should take into account when examining the entire business quality and make decision for the future are: - income statement, statement of changes in owner's equity, balance sheet, cash flow statement and ratio analysis.

The investment decision relates to the decision made by the investors or the top level management with respect to the amount of funds to be deployed in the investment opportunities. Simply, selecting the type of assets in which the funds will be invested by the firm is termed as the investment decision. Investment decisions or analysis has to do with an efficient allocation of capital. It involves decision to commit the firm's funds to the long-term assets. Such decisions are of considerable importance to the firm since they tend to determine its value size by influencing its growths, profitability and risk. The investment decisions of a firm are generally known as the capital budgeting decision may be defined as the firm's decision to invest its current funds most efficiently in the long-term assets in anticipated of an expected flow of benefits over a series of years. They are very essential because they influence the firm's growth in the long-term, they affect the disk of the firm, they involve commitment large amount of funds, and they are irreversible or reversible at substantial loss and so on.

STATEMENT OF PROBLEM

It is believed that the role of financial statements in investment decision making in every sector has various problems to both investors and managers of business organizations. Evaluation of performance of a company in investment decision making , determination of the profitability of a company are very critical aspects in the investment decision making and all these matters or issues are related with the proper study and utilization of the financial statement. And this study is focused to examine the role of financial statements in the decisions making process.

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OBJECTIVE OF THE STUDY

The main objective of the study is to examine the role of financial statements in the decisions making process of the business houses.

SIGNIFICANCE OF THE STUDY

Financial statements and decision making are interrelated with each other. So, various scholars have done their research in this topics but it is rare in the Chitwan district that the research conducted empirically on that financial statements of the different organizations are really essential for the investment or not empirically. This study will be of immense benefit to banks by improving the banking performance financial analysts, investors, companies and financial organizations. This is because the study intends to help these stockholders in decision making. The study will help in widening knowledge financial statement in investment decision making, it will also make the organization to appreciate the importance of sound financial statement in the provision of information necessary for decision making.

REVIEW OF LITERATURE

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

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

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

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

According to Canada and White (4) is the series of decisions by individual economic units as to how much and where resources will be obtained and expected for future. Situation where capital expenditure decisions are made, they are based primary with measurement of capital productivity which provides an objective means of measuring the economic worth of individual investment proposals in order to have a realistic basis for choosing among the firm's long run property.

RESEARCH METHODOLOGY

This research is based on analytical and descriptive research. The method of data collection is based on primary method. The researcher personally involved in the data collection process with the help of structured questionnaire. This study was basically a survey research and therefore required the use of survey method of investigation. In this survey research, a questionnaire is designed to gather information relevant to this project topic. The questionnaire has option Yes and No. The method of sampling technique adopted is Convenience sampling. Researcher has collected data from 60 different business houses located in Chitwan district Area. The sample size is 60.

Analysis and interpretation

Response about the role of financial statement in investment decision making. Table 1.1

Options	Responses	Percentage (%)
Yes	60	100%
No	0	0
Total	60	100%

Source- Field survey 2020

Table 1.1 shows that all 60 respondents agree that financial statement play roles in investment decision making, while none of the respondents disagree.

Response regarding revealing the competence of management of the company through the financial statement. Table 1.2

Options	Responses	Percentage (%)
Yes	54	90%
No	6	10%
Total	60	100%

Source- Field survey 2020

Table 1.2 shows that 54 of the respondents agree that financial statement reveal the competence of management of the company while remaining 6 respondents disagree.

Response regarding forecasting future performance by the use of past financial statement. Table 1.3

Options	Responses	Percentage(%)
Yes	48	80%
No	12	20%
Total	60	100%

Source- Field survey 2020

Table 1.3 shows that 48 (80%) of the respondents agree that it is appropriate to believe in the ability of past financial statement in forecasting future performance and 12 respondents (20%) disagreed.

Response regarding the relationship between financial statement and investment decision making. Table 1.4

Options	Responses	Percentage(%)
Yes	60	100%
No	0	0
Total	60	100%

Source- Field survey 2020

Table 1.4 shows that all 60 respondents agree that there is a relationship between financial statement and investment decision making while none of the respondents disagree.

Response regarding the prediction of the future financial stand of a company. Table 1.5

Options	Responses	Percentage(%)
Yes	40	70%
No	20	30%
Total	60	100%

Source- Field survey 2020

Table 1.5 shows that 40 respondents (70%) agree that the financial statement of a company predict the future financial stand of a company while 20 respondents (30%) disagree.

Response regarding the help of financial statement to know the state of affairs of the companies. Table 1.6

Options	Responses	Percentage (%)
Yes	55	90%
No	5	10%
Total	60	100%

Source- Field survey 2020

Table 1.6 shows that 55 respondents (90%) agree that financial statement help users to know the state of affairs of the companies while 5 respondents (10%) disagree.

FINDINGS AND CONCLUSION

The study is mainly focused on the role of financial statements on the investment decision making process. The researcher concludes by saying that financial statement plays a vital role in investment decision making by the help of the data which are presented in the analysis part of this research article.

Financial statement is used to be relied upon in investment decision making. Financial statements are useful for forecasting company's performance and it can be said that financial statements provide various facts of a business such as, accurate records of its income and expenses and also regarding its assets and liabilities.

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