ROLE OF FINANCIAL STATEMENTS TOWARDS THE PERFORMANCE OF COMPANIES IN INVESTMENT DECISIONS: A CASE OF COCA-COLA KWANZA LTD, DAR ES SALAAM

ROLE OF FINANCIAL STATEMENTS TOWARDS THE PERFORMANCE OF COMPANIES IN INVESTMENT DECISIONS: A CASE OF COCA-COLA KWANZA LTD

By

Lillian Mathew Munisi

A Dissertation Report Submitted to Mzumbe University Dar-Es-Salaam Campus College in Partial Fulfilment of the Requirements for the Award of Master Degree of Science in Accounting & Finance (MSc. A&F) of Mzumbe University.

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University a dissertation entitled, **Role of Financial Statements Towards the Performance of Companies in Investment Decisions: The Case of Coca-Cola Kwanza Ltd,** in partial fulfilment of the requirements for award of the degree of Master of Accounting and Finance (MSc. A&F) of Mzumbe University.

....

Major Supervisor

....

Internal Examiner

Accepted for the Board of ……..............................…………………

DEAN/DIRECTOR /FACULTY/DIRECTORATE/ SCHOOL/BOARD

DECLARATION

I**, Lillian Mathew Munisi,** declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

Signature……………………………………………

Date…………………………………………………

COPYRIGHT

ACKNOWLEDGEMENT

I wish to express my profound gratitude to persons whose spirited guidance and support contributed to the success of this academic task. Although it is impossible to mention everyone in this limited space provided, I wish though to acknowledge quite a few.

First, my special thanks go to my supervisor, Ms. Sarah R. Mngoya without whose support, encouragement and criticisms, this dissertation would not have been able to appear as academically beautiful as it is now.

Second, I express sincere gratitude to my entire classmates whose company contributed a lot to my success. In this group special thanks should go particularly to Mr. Mwakifulefule, whose unbending support and encouragement is highly appreciated.

Third, I am highly thankful to my beloved brother Raymond Munisi who made me realise my dream of joining Mzumbe University. I am also grateful to all other members of my family who, in one way or another stood by me as I skipped important family gatherings, discussions and commitments to attend lectures, class works, discussions and preps. To mention but a few are my beloved sister Linah Munisi and my beloved friend Simon M.

Last but not least, I am grateful to all respondents and management at Coca-Cola Kwanza Ltd (Dar es Salaam), for their cooperation and acceptance in providing me with useful primary data that became instrumental in my data analysis findings. To others not mentioned here, but did have a contribution in any way towards my academic life, love to you all!

DEDICATION

I dedicate this dissertation to my parents, Mathew Jonas Munisi and Mrs. Oliva Wilbard Munisi. It was through their calmness, patience and support that stirred me through up to University.

And to all my friends who provided me with moral and material incentives. May the Mighty Bless you All Abundantly!

ABBREVIATIONS

AAPs	academic accounting programmes
CCKL	Coca- Cola Kwanza Limited
ED	Exposure Draft
GAAP	Generally accepted accounting principles
IAS	International Accounting Standard
IAS1	International Accounting Standard 1
IES	International Education Standards
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
IPSAS	International
MBA	Masters of Business Administration
MSC	Masters Degree in Science Accounting and Finance
NBAA	National Board of Accountants and Auditors
OCI	Other Comprehensive Income
PAPs	professional accounting programmes
Sabco	South African Bottling Company

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

This study presents an investigation on the role of financial statements towards the performance of companies in investment decisions at Coca- Cola Kwanza Limited (CCKL), Dar es Salaam Region. Specifically, the study evaluated the importance of financial statements at CCKL in investment decision making; the accounting system used at CCKL to provide accurate, timely and relevant financial statement; identified problems and challenges faced when preparing financial statements at CCKL and suggested possible solutions. The study also assessed whether there was any need to improve the financial statements reporting at CCKL.

The research employed a case study model with both quantitative and qualitative analysis approaches employed. To achieve that goal, both primary and secondary data were collected, and analyzed. Primary data collected through personal interviews, observations and questionnaires (CCKL) came from a sample of 60 respondents randomly selected. Examination of various records, other related literature in books, journals, reports, academic research documents were meant for secondary data.

Findings show that financial reports are important in deciding the right investment decisions for a company. In view of that, the study recommends that management establishes a Pre-Audit unit to enable financial statements to be prepared in line with financial reporting framework s or any other regulatory accounting frameworks.

CHAPTER ONE

PROBLEM SETTING

1.0 Introduction

This chapter introduces the background to the problem, statement of the problem and research questions. It also contains information on the significance of the study, limitations and delimitation, and scope of the study.

1.1 Background to the Problem

Investment decisions based on reliable financial statements is the primary role of any management that seek higher returns for a company (Warne 2009). Global and national markets demand accounting information (financial statements) which is timely, relevant, accurate, comparable and understandable to facilitate the organization's decision making processes (Elliott 2006). As such, the effects of accounting information on investors' judgments remain a significant topic of interest to academics and investors (Cox 2005). Prior research has shown that accounting information, including its presentation format affects investors' judgments and investment decisions (Maines et al 2000).

Recent research has provided insights into investors' judgment processes in relation to accounting information sources (Elliott et al. 2008), comprehensive income (Maines, 2000), pro-forma earnings (Elliott 2006), fair-market valuations (Warne 2009), and auditor opinions over internal controls (Smith 2009). Nevertheless many companies all over the world are experiencing difficulties in investment decision making processes resulting from inappropriate financial statements such as accounting records. Nobes (2002) pointed out that to some extent financial statements may be prepared falling short of the needs of users. This problem however, has worldwide external environment, culture, legal system, taxation and inflationary ramifications.

In most continents i.e. Europe, Asia and Africa, the traditional scarcity of 'outsiders' shareholders has meant that preparing external financial statements using

International Financial Reporting Standard (IFRS) has been largely invented for the purpose of protecting creditors or controllers of the economy (Cole, 2000). This has not encouraged the development of flexibility, judgment, fairness or experimentation. However, it does not lead to more careful accounting (Cole, 2000), bringing into conflict the interests of the creditors and their shareholders. It is a known fact creditors are always more interested getting their money's worth back and shareholders in an unbiased estimate of future prospects. Practically this has been done in Africa in order to give wrong financial statements to give cover for tax evasion, fraudulent practice and complexity data. The entire scenarios do mislead investment decision making processes (Maines et al 2000). This research therefore provides interesting insights into the relation between accounting information and the investment decisions of CCKL.

1.2 Statement of the Problem

Financial Statements are very crucial items in economic decision making particularly in companies. It has been a common story that many companies in Tanzania are operating under poor financial statements (Adolf et al, 2008). The problem either emanates from poor planning and poor decisions of the management, or managers who are not directly responsible for the poor financial performance of companies. This is because the financial statements prepared by the companies' accountants result from accounting records, which are then used by the managers in making the companies' investment decisions.

Hermanson, (1998) argued that financial statements play a vital role in providing information needed to make knowledgeable investment decisions. This is because the information supplied by financial statements is in the form of quantitative data, primarily financial in nature and relates to specific economic entity. Managers use this qualitative and quantitative data to make investment decisions. According to Adolf et al (2008), preparing a good financial statement for decision making is the most difficult task for many companies. Companies have failed to give productive decisions due to lack of sufficient financial information to base decisions. In the end, they suffer from mismanagement, lack of controls and accountability, operating losses and irresponsibility, insufficient trained and unsophisticated management, lack of adequate accounting and statistical data (Adolf et al, 2008). It thus became essential for the researcher to conduct a study on the role of financial statements towards the performance of companies in investment decisions using Coca- Cola Kwanza Limited (CCKL), as a case study.

1.3 Research Objectives

1.3.1 General Objective

The general objective of this study was to investigate the role of financial statements towards the performance of companies in making investment decisions at CCKL, Dar es Salaam Region.

1.3.2 Specific Objectives

i. To evaluate the importance of financial statements in making investment decisions at CCKL.
ii. To evaluate the accounting system used at CCKL to provide accurate, timely and relevant financial statement.
iii. To identify any problems and challenges faced in the preparation of financial statements at CCKL and suggest possible solutions.
iv. To identify any need to improve the financial statements at CCKL.

1.4 Research Questions

1.4.1 General Question

What is the role of financial statements towards the performance of companies in investment decisions?

1.4.2 Specific Questions

i. What is the importance of financial statements in making investment decision at CCKL?
ii. Which accounting system is used at CCKL to provide accurate, timely and relevant financial statement?

iii. What are the problems and challenges faced in the preparation of financial statements at CCKL, and their possible solutions?

iv. Is there any need to improve the financial statements at CCKL?

1.5 Significance of the study

The study was intended to investigate the role of financial statements towards the performance of companies in investment decisions at CCKL. It would be beneficial to CCKL and other researchers, with a view of adding more literature to the other body of works on investment decisions and performance.

i. To CCKL

The study findings would entail an effective investment decisions using good financial statements. Financial statement analysis is critical in making effective stock analysis. If a company does not do enough research on stock investments, most likely scenario is that of loss of cash as no forecast on the profitability was extensively carried out. The balance sheet, income statement, cash flow statement and statement of owners' equity each offer unique insights. Combined, they give a good sense of a company's overall financial picture. Using all these tools, management would be encouraged to use financial statements in investment decisions.

ii. To the other Researches

The result of the study is useful to potential researchers to further investigate the role of financial statements towards the performance of different companies in investment decisions. This also relates to private and other profit making companies doing business in Tanzania.

iii. To the other Researcher

The study is a requirement for completion of a Master’s Degree in Business Administration (MBA) at Mzumbe University (Business School-Dar es Salaam Campus). It is a partial, but an important undertaking by the researcher to conduct an empirical study. Information gained while writing this dissertation would act as the background knowledge for my future investments and I hope other investors would be able to choose their portfolio after reading this dissertation.

1.6 Limitations of the study

Apart from the usual limitations associated with this research such as lack of response and cooperation by some respondents, the researcher could not study deeply the role of financial statements towards the performance of companies in investment decisions. This was informed by the limited research time frame (five months) which did not permit a thorough diagnosis of the research problem, data collection, an in-depth literature reviews and writing of the report. This led to a rush work, with implications on the study findings.

1.7 Delimitations of the study

Selection of the sample size and right segment was perfect, and eliminated possible errors that could have arisen from wrong judgments and conclusions. Though Coca-Cola Kwanza has more than 200 employees, only 60 respondents were selected in order to give a true and fair view of the study. The rest of the employees' views were not used in the analysis and the findings are limited to only 60 respondents.

Proper techniques such as interview and questionnaire were used from time to time to reduce the weaknesses of other tools such as telephones, observations etc. The findings were therefore limited to these two data collection techniques.

1.8 Scope of the study

The study was conducted at CCKL, Dar es Salaam Region. CCKL is part of a South African Bottling Company (SABCO) global franchise headquartered in Port Elizabeth, South Africa. It is a multinational company that specializes in non-alcoholic beverages, principally carbonated soft drinks, as well as non-carbonated beverages. Its beverage products comprise bottled and canned soft drinks. The company markets its non-alcoholic beverages under various brand names, including Coca-Cola, Diet Coke, Fanta, and Sprite. The company also sells its beverage concentrates and syrups to bottling and canning operators, distributors, fountain wholesalers, and fountain retailers, making millions and millions of Tanzanian shillings in sales. Based on over 200 employers as per records made available by the human resources department, the research used only 60 respondents, mainly drawn from the Accounts Department (i.e. Financial Managers) and Finance department (corporate office personnel).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section focuses on the study review of the available literature. According to Saunders et al. (2007), a review of the literature does not only provide the foundation on which a research is built but also assists the researcher in settling on a precise research question. If a researcher poses a question that has already been addressed in other studies, he or she betrays his or her ignorance of the literature (Ben, 2012). In a similar vein, Kumar (1999) found that undertaking such a review allows the researcher to place his or her study in the context of previous research. He also noted that reviewing the literature shows the researcher what type of research methodologies have previously been used in the area and this will assist the researcher in eventual selection of an appropriate methodology.

In this review information, ideas, data and evidence written by different authors on the research key areas as financial statements, performance of companies and investment decisions are covered. Others are conceptual definitions, analysis of the underlying theories/model, and the analysis of empirical studies and research topic from other countries and Tanzania, beginning first with the case study (CCKL Ltd).

2.1 Theoretical definitions

2.1.1 Financial statements

A financial statement (or financial report) is a formal record of the financial activities of a business, person, or other entity. Relevant financial information is presented in a structured manner and in a form easy to understand. Financial statements reflect the effects of economic events on the business entity. Financial statements can also be the provision of information to meet the needs of the accounting information (Glautier, 2001). Due to multiple definitions by various authors, it is observed that the principal definition of the financial report/statement rests on the tool of financial communication to various users for decision making purposes (Monyo, 2000). Financial statements is the results of the activities of an entity and is prepared to help interested persons decide on questions such as whether to lend it money or invest in its shares. It can be seen as part of the link between the financial statements and the decision making process. It is also made up of trading, profit and loss account, balance sheet and the statements of source and application of fund statements (ACCA, 1998).

2.1.2 Investment decision making

Investment decision comes from the word decide, meaning to choose from the available alternatives/preferences. It is the selection of a course of action from among alternatives; it is the core of planning, and as an accepted part of everyday human life (Cole, 1993). According to Gupta (2001) investment decision making is the process of choosing a course of action from among alternatives to achieve desired goals; it consists of activities a manager performs to reach conclusion; moreover, it is the process of selection and aim is to select the best alternatives. Decision-making involves a choice of actions or strategies, the outcome of which may be known for certainty or completely unknown. Research into decision making shows clearly that some questions are best answered by experts (e.g., how to perform brain surgery), while other questions are best answered by groups (e.g., economic, political, and market forecasts). Still others may be best handled by a small sub-group (Wiley, 2006).

i. Investment decisions to a company's performance

Making decision is critical for success of any business organization. However, it is essential to use a critical decision making process. An economic or financial decision involves in making the best allocation of available resources. These decisions can range from individual level as a key player of business such as buy or not to buy shares of the company; supply or not to supply on credit, the raw materials to organization, to very sophisticated and complicated decisions of a company at large (Weihrich *et al*, 2001).

Financial Statement plays a vital role in providing information needed to make knowledgeable financial decisions. The information supplied by accounting is in form quantitative data, primarily financial in nature and relates to specific economic entity. People have to make both qualitative and quantitative information on decision making (Gupta, 2001).

i). Features of decision making

Gupta (2002) points out several features of decision-making:

i. Decision making is goal-oriented process - decisions are made to achieve some goals or objectives. The intention is to move towards some desired state of affairs.

ii. Decision making implies set of alternatives - a decision problem arises only when there are two or more alternatives. If there is only one alternative, there is no decision to be made.

iii. Decision making is dynamic process - it involves time dimension and a time lag. The techniques used for choice vary with the type of problem involved and the time available for its solution. It is situational.

iv. Decision making is always related to the environment-a manager may take one decision in a particular situation and quite another in a different situation.

v. Decision making a continuous process or ongoing process- managers has to take series of decisions and managerial job is perpetually decision making exercise.

vi. Decision making implies freedom to the decision maker regarding the final choice. It also involves commitment of resources in specified ways.

vii. Decision making is an intellectual or rational process. Decisions are the products of deliberations, reasoning and evaluation. However, Gupta (2002) further argued that decision making cannot be completely qualified. Many decisions are based on intuition and instincts. Systematic analysis of pertinent fact is not always possible.

i. The roles of decision making

a) According to Gupta (2001), decision making also have some roles to play towards the performance of the company:
b) Decision making is the vehicle for carrying managerial workload and discharging managerial responsibilities.

c) The life of manager is perpetual decision-making activity. The business executive is by profession a decision maker and the moment of decision is the most creative event in the life of the executive.

d) Decision making is ubiquitous and permeates every step in the management process. It penetrates all the functions of management.

ii). Types of decisions making

Basing on different situations in which decisions are made, time and procedures to be followed upon making such decisions, there are various types of decision making. According to Gupta (2001); decision-making can either be categorized as either programmed or non-programmed decisions. Programmed decisions are solutions to routine problems determined by rules and procedures or habit, and Non-programmed decisions are specific solutions created through unstructured process to deal with non-routine problems.

Table 2.1: Different between programmed and non programmed decisions

Programmed decisions	Non programmed decision
Deal with routine and repetitive problems. Highly certain conditions. Solutions according to established procedures. Require little judgment and deliberation. Usually made by lower level executives.	Deal with unique and novel problems. Highly uncertain conditions. Each situation is different and needs a creative solution. Involve much thought and judgment. Generally made at higher levels.

Source: Gupta, (2001), Management Approaches and decision making

i. Routine decisions - These are of repetitive nature. They involve short-term commitments and have minor impact on the future of the organization. These decisions are generally made at lower levels of management in day-to-day operation of the business. This is established to make quick decisions. For example supervisor can decide whether an employee is entitled to overtime or not.

ii. Strategic decisions-Involve long-term commitments and large investments. These exercise a permanent influence on the future of the organization as whole.

iii. Organizational Decisions – these are made to further the investments of organization. Managers make them in their official capacity as allocation of resources. These decisions are based on rationality, judgment and experience. Such decisions can be delegated to lower levels. These decisions affect the functioning of the organization.

iv. Personal decision-these are made by managers as individuals and on their own behalf. Such decisions can't be delegated. Decisions to marry, to buy a house, to send children in a boarding school are example of personal decisions. Such decisions affect the personal life of a manager but may affect the organization indirectly or directly. For example the decision of the chief Executive to retire early may have a direct effect on his company.

v. Individual decisions - these are taken by a single individual. These are concerned mainly with routine problems for broad policies available. In such decisions analysis of various variables is relatively simple.

vi. Group decisions – these are taken by a group of persons constituted for this purpose. Decisions taken by Board of Directors or committees are examples of group decisions. These decisions are generally important for the organization. Group decision-making generally results in more elastic and well-balanced decisions and encourages participative decision-making. But it involves delay and makes it difficult to fix responsibility for such decisions.

2.2 Importance of financial statements

According to *StudyMode.com* (08, 2013), the importance of financial statements in a business is great. There are several difference reasons for a business to need financial statements. Financial statements usually present the picture of the financial health of a given entity. It is also critical that a business comes up with accurate financial statements, not only for their record keeping for the purpose of satisfying external reporting expectations. In many ways, financial statements offer an essential glimpse into the financial health of the business, but they are only good for that specific period that they are used in (month, quarter, and year). These statements are not only used by the company to see how the flow of business is going, but they are also used by external users. Some of the external users are:

i. Institutional Investors- these comprise of investors who use the statements to assess the financial strength of a company in order to make a logical investment decision

ii. Financial Institutions- this is a group of banks and other lenders that use financial statements to decide whether to help the company with working capital or to issue debt security to it.

iii. Government- Financial statements are used by the government to analyze whether the tax paid them is accurate and is in line with their financial strength.

iv. Vendors- this group of people extend credit to a business and use statements to determine if they business is credit worthy

These statements need to be accurate in order to help investors decide if they want to invest in a business venture. They will also come up with detailed evaluations of the viability and financial stability along with strength of the company before making the decision to invest or not

Professor Monyo, (2000) analyses the usefulness of financial statements. He pointed out that, the market receives large amount of information that is relevant to a particular firm. Thus at one level it could be said that the annual report is just one piece of information that helps the market to form opinions on the financial strength of an organization. He further pointed out that financial statement prepared based on historical data may not have direct relationship to future outcomes.

It has been concluded that, "past earning growth does not help to predict future growth, since the future is so uncertain. Someone making decision for the future based on the reports prepared on historical data may face some trouble on the preparation of financial statements". Short-term profit and consideration of long term objectives or non-profit objective (employee's welfare) is excluded. As a result management concentrates on achieving the best short-term profits to the exclusion of other objectives.

2.3 Financial reports/statements and decision making

Decision making is not the core of every investment activity. A decision is a choice between two or more alternatives. The implementation of meaningful decision gives way for achievement of investment goals and objectives while implementation of wrong decision positively gives rise to investment failure. The ultimate objectives for investment are profit maximization and growth thus it becomes necessary that capital decision have to be made and implemented so as to achieve the aforementioned objectives (Mulkay, (2003).

For a meaningful decision that will be used in these objective for an investment to be made available, analysed and studied and through what is derived, decision is made and implemented wither for action, execution or corrective measures where necessary. One of the important information needed about investment is concerned with financial aspect and the record that contains the financial aspect of an investment is what is referred to as analysis of financial statement referred to as analysis of financial statement analysis (Gomes, 2001).

Financial reports or statements are linked with decision making processes. Taylor (1987) pointed out that financial statement in decision making exist to provide information about the financial characteristics of an organization to individuals and groups interested in the organization. He further argued that the processes of financial statement reports in decision making do not take place in a vacuum. They are significantly affected by economic and social environments in which they are conducted. They are a reflection of the prevailing notions of the accounting theory strongly influenced by the regulatory system which operates to control them.

Moreover, Simon (1988) noted that it is often necessary to interpret financial statements in order to identify the strength and weakness of a company and highlight any underlying trend in its operation hence make a reliable decision. He however, said that one of the methods of identifying the company’s strength and weakness is the use of ratio analysis. It is therefore observed that an entity’s trends in its operation can be obtained upon analysis of financial statements provides the basis for decision making. Management uses accounting records (for example balance sheet, profit and loss account statement and so on) when making future resources allocation decisions concerning long-term and short-term investment (George, 1993).

It is observed that it is through financial reports that decision makers get information necessary for decision making. Therefore proper financial reports will result into a rational decision whereas inappropriate ones will automatically mislead decision makers.

2.4 Manner of financial reporting (True and Fair View)

The concept of a true and fair view lies at the heart of financial reporting. It is the ultimate test for financial reports and, as such, has a powerful, direct effect on accounting practice. No matter how skilled the standard-setters and law-makers are; it is the need to show a true and fair view that puts their requirements in perspective.
The true and fair view is, furthermore, a dynamic concept because its content evolves in response to changes in; inter alias, accounting and business practice. This dynamism pervades the whole system of financial reporting, affecting the interpretation of every requirement and instigating and providing direction to the development of accounting practice (FRC, 2001).

It is inherent in the nature of the true and fair view concept that financial reports will not give a true and fair view unless the information they contain is sufficient in quantity and quality to satisfy the reasonable expectations of the readers to whom they are addressed. Such expectations change over time and the Board seeks, through its accounting standards and other authoritative pronouncements, both respond to those expectations and to influence them. The reports of Principles may therefore be expected to contribute to the development of the concept (FRC, 2001).

The report of Principles does not, however, define the meaning of true and fair—it is detailed legal requirements, accounting standards and, in their absence, other evidence of generally accepted accounting practice, rather than the Statement itself, that normally determine the content of financial reports. Nevertheless, as the report is a set of high-level principles designed to help in setting-standards, it has the true and fair view concept at its foundation. Its insistence on relevance and reliability as prime indicators of the quality of financial information is just one example of this (Senkoro, 2002).

2.5 Qualitative characteristics of financial statements

Rita and Carter (1984) pointed out considerations for a good financial statement. They argue that a good financial statement should take note of whether knowledge of the past performance can ever be a guide to future performance; the effect of the actual earnings announcement and publication of the accounts of the company; and whether an efficient capital market is able to detect the "correct" signals from a set of accounts that has been designed to create a favourable impression. Alexander and Briton (1986) identified the necessary attributes of financial statement for interested parties to make rational economic decisions. The useful information contained in financial statement should posses some characteristics, which they identified should be understandable, relevant, reliable, accurate, timely and comparable.

i. Understandability

An essential quality of the information provided in financial statements is that users readily understand it. For this purpose, users are assumed to have a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information with reasonable diligence. Information about complex matters should be included in the financial statements because of its relevance to the economic decision-making. Needs of users should not be excluded merely on the grounds that it may be too difficult for certain users to understand.

ii. Relevance

To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

Information about financial position and past performance is frequently used as the basis for predicting future financial position and performance and other matters in which users are directly interested, such as dividend and wage payments, security price movements and the ability of the entity to meet its commitments as they fall due.

To have predictive value, information need not be in the form of an explicit forecast. The ability to make predictions from financial statements is enhanced, however, by the manner in which information on past transactions and events is displayed. For example, the predictive value of the income statement is enhanced if unusual, abnormal and infrequent items of income or expenses are separately disclosed.

iii. Reliability

To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfulness.

iv. Accuracy

This refers to a situation where the contents of the report are assumed by an independent opinion expressed by the external or internal auditors' reports to be accurate and correct.

v. Timelines

This is another important characteristic of useful information. It recognizes the fact that a report has to be submitted to the one in need of it within the required period of time so that actions or decisions are taken or made and when required rather than being taken or made out of date.

vi. Comparability

Information on an entity's financial statements is useful if it can be compared with similar information about the body for the same other period or point in time and with similar information about other bodies. Such comparability is usually achieved through a combination of consistency and disclosure.

2.6 Components of financial statements

The purpose of financial statements is to communicate the Group's financial information to its stakeholders, especially shareholders, investors and lenders. In this chapter we try to help those readers who do not have an accounting background to understand our financial information, by explaining the functions and relationships between three essential financial statements. According to IAS 1(2011), a complete set of financial statement should contain statement of financial position, statement of comprehensive income, cash flow statement and statement of changes in equity.

2.6.1 Statement of financial position

This shows the financial position of an entity on a specific date. Each entity should present in its financial statements based on the nature of its operations, clear classification between current assets and fixed assets and another between its current long-term liabilities as separate classifications on the face of balance sheet. The statement of financial position sums up the Group's economic resources (non-current assets and working capital), obligations (debts and other non-current liabilities) and owners' equity at a particular point of time.

It also shows how the economic resources contributed by lenders and shareholders are used in the business. In the past, we used to call this statement a "balance sheet" because at any given time, assets must equal liabilities plus owners' equity (in other words, be in balance). The new name reflects its function more accurately. It is comprised of three main components: Assets, liabilities and equity. Statement of Financial Position helps users of financial statements to assess the financial soundness of an entity in terms of liquidity risk, financial risk, credit risk and business risk. Table 2.2 gives an illustrative example of a Statement of Financial Position prepared under the format prescribed by IAS 1 Presentation of Financial Statements.

Table 2.2: Example of a Statement of Financial position

Statement of Financial Position as at 31st December 2012

	Notes	2012 USD	2011 USD
ASSETS			
Non-current assets			
Property, plant & equipment	**9**	**130,000**	120,000
Goodwill	**10**	**30,000**	30,000
Intangible assets	**11**	**60,000**	50,000
		220,000	200,000
Current assets			
Inventories	**12**	**12,000**	10,000
Trade receivables	**13**	**25,000**	30,000
Cash and cash equivalents	**14**	**8,000**	10,000
		45,000	50,000
TOTAL ASSETS		**265,000**	250,000
EQUITY AND LIABILITIES			
Equity			
Share capital	**4**	**100,000**	100,000
Retained earnings		**50,000**	40,000
Revaluation reserve	**5**	**15,000**	10,000
Total equity		**165,000**	150,000
Non-current liabilities			
Long term borrowings	**6**	**35,000**	50,000
Current liabilities			
Trade and other payables	**7**	**30,000**	25,000
Short-term borrowings	**8**	**10,000**	8,000
Current portion of long-term borrowings	**6**	**15,000**	15,000
Current tax payable	**9**	**5,000**	2,000
Total current liabilities		**65,000**	50,000
Total liabilities		**100,000**	100,000
TATAL EQUITY AND LIABILITIES		**265,000**	250,000

Source: IAS 1, 2013

a) Assets

i. An asset is something that an entity owns or controls in order to derive economic benefits from its use. Assets must be classified in the balance sheet as current or non-current depending on the duration over which the reporting entity expects to derive economic benefit from its use. An asset which will deliver economic benefits to the entity over the long term is classified as non-current whereas those assets that are expected to be realized within one year from the reporting date are classified as current assets.

ii. Assets are also classified in the statement of financial position on the basis of their nature:

iii. Tangible and intangible: Non-current assets with physical substance are classified as property, plant and equipment whereas assets without any physical substance are classified as intangible assets. Goodwill is a type of an intangible asset.

iv. Inventories balance includes goods that are held for sale in the ordinary course of the business. Inventories may include raw materials, finished goods and works in progress.

v. Trade receivables include the amounts that are recoverable from customers upon credit sales. Trade receivables are presented in the statement of financial position after the deduction of allowance for bad debts.

vi. Cash and cash equivalents include cash in hand along with any short term investments that are readily convertible into known amounts of cash.

b) Liabilities

i. A liability is an obligation that a business owes to someone and its settlement involves the transfer of cash or other resources. Liabilities must be classified in the statement of financial position as current or non-current depending on the duration over which the entity intends to settle the liability. A liability which will be settled over the long term is classified as non-current whereas those liabilities that are expected to be settled within one year from the reporting date are classified as current liabilities.

ii. Liabilities are also classified in the statement of financial position on the basis of their nature:

iii. Trade and other payables primarily include liabilities due to suppliers and contractors for credit purchases. Sundry payables which are too insignificant to be presented separately on the face of the balance sheet are also classified in this category.

iv. Short term borrowings typically include bank overdrafts and short term bank loans with a repayment schedule of less than 12 months.

v. Long-term borrowings comprise of loans which are to be repaid over a period that exceeds one year. Current portion of long-term borrowings include the instalments of long term borrowings that are due within one year of the reporting date.

vi. Current Tax Payable is usually presented as a separate line item in the statement of financial position due to the materiality of the amount.

c) Equity

i. Equity is what the business owes to its owners. Equity is derived by deducting total liabilities from the total assets. It therefore represents the residual interest in the business that belongs to the owners.

ii. Equity is usually presented in the statement of financial position under the following categories:

iii. Share capital represents the amount invested by the owners in the entity

iv. Retained Earnings comprises the total net profit or loss retained in the business after distribution to the owners in the form of dividends.
v. Revaluation Reserve contains the net surplus of any upward revaluation of property, plant and equipment recognized directly in equity.

2.6.2 Statement of comprehensive income

It is referred as the Profit and Loss Account or Income statement in the case of trading enterprises, calculated to summarize the results of the operations of an enterprise during the accounting period. In the case of government, charity organizations (provision of services) it is a statement Income and expenditure. The summary of all the statements signed by the accounting officer as per section 25 subsection 2(a) and 2(c) of the Public Finance Act, 2001 (applies only for Government Organizations). The statement of comprehensive income comprises (a) profit or loss in the same way as the previous years and (b) Other Comprehensive Income (“OCI”) which represents changes in net assets /equity not arising from transactions with owners (i.e. shareholders).

Comprehensive income is the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The statement of comprehensive income illustrates the financial performance and results of operations of a particular company or entity for a period of time.

According to International Financial Reporting Standards since 1 January 2009 an entities make a statement of comprehensive income or two separate statements comprising an Income statement displaying components of profit or loss and;

Statement of comprehensive income that begins with profit or loss (bottom line of the income statement) and displays the items of other comprehensive income for the reporting period (International Accounting Standard 1(IAS1)S 1 p.81).

So the statement of comprehensive income aggregates income statement (profit and loss statement) and other comprehensive income which isn't reflected in profits and losses. "Total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners" (IAS 1 p.7). The statement of comprehensive income is one of the major financial statements used by accountants and business owners (the other major financial statements are the balance sheet (statement of financial position), statement of changes in equity and statement of cash flows). IFRS do not prescribe the exact format of the Statement of comprehensive income. Table 2.3 tries to give a simplistic view of the comprehensive statement of income

Table 2.3: Statement of Comprehensive Income

Strauss Printing and Publishing, Inc. Statement of Comprehensive Income For the Year Ended December 31, 2011		
Service Revenue		$ 160,000
Less: Expenses		
Salaries Expense	$ 40,000	
Supplies Expense	26,100	
Rent Expense	20,500	
Utilities Expense	11,300	
Depreciation Expense	5,000	102,900
Net Income		$ 57,100
Net Income		$ 57,100
Other Comprehensive Income		
Revaluation Surplus	$ 20,000	
Unrealized Translation Gain	10,200	30,200
Total Comprehensive Income		**$ 87,300**

Source: IAS 1, 2011.

2.6.3 Cash flow statement

IPSAS (2004) sets out the requirements for the presentation of the cash flow statements and related disclosures. An example is illustrated in table 2.4. It states that cash flow information is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents, and the needs of the entity to utilize those cash flows. Cash flow Statements should show the amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded by way of taxes (directly and indirectly) or from the recipients of goods and services provided by the entity(Operating Activities).

The separate disclosures of cash flows arising from investing activities is important because the cash flows represent the extent to which cash out flows have been made for resources which are intended to contribute to the entity's future service delivery(Investing Activities). The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows from financing activities are cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long term borrowings and cash repayments of amounts borrowed(Financing Activities).

Table 2.4: Cash Flow Statement

Cash flows from (used in) operating activities		
Cash receipts from customers	9,500	
Cash paid to suppliers and employees	(2,000)	
Cash generated from operations **(sum)**	**7,500**	
Interest paid	(2,000)	
Income taxes paid	(3,000)	
Net cash flows from operating activities		2,500
Cash flows from (used in) investing activities		
Proceeds from the sale of equipment	7,500	
Dividends received	3,000	
Net cash flows from investing activities		10,500
Cash flows from (used in) financing activities		
Dividends paid	(2,500)	
Net cash flows used in financing activities		(2,500)
.		
Net increase in cash and cash equivalents		10,500
Cash and cash equivalents, beginning of year		1,000
Cash and cash equivalents, end of year		$11,500

Source: IAS 1, 2011.

The cash flow statement has 3 parts: operating, investing, and financing activities. There can also be a disclosure of non-cash activities, as shown in table 2.4.

i. Operating activities include the production, sales, and delivery of the company's product as well as collecting payments from its customers.

ii. Investing activities are purchases or sales of assets (land, building, equipment, marketable securities, etc.), loans made to suppliers or received from customers, and payments related to mergers and acquisitions.

iii. Financing activities include the inflow of cash from investors, such as banks and shareholders, and the outflow of cash to shareholders as dividends as the company generates income.

iv. Non-cash investing and financing activities are disclosed in footnotes in the financial statements.

2.6.4 Statement of changes in equity

Statement of changes in equity helps users of financial statement to identify the factors that cause a change in the owners' equity over the accounting periods. Whereas movement in shareholder reserves can be observed from the balance sheet, statement of changes in equity discloses significant information about equity reserves that is not presented separately elsewhere in the financial statements which may be useful in understanding the nature of change in equity reserves. Examples of such information include share capital issue and redemption during the period, the effects of changes in accounting policies and correction of prior period errors, gains and losses recognized outside income statement, dividends declared and bonus shares issued during the period.

Statement of Changes in Equity is often referred to as Statement of Retained Earnings. Generally accepted accounting principles (GAAP), details the change in owners' equity over an accounting period by presenting the movement in reserves comprising the shareholders' equity. Movement in shareholders' equity over an accounting period comprises the following elements:

i. Net profit or loss during the accounting period attributable to shareholders
ii. Increase or decrease in share capital reserves
iii. Dividend payments to shareholders
iv. Gains and losses recognized directly in equity
v. Effect of changes in accounting policies
vi. Effect of correction of prior period error

Table 2.5 illustrates a Statement of Changes in Equity as prepared according to the format prescribed by IAS 1 Presentation of Financial Statements. As can be seen from the table, it shows the changes in share capital, profit or loss for the period and any other accumulated reserve such as the share premium. These are presented on the face of statement of changes in equity or in the notes.

Table 2.5: Statement of changes in equity

	Share Capital	**Retained Earnings**	**Revaluation Surplus**	**Total Equity**
	USD	USD	USD	**USD**
Balance at 1 January 2011	**100,000**	**30,000**	**-**	**130,000**
Changes in accounting policy	-	-	-	**-**
Correction of prior period error	-	-	-	**-**
Restated balance	**100,000**	**30,000**	**-**	**130,000**
Changes in equity for the year 2011				
Issue of share capital	-	-	-	**-**
Income for the year	-	25,000	-	**25,000**
Revaluation gain	-	-	10,000	**10,000**
Dividends	-	(15,000)	-	**(15,000)**
Balance at 31 December 2011	**100,000**	**40,000**	**10,000**	**150,000**
Changes in equity for the year 2012				
Issue of share capital	-	-	-	**-**
Income for the year	-	30,000	-	**30,000**
Revaluation gain	-	-	5,000	**5,000**
Dividends	-	(20,000)	-	**(20,000)**
Balance at 31 December 2012	**100,000**	**50,000**	**15,000**	**165,000**

Source: IAS 1, 2011.

IAS 1, (2011), the following are the main elements of statement of changes in equity:

i. **Opening balance**

This represents the balance of shareholders' equity reserves at the start of the comparative reporting period as reflected in the prior period's statement of financial position. The opening balance is unadjusted in respect of the correction of prior period errors rectified in the current period and also the effect of changes in accounting policy implemented during the year as these are presented separately in the statement of changes in equity.

ii. **Effect of changes in accounting policies**

Since changes in accounting policies are applied retrospectively, an adjustment is required in stockholders' reserves at the start of the comparative reporting period to restate the opening equity to the amount that would be arrived if the new accounting policy had always been applied.

iii. **Effect of correction of prior period error**

The effect of correction of prior period errors must be presented separately in the statement of changes in equity as an adjustment to opening reserves. The effect of the corrections may not be netted off against the opening balance of the equity reserves so that the amounts presented in current period statement might be easily reconciled and traced from prior period financial statements.

iv. **Restated balance**

This represents the equity attributable to stockholders at the start of the comparative period after the adjustments in respect of changes in accounting policies and correction of prior period errors as explained above.

v. **Changes in share capital**

Issue of further share capital during the period must be added in the statement of changes in equity whereas redemption of shares must be deducted there from. The effects of issue and redemption of shares must be presented separately for share capital reserve and share premium reserve.

vi. **Dividends**

Dividend payments issued or announced during the period must be deducted from shareholder equity as they represent distribution of wealth attributable to stockholders.

vii. **Income / Loss for the period**

This represents the profit or loss attributable to shareholders during the period as reported in the income statement.

viii. **Changes in revaluation reserve**

Revaluation gains and losses recognized during the period must be presented in the statement of changes in equity to the extent that they are recognized outside the income statement. Revaluation gains recognized in income statement due to reversal of previous impairment losses however shall not be presented separately in the statement of changes in equity as they would already be incorporated in the profit or loss for the period.

ix. **Other gains & losses**

Any other gains and losses not recognized in the income statement may be presented in the statement of changes in equity such as actuarial gains and losses arising from the application of IAS 19 Employee Benefit.

x. **Closing balance**

This represents the balance of shareholders' equity reserves at the end of the reporting period as reflected in the statement of financial position.

2.7 Theoretical reviews

The need to carry out this research is best captured in Tobin's Q, which is defined as the ratio of the market value of installed capital to its replacement cost i.e.

q = market value of installed capital/ replacement cost of installed capital

The market value of installed capital is priced in the stock market and is the number of shares outstanding times their market price. The replacement cost of installed capital depends on the situation in the capital goods sectors. If the demand for capital goods is strong, the price of capital goods will rise.
If q>1, then firms have an incentive to increase their capital stock because capital once installed and producing goods and services is priced more highly than its cost.

If q<1, then firms should scrap capital, close plants etc

Many empirical studies tested the hypothesis that if external financing is available without frictions, a firm's investment should be determined by its investment opportunities, usually proxied by Tobin's Q, and not by its internal resources, captured by a firm's cash flow (Fazzari *et al*, 1988). The higher sensitivity of investment or firm's growth to internal sources was taken as evidence for the presence of financing constraints (Fazzari et al., 2000). However, after the results presented by Kaplan and Zingales(1997 and 2000),several studies have criticised the empirical test based on the cash flow sensitivity as a meaningful evidence in favour of the existence of financing constraints. The significance of the cash flow sensitivity of investment, it was argued, may then be the consequence of measurement errors in the usual proxy for investment opportunities, Tobin's Q, and may provide additional information on expected profitability rather than being a signal of financing constraints (Carpenter *et al*, 2002).

For example, Gomes (2001) shows that the existence of financing constraints is not sufficient to establish cash flow as a significant regressor in a standard investment equation, while Ericson and Whited (2000) demonstrate that the investment sensitivity to cash flow in regressions including Tobin's Q is to a large extent due to a measurement error in Q. Likewise, Alti (2003) shows that investment can be sensitive to changes in cash flow in the benchmark case where financing is frictionless. In this respect, Bond et al. (2003) indicate that if the role of cash flow as proxy of future profitability is similar across countries, interpreting higher cash flow sensitivities in a country as an effect of financing constraints is less ambiguous and differences in the estimated coefficients of the cash flow variable across countries are more likely to reflect differences in financing constraints. The need to use verifiable financial statements to determine the extent to which a firm make its investment decision becomes a good starting point.

A large body of the literature has provided robust empirical evidence that financial factors have a significant impact on a firm's investment decisions. While traditional research on investment was based on the neoclassical theory of optimal capital accumulation (where, under the assumption of perfect capital markets, the cost of financing does not depend on the firm's financial position), more recent literature has increasingly incorporated frictions such as asymmetric information and agency problems as a source behind the relevance of the degree of financial pressure faced by the firm's in determining the availability and the costs of external financing (Carmen *et al.* 2008) . In this sense, the extent to which these frictions affect capital expenditures depends on the firm's balance sheet structure, which will determine its creditworthiness; higher debt servicing payments, higher leverage or lower cash flow will have a negative impact on the firm's creditworthiness and hence, all else being equal, will increase the external finance premium and reduce the demand for external financing (Carpenter *et al*, 2002).

2.8 Empirical literature review

Broadbent, (1994) considered the nature of accounting in schools and local management. Accounting cannot be decision instrument for the schools but very important as a communication tool. Accounting information is used as one element to justify and legitimate decisions; they are used to convince others, as a tool of rhetoric, to play the budget game. Accounting information is used in a tactical way to communicate particular realities. economics and cognitive psychology has focused on the gap between the correct answer to a decision making problem and the one given by subjects for problems of accounting information prepared by accounting departments in the world in general (Gigerenzer, 2000).

Cole *et al* (2003**)** pointed out some prior judgment and decision making need not to be the thought of as best modelled using accounting information mechanisms. They argued that there exists within human beings lower order and higher order decision making and that the modelling lower order perpetual and the memory processes comes at amounts denoted at accounting information. According to Mussa **(**2004) the environment and specifically accounting systems are getting heavily computerized, forensic accounting experts must be not only familiar but proficient in the hardware components, storage media and applications, so as to bring the information process of an organization for better decision making.

Lunyungu (2000**)** tried to analyze the use of cash flow statement in decision making, He found out that cash flow statement were well prepared and were used in managerial decision making, The researcher concluded that cash flow statement are very important for decision making processes, because it enables the company to know its cash movement .But his research did not cover components of the financial statements like balance sheet and income statement.

Companies may well have access to additional information beyond the financial statements, potentially reducing the importance of accounting information. However, besides the large body of research documenting the role of accounting information for lending decisions in the U.S. and other developed countries, there is also extensive evidence that companies rely on borrowers' financial reports in credit decisions in emerging markets (Kitindi *et al*. 2007). Compared with other external capital suppliers that rely more on mutual trust and private communication, companies are likely to more carefully screen the financial statements of corporate clients (Lunyungu, 2000**)**.

Most importantly, companies not only lend larger amounts compared with other sources of informal financing, but also extend loans with longer maturities, which make them more vulnerable to information and incentive problems. Failure rates are also higher among smaller firms, and this further encourages companies to carefully examine financial information in their lending decisions. Examining a client's financial statements helps companies to determine the firm's assets that can serve as collateral, to evaluate its future cash-flow generating capability, to gauge the firm's debt capacity, and to analyze the riskiness of the firm in determining a lending rate. In other words, the importance of FRQ should increase with the extent of company financing compared with other, more informal sources of financing (Mussa, 2004).

Fleischman and Kindersley (2001) wrote an article about the study on the purpose of financial information. They pointed out that one of the purposes of financial reporting is to facilitate the decision making of financial report users. They argue that to use the information in annual financial reports effectively, users should understand them. To further such understanding, annual reports include written explanations of financial information referred to in the public sector as the letter of transmittal and in the private sector as management's discussion and analysis (MD&A). They argue that although the intent of these two documents is the same, the users can be quite different. Private companies generally expect users to have a reasonable understanding of business and finance, while public entities must communicate with a much more diverse audience that includes citizens with little knowledge in financial matters.

Fleischman and Kindersley (2001), in the article, presented the results that determine the readability of letters of transmittal relative to management's discussion and analysis**.** They found out that both documents are an ineffective communication method for 80 percent of the population. And despite the fact that letters of transmittal are targeted at a more diverse, less financially astute audience than the MD & As, the letters of transmittal are significantly more difficult to read. Based on these findings, they suggested that both types of documents should use smaller, more familiar words in their financial communication and that standard-setting bodies establish guidelines or limits on the average syllables per word and average words per sentence in written financial communications.

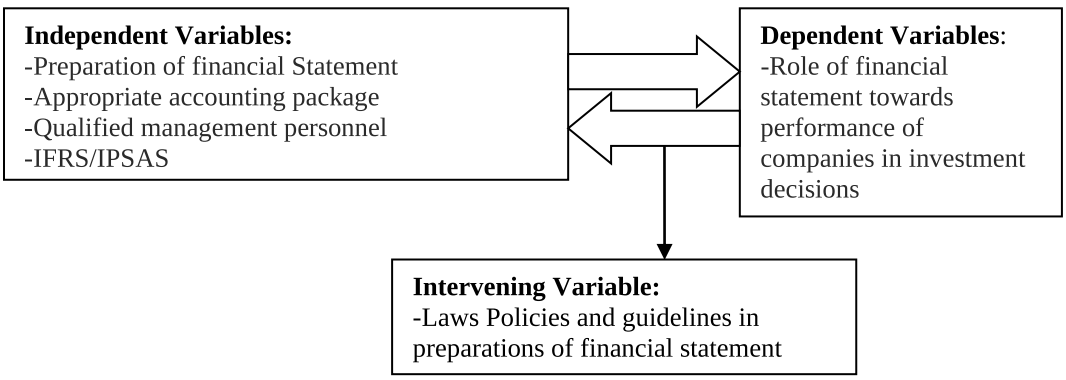
2.9 Research gap

Previous studies looked at in the literature review did not specifically research on the actual role of financial statements in investment decision making in companies. That gap in the previous researchers' findings motivated the researcher to evaluate the importance CCKL's financial statements in making investment decisions. Gaps were also discovered in the lack of comprehensive and well researched data on how accounting systems of a soft drink company provide accurate, timely and relevant financial statement. It is to be noted that no academic benchmarks are used by companies to make convincing investment decisions. This informed the researcher of of the lack of critical researches in a critical industry (soft drinks) that contributes a lot to the country's taxes, and also employs a significant number of Tanzanians.

2.10 Conceptual framework

The purpose of the conceptual framework is to analyze the various variables which, when dotted contributes to the research problem and hence shades light on the variables that befit the topic, the role of financial statements towards the performance of companies in investment decisions. The conceptual framework shows the logical connection of the variables; assumption and propositions used in developing the explanatory theoretical framework.

Figure 2.1: Conceptual Model



Source: Researcher data, 2013

In order to get the variables that contribute to the role of financial statements towards the performance of companies in investment decisions, a conceptual framework was designed. Independent variables are the preparation of financial statements; appropriate accounting packages; qualified management personnel and IFRS/IPSAS. Dependent variable therefore becomes the role of financial statements towards the performance of companies in investment decisions. The intervening variables are made up of laws, policies and the guidelines in the preparations of financial statements under which the companies operate. It can be assumed that there is a linkage between the independent and dependant variables in achieving the best performance of the company in making investment decisions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

Research methodology is a collective term for the structured process of conducting research. There are many different methodologies used in various types of research and the term is usually considered to include research design, data gathering and data analysis. This chapter presents the overall research design, the sample, sampling techniques, nature as well as sources of data collection and data analysis techniques.

3.1 Area of the study

The study was conducted at CCKL, Dar es Salaam Region. The area was chosen because it was easy to collect the required information. It is also an area where the researcher is familiar with the environment and expected high response rate from the respondents. Costs to travel to and fro for the research work were kept at a minimum as the researcher is an employee in the research area. However, this did not mean the quality of data was compromised as the respondents freely gave valid and reliable data.

3.2 Research design

Research design is the conceptual structure within which a research is conducted. It constitutes the blue print for the collection, measurement and analysis of data (Kothari, 2006). There are three different types of research design depending on the nature and purpose of the study, namely: case study, survey and literature review.

The study utilized case study type of research design i.e. CCKL, Dar es Salaam Region. The case study provided the opportunity and flexibility in the use of data collection methods. It was possible to come up with a focused study with a single unit intensively studied, and the information verified on spot through interviews, questionnaires and documentation (Saunders, et al., 2009). The study aimed at investigating the role of financial statements towards the performance of companies in investment decisions particularly CCKL. The researcher used case study due to limitation in time, finance and available data that would entail comprehensive cases.

3.3 Population and sample

A population is generally a larger collection of individuals or objects that is the main focus of a scientific inquiry (Kothari, 2006). The study population comprised of all employees of CCKL, Tanzania. According to figures given by their department of human resources, there are approximately 400 employees in CCKL, Dar es Salaam plant. A sample is subset of the entire population (Adam& Kamuzora, 2008).

Kothari (2006) defines sample as a collection of some parts of the population on the basis of which judgment is made. It is a process of selecting a group of people, events, behaviour, or other elements with which to conduct a study. An important issue influencing the choice of a sampling technique is whether a sampling frame is available, that is, a list of units comprising the study population. It has to be small enough to enhance convenient data collection and large enough to be a true representative of the population from which it had been selected.

To have a representative sample, 60 employees were purposively selected for the study. This made for 20% of the targeted population. Sampled were officials from the Accounts and Finance departments. Their selection was based on the fact that they possessed the right research data. The sampling was also based on the respondents' familiarity with the research topic as indicated in table 3.1.

Table 3.1: Distribution of Sample Size

Respondents	Sample Size
Accounts Department Staff	30
Financial Managers	10
Finance Department Staff	20
Total	**60**

Source: Researchers data, 2013

3.4 Variables and measurement procedure

Both primary and secondary data were obtained in order to determine the adequacy of dependent variable (Role of financial statement towards performance of companies in investment decisions). Primary data was obtained from the research questionnaires, and interviews conducted. Secondary data derived its source from the documentations, and literature reviewed in order to enrich the research objectives. The data was measured quantitatively and qualitatively by showing the development approach used to get the needed data on each variable.

Under this measurement, the focus was taken to find out the four independent variables in the financial statement, and how they contribute towards the performance of companies in investment decisions. Table 3.2 shows the study variables on which data was collected in relation to the research objectives, which was later, used for data analysis and extraction of final recommendations.

Table 3.2 Study Variables

S/N	Variables	Needed data on each variable
Preparation of financial Statement Appropriate accounting package Qualified management personnel 4. IFRS/IPSAS		The use of historical cost that incur after the purchase of the goods, including storage, maintenance and repair, and obsolete and obsolescent costs Software package The accounts staff which have CPA holder, and Internal auditors The International standard needed when prepare the financial report as looking on user of the report i.e. employees, donors, general public as well as government institutions and banks.

Source: Researchers data, 2013

3.5 Data collection instruments

During the study both primary and secondary data collection methods was used. Primary data collection methods included questionnaires and interviews. Secondary data collection method used documentations, and other secondary data obtained by other authors for their own uses.

i. **Questionnaire**

A questionnaire is a set of questions which are usually sent to the selected respondents to answer at their own convenient time and return back the filled questionnaire to the researcher (Kothari, 2006). In this study questionnaires were used to collect information from respondents i.e. Accounts Department Staff, Finance Managers and Finance Department Staff at CCKL, Dar es Salaam Region. The reasons for using questionnaires are they cover large sample at low cost, and are free from biasness.

ii. **Interview**

According to (Kothari, 2006), an interview is a set of questions administered through oral or verbal communication or face to face discussion between the researcher and the interviewee (respondent). Both groups and individual interviews were conducted with the respondents. All structures of the Interview were used based on open and close-ended interview questions. This method enabled the researcher to obtain additional information for the research.

iii. **Documentation**

Documentation method enabled the researcher to get ready made data and information by passing through various documents such as; books, journals and annual reports. This method was especially useful because it helped simplify the researcher's task by providing statistical information recorded in terms of numbers and percentages, and represented in tables, charts and graphs.

3.6 Data analysis plan

After data was collected using the methods listed above, it was then reduced to a summarized form. The summary was processed using Microsoft Excel. The research findings were organized and presented using tables, charts and graphs, with words, numbers and percentages used to describe the different correlations. Data analysis and interpretation enabled the researcher to get solutions to the research problem and give recommendations as per the objectives.

3.7 Data reliability and validity

In order to ascertain the reliability data, a pilot study was conducted. Questionnaires were distributed to respondents. This was done to identify questions that might be unclear or ambiguous to the respondents. It also aimed at identifying any non-verbal behaviour manifested in the respondents' discomfort or embarrassment in terms of content or wording. Prior arrangements were made to meet the respondents for the pilot study; the questionnaires were given to the respondents to complete and return them on the following day. As a result of the recommendations made by the findings of the pilot study, a few minor modifications were made to the final questionnaires before administering them to the selected respondents.

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS AND DISCUSSIONS

4.0 Introduction

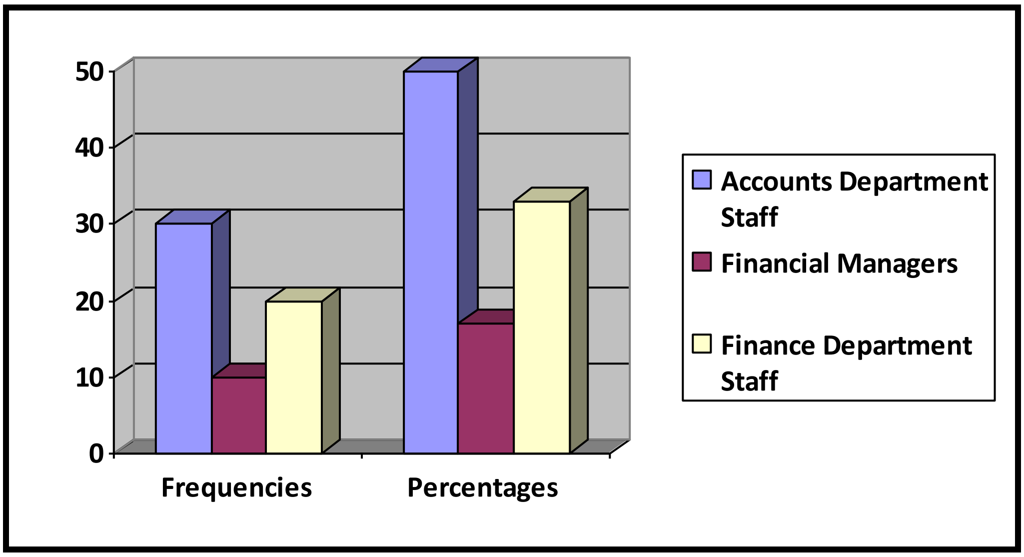
This chapter presents details of the research results and presents them in the light of predetermined research objectives and questions. Data analysis was guided and confined to the predefined research problem and objectives. The study used 60 staff members of CCKL. The respondents were the Accounts Department Staff (30), Financial Managers (10) and Finance Department Staff (20). This information is summarized in table 4.1, and figure 4.1 respectively.

Table 4.1: Number Respondents

Respondents	Frequencies	Percentages
Accounts Department Staff	30	50
Financial Managers	10	17
Finance Department Staff	20	33
Total	**60**	**100**

Source: Research Data, 2013.

Figure 4.1: Number of Respondents



Source: Research Data, 2013.

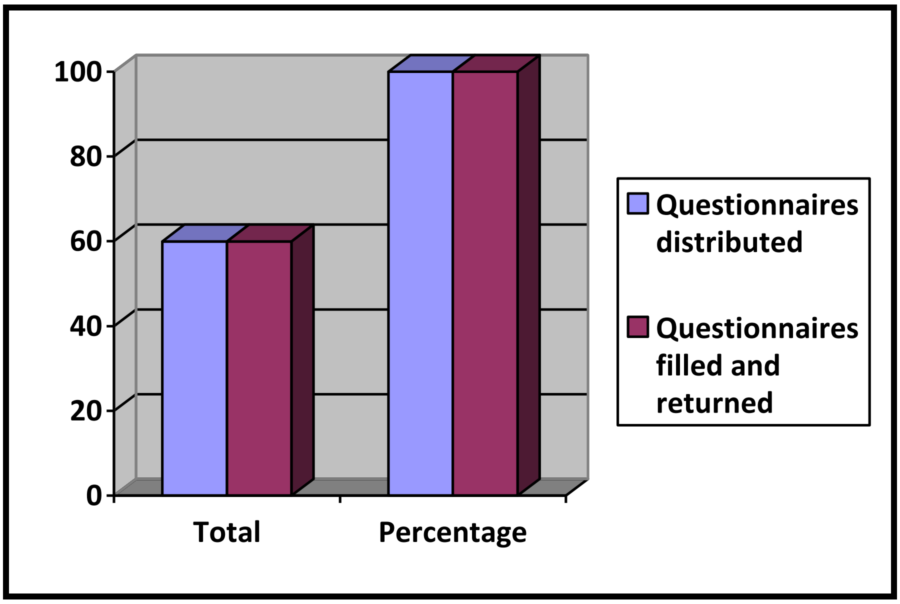
A total of 60 questionnaires were distributed, and 60 were filled and returned representing a response rate of 100%. Thus response rate for the questionnaires was calculated as the ratio of the number of staff who completed the questionnaires to the number of people who were invited to attempt the questions.

Table 4.2 Number of Questionnaires

Details	Total	Percentage
Questionnaires distributed	60	**100**
Questionnaires filled and returned	60	**100**
Response rate	**60:60**	**100**

Source: Research Data, 2013.

Figure 4.2: Number of Questionnaires



Source: Research Data, 2013.

4.1 Characteristics of study respondents

Primary data was collected from the respondents in the Accounts Department, Financial Managers and Finance Department Staff. The Characteristics of the study's respondents are explained in terms of gender, academic qualifications and accounting professional levels.

4.1.1 Gender distribution of respondents

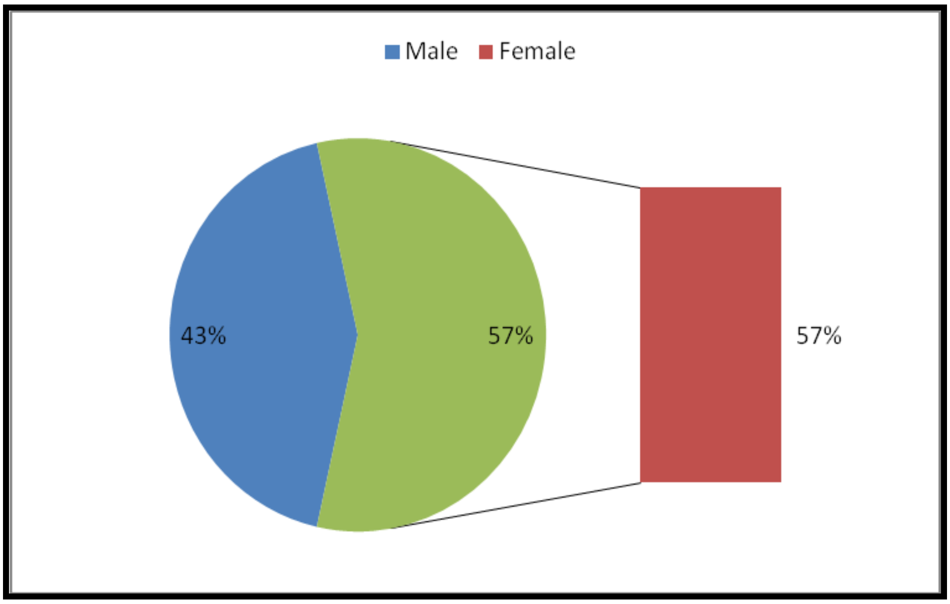
The gender distribution of the respondents were male (N=33 or 55%) whilst the remaining sample (N=27 or 45%) were female. This gender differences indicates that there were more male than female, implying many male employees dominate the different private sector in Tanzania. This is shown in table 4.3.

Table 4.3: Gender Distribution of Respondents

Gender	Frequencies	Percent
Male	18	43
Female	42	57
Total	**60**	**100.0**

Source: Research Data, 2013.

Figure 4.3: Gender Distribution of Respondents



Source: Research Data, 2013.

4.1.2 Academic qualification of respondents

Table 4.4 shows the academic qualifications of respondents. It is clear that 17% of the respondents have attained Post Graduate Degree, 33% of the respondents are the holders of Diploma and 50% of the respondents are holders of Undergraduate degree/Advanced Diploma. This implies that more Undergraduate degree/Advanced

Diploma holders were interviewed, implying a higher rate of educated employees in the private sector, and hence better job performance.

Table 4.4: Academic Qualification of Respondents

Academic Qualification	Frequencies	Percentage
Post Graduate Degree	10	**17**
Diploma	20	**33**
Undergraduate degree/Advanced Diploma	30	**50**
Total	**60**	**100**

Source: Research Data, 2013.

4.1.3 Respondents' accounting professional levels

Accounting education is important in the discharge of professional duties, and the level of professional qualification required is vital for an effective job performance (Schion, 1987). Preparation of the financial statements involves a sound understanding of, and experience in, financial management practices, legal compliance, risk management, technology and internal controls, as well as the ability to apply other complex accounting policies and principles in an appropriate manner. It also requires interpersonal and project management skills to ensure that the required financial information can be collected and presented against very tight time frames (PFSPSE, 2009).

On that basis, table 4.5 highlights professional the accounting levels of the respondents. It is clear that 3% of the respondents have attained ACCA/CIMA education whereas 6% of the respondents are CPA holders and 38% of the respondents have attained final stage of accountancy qualification recognized National Board of Accountants (NBAA). However, 28% of the respondents have attained intermediate stage whereby 25% of the respondents have attained foundation stage of accountancy. This implies that more interviewed respondents have attained the final stage of accountancy as the topic needed more understanding and knowledge in accountancy.

Table 4.5: Academic Qualification of Respondents

Academic Qualification	Frequencies	Percentage
ACCA,CIMA	2	**3**
CPA	3	**6**
Final stage	23	**38**
Intermediate stage	17	**28**
Foundation stage	15	**25**
Total	**60**	**100**

Source: Research Data, 2013.

The International Federation of Accountants (IFAC), in its introduction to International Education Standards (IES) emphasizes that the production of competent professional accountants is dependent on a combination of accounting education and practical experience (IFAC, 2003). In many countries, accounting education often consists of academic accounting programmes (AAPs) and professional accounting programmes (PAPs).

According to Sivakumar(2008), a qualified accountant should be able to perform a variety of professional level accounting duties involved in preparing, maintaining, analyzing, verifying, and reconciling complex financial transactions, statements, records, and reports; maintains the accuracy of the City’s ledgers and subsidiary financial systems; assists in the preparation of assigned budgets, annual audit, and year end closing; and provides highly responsible staff assistance to assigned management staff. A well trained accountant should be able to adhere to the standards and principles (Needles and Powers, 1990).

i. Operations, services and activities of a general accounting program.
ii. Principles and practices of accounting and auditing including general ledger, debit, credit, journal entries and audit procedures.

iii. Principles and practices of governmental accounting.
iv. Computerized accounting and financial systems.

v. Methods and techniques of analyzing general ledgers and preparing journal entries.
vi. Generally Accepted Accounting Principles.
vii. Principles of municipal budget preparation and control.
viii. Methods and techniques of preparing financial reports and statements.
ix. Principles and practices of financial record keeping and reporting.
x. Principles of business letter writing and report preparation.

4.2 Analysis of Research Objectives

4.2.1 Importance of financial statements in making investment decisions

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. According to the *IASB Exposure Draft (ED) Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information* (29 May 2008), for financial information to be useful, it should possess two fundamental qualitative characteristics: relevance and faithful representation. Financial Statements enhance the decision-usefulness of financial reporting. Good financial statements are comparable; verifiable; timely; and understandable. The qualities that distinguish "better" (more useful) information from "inferior" (less useful) information are primarily the qualities of relevance and reliability, with some other characteristics that those qualities imply (FASB, 2008).

Study findings revealed that financial reports prepared by CCKL have the necessary qualities for rational decisions that include understandability, relevance, reliability, accuracy, timeliness and comparability. 100% of the respondents pointed out that CCKL management have made used of their financial statements to make important financial decisions. 90% argued that decisions made with financial reports are highly effective whereas 10% suggested that such decisions are moderately effective and 0% suggested financial reports are less effective in making economic decisions.

Financial statement provides important information for a wide variety of decision, investors draw information from the statement of the firm in whose security they contemplate investing. Decision makers who contemplate acquiring total or partial ownership of an enterprise expect to secure returns on their investment such as dividends and increase in the value of their investment [capital gain]. Both dividends and increase in the value of shares of company depends on the future profitability of the enterprise. So investors are interested in future profitability. Past income dividend data are used to forecast returns from dividend and increase in share prices (Amedu, 2012).

In table 4.6 the researcher asked respondents the importance of financial reports in decision making. 50% of the respondents in Accounts Department Staff agreed that financial statements are important in organization decision- making. This involved 17% of the financial managers and 33% finance department staffs. This shows that financial Statements in decision making are important in decision making as shown by the majority of staffs in the accounts department. This is the position of Amedu (2012), that financial information is needed to predict, compare and evaluate a firm's earning ability. It is also required to aid in economic decision making investment and financing decision making.

Table 4.6: importance of financial report in decision making

Positions	**Respondents**					
	Total	%	Yes	%	No	**%**
Accounts Department Staff	30	50	30	50	0	**0**
Financial Managers	10	17	10	17	0	**0**
Finance Department Staff	20	33	20	33	0	**0**
Total	**60**	**100**	**60**	**100**	**0**	**0**

Source: Research Data, 2013.

i). Effectiveness of financial reports in economic decisions

Financial reports are needed every day for decision making. Financial reporting is only effective if it is timely, accurate and in a readable format. Financial reporting is only effective when you receive the reports on time, and read the detail and use it to make decisions (Needles and Powers, 1990).

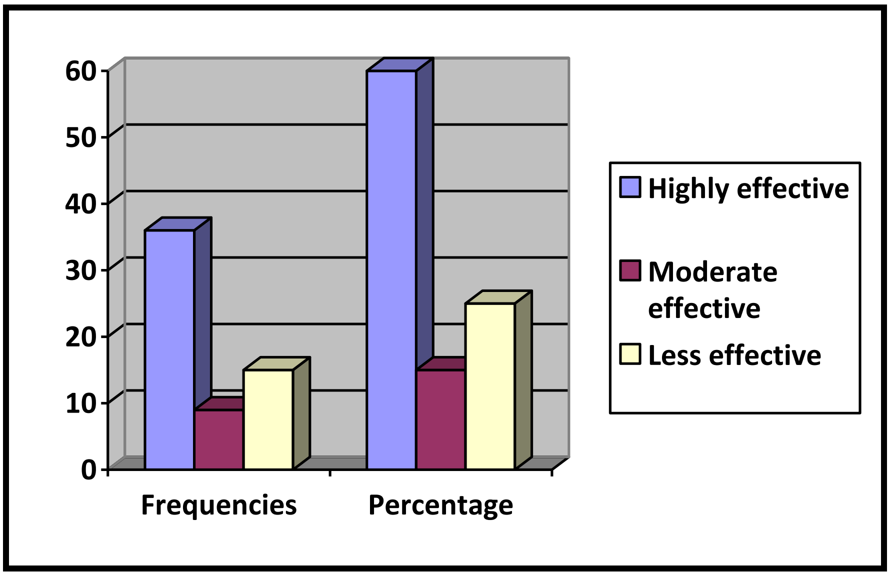
In this part, as indicated in table 4.7, the effectiveness of financial reports in making economic decisions was asked, and 60% of the respondents agreed it is highly effective. This implies that most of respondents at CCKL, Dar es Salaam Region feel that financial reports is effective in making economic decisions.

Table 4.7: Quality of economic decisions

Responses	Frequencies	Percentage
Highly effective	36	**60**
Moderate effective	9	**15**
Less effective	15	**25**
Total	**60**	**100**

Source: Research Data, 2013.

Figure 4.4: Quality of economic decisions



Source: Research Data, 2013.

According to the respondents' comments on financial reports, the analysis of how effective financial reports are in decision- making at CCKL revealed that financial statement is a compilation of data, logically and consistently organized according to accounting principles. Its purpose is to convey an understanding of some financial aspects of CCKL, as the financial statements show a yearly financial position. Their balance sheet revealed a series of activities over a given period of time.

As in the case of an income statement, financial statements are the major means through which CCKL present their financial situation to stockholders, creditors, and the general public. CCKL includes extensive financial statements in their annual reports, which receive wide distribution. The major purposes and type of financial information in the financial statements are very important for decision making because they provide accounting information to be used by various parties. CCKL Financial statements quantify the information in terms of the financial nature and economic entities. According to the respondents' comments on financial reports, the analysis of how effective financial reports are in decision- making are presented at the table 4.8(a).

Table 4.8(a): Financial reports in decisions

Item no	Item Description	Excellent	Good	Fair	Poor
1	Proper preparation of financial reports	✓			
2	Records keeping and reviewing	✓			
3	Timely preparation of financial report.	✓			
4	Authorization and Approval of transactions.	✓			
5	Adherence to accounting policies, principles and procedures of preparing final reports.		✓		
6	Quality of financial reports prepared		✓		
7	Satisfactory of the user of financial reports.	✓			
8	Effectiveness of financial report in decision- making.	✓			
9	Availability of necessary information in preparing financial reports	✓			
10	Contribution of the role of financial reports in decision-making in the performance of Coca-Cola Kwanza Ltd (CCKL).	✓			
11	Improvement in the preparation of financial report		✓		
12	Qualification of the decision makers.	✓			
13	Competence of the staffs responsible in preparing financial reports.		✓		
14	Accounting system		✓		
15	Satisfactory of the management with financial reports prepared as the basis for decision.	✓			

Source: Research Data, 2013.

From table 4.8(a) analysis of the general foundations of the role of financial reports in decision- making is summarized in Table 4.8(b).

Table 4.8(b): Effectiveness of financial reports in decision making

Remarks	Ratio of points	Percentages
Excellent	9/15	**60**
Good	6/15	**40**
Fair	0/5	**0**
Poor	0/15	**0**
Grand Total	**15/15**	**100**

Source: Research Data, 2013.

From table 4.8(b), it is revealed that an ‘Excellent’ grade scored the highest percentage of points(60%), followed by ‘Good’ grade, with 40% while ‘Fair’ and ‘Poor’ grades recorded scores of 0%. It can therefore be argued that financial reports are effective in making organization economic decisions regarding their importance in decision- making processes.

i. Relationship between management and finance department

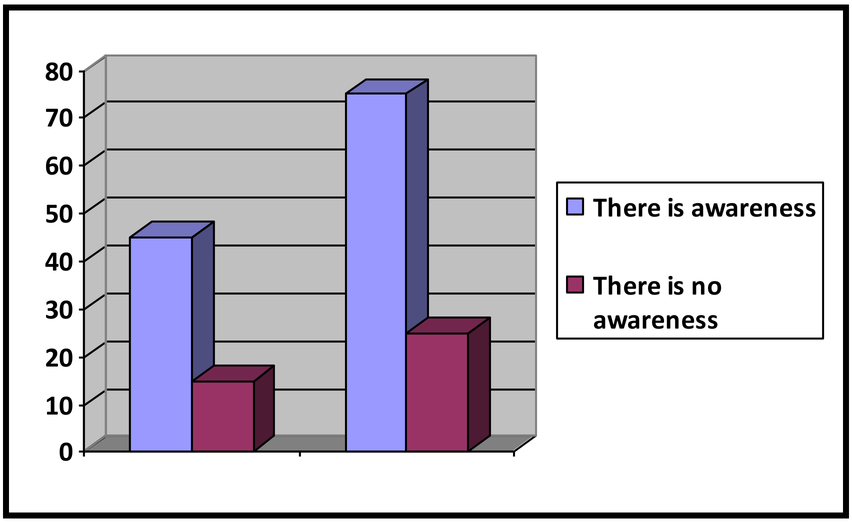
As noted in table 4.9(a), the researcher wanted to find out whether there was awareness on the relationship between management and finance department. The finding shows that 50% of the respondents at Accounts Department are aware of the presence of this relationship. This implies therefore, that, there is a good working relationship between the key departments, leading to better job performance.

Table 4.9(a) Awareness of relationship between finance and management

Respondents	Frequencies	Percentages
There is awareness	45	**75**
There is no awareness	15	**25**
Total	**60**	**100**

Source: Research Data, 2013.

Figure 4.5: Quality of economic decisions



Source: Research Data, 2013.

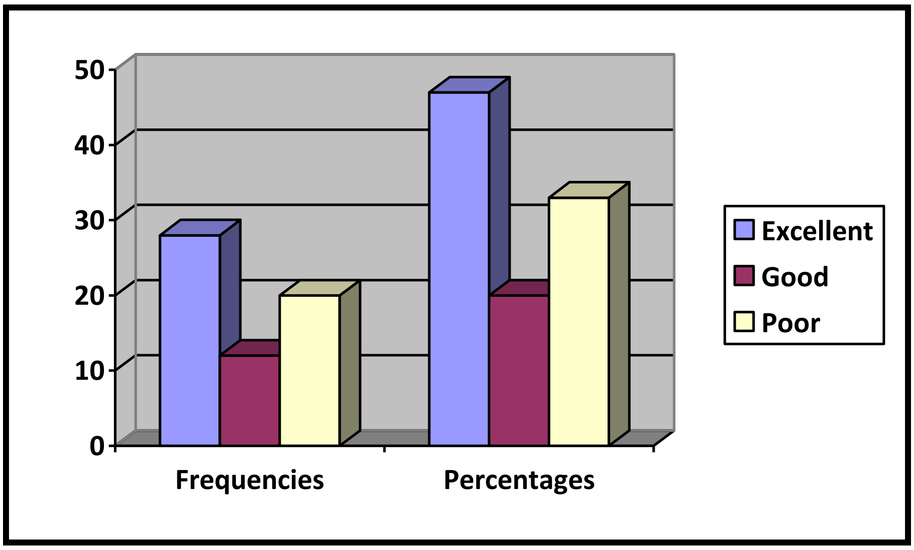
However, as noted in Table 4.8(b), on establishing relationship between finance and management, 47 %(majority) of the respondents suggested that the relationship is excellent. This implies the relationship between management and finance is excellent.

Table 4.9(b) Relationship between Finance and management

Relationship	Frequencies	Percentages
Excellent	28	**47**
Good	12	**20**
Poor	20	**33**
Total	**60**	**60**

Source: Research Data, 2013.

Figure 4.6: Relationship between Finance and management



Source: Research Data, 2013.

As per the research findings the relationship between management, accounts and Finance sections exists. Management sets policies, which are used by the other sections as a guide on performing professional duties. Finance and account sections analyze the data that are exclusively used by management for decision- making. The researcher noted during research work that there are good working relationships between finance department, management and other departments.

ii). Users of financial statements

The primary objective of accounting is to provide information useful for decision making. To provide information that supports this objective, accountants must consider the intended users, the types of decisions users make with financial statement information, and available means of analyzing the information. Users of financial statement information include managers, creditors, stockholders, potential investors, and regulatory agencies.

These individuals and organizations use financial statements for different purposes and bring varying levels of sophistication to understanding business activities. For example, investors range from private individuals who know little about financial statements to large investment brokers and institutional investors capable of using complex statistical analysis techniques. At what level of user knowledge should financial statements be aimed? Condensing and reporting complex business transactions at a level easily understood by nonprofessional investors is increasingly difficult. Current reporting standards target users that have a reasonably informed knowledge of business, though that level of sophistication is difficult to define.

As noted in table 4.10, the majority of the respondents (29%), in this context, suggested that banks are the main users of financial statement, followed by 22% of the respondents who feel CCKL Staffs are the users of financial statement whereas 17% of the respondents pointed out the governments, donors and general public consecutively as the other users. This implies that most users of financial statements include the general public, stakeholders, government institutions, CCKL employees and international organizations (Donors).

Table 4.10: Number of respondents to users of financial statements

Respondents	**General Public**		**Banks**		**Government Institutions**		**CCKL Staff**		**Donors**	
	F	**P**	**F**	**P**	**F**	**P**	**F**	**P**	**F**	**P**
Accounts Department	7	12	7	12	7	12	7	12	7	**12**

Staff										
Financial Managers	3	5	3	5	3	5	3	5	3	**5**
Finance Department Staff	0	0	7	12	0	0	3	5	0	**0**
Total	**10**	**17**	**17**	**29**	**10**	**17**	**13**	**22**	**10**	**17**

Source: Research Data, 2013.

**F=Frequency *P=Percentages*

There are two types of information users of accounting. The first are internal users who make economic decisions which are directly affect the internal operations of a company. This group consists of management, employees and directors. There is another group which uses financial statements to make decisions that concerns their relationships to the enterprise. This group includes creditors, investors, financial analysts, environmentalists, government agencies and other interested parties.

The information used by each party forms the basis for preparation of financial statements. This information which if used for the purpose of decision making must be provided in a timely manner. External users of financial statements require diverse accounting information due to the fact that they make a variety of decision concerning their relationship with the organization. Decisions usually made by external information users affect the companies' resource allocation. Information provided should also be useful to foster the decision making process.

Research findings established that users of financial statements prepared by CCKL includes the General public, stakeholders, government institutions, CCKL employees and international organizations (Donors). The question was aimed at measuring the awareness of staff/respondents on the use of financial statements/reports

iii). Role of financial statement in companies

As noted in table 4.11, out of 60 questionnaires distributed, 56 %(34) concurred with the role of financial statement in companies. A role played by financial information at CCKL is necessary for a complete evaluation of financial statement to external users. It is widely accepted that statement earnings play a fundamental role in both users and investors in matters of death and birth events.

Most respondents agreed that financial statements of CCKL are effective and important to CCKL's decision- making bodies. The company exercises proper accounting systems despite problems and challenges faced during financial information preparations. To curb this, the company has proposed various prospects in efforts to improve their financial information: These solutions include:

a) Conducting seminars, short and long courses for its personnel to improve the accounting and financial statement practices in the future.

b) Training more of the CCKL Accounting staffs with computer skills.

c) Training more of its accounting staffs, especially CPA and undergraduate holders to have more post graduate qualifications.

Table 4.11: Role of financial statement in companies

Responses	Frequencies	Percentage
YES	34	56
NO	26	44
Total	**60**	**100**

Source: Research Data, 2013.

4.2.2 Accounting system is used in CCKL

From the research findings, CCKL uses several accounting systems to provide accurate, timely and relevant financial. A system is an organized way of completing tasks. An information system (IS) is a combination of information technology (IT), people, procedures, and data to manage the processes and activities of an organization (Turban *et al*, 2011). Thus, an effective accounting system is one that is the best model of the events of the reality, and is able to mimic the events and procedures of the real world. Some form of structure is present with rigid and established frameworks and standards like the generally accepted accounting principles (GAAP) for transaction processing and financial reporting. To match the situation described, various accounting systems were looked at, and the results were as follows:

The accounting system is centralized, whereby all accounting records from branches are processed at CCKL headquarters. Some of the accountings records or transactions from Branches are automatically posted to the head office through CCKL's computer system. Some records though are posted manually, the speed of which depends on the availability of internet network and aero plane or buses.

As far CCKL is concerned a computerized accounting package is used. As per the research findings, the use of this electronic system has revealed various advantages such as shortening of bureaucracy on decision- making, enhancement of internal control, quick and efficient processing of huge amount of data, ability to develop excessive information at virtually no additional costs. There is also the availability of feedback while transactions are in process in real time hence simplifying financial reports preparation work.

i. **The voucher system**

As per the research findings, the accounts and finance department of CCKL raises payment vouchers supported by invoices, receipts and delivery notes, to prove that the amount paid is actually the amount to be paid and received by a bonafide payee. When payment is made, a receipt is obtained to acknowledge receipt of the cheque or cash. It can therefore be argued that the vouchering system has revealed accountability in terms of the organization's funds leading to the production of accurate data for preparation of financial reports.

ii. **Payroll system**

CCKL prepares payrolls on the basis of completed time sheets to ensure that payables associated with salaries, staff emolument and statutory payments are deducted from the salaries of employee promptly and in time. This section is also responsible for calculating retired employees' gratuity and adjustment of gratuity for deceased employees. The company's *attain accounting package* ensures that only bonafide payments are made and proper records of payments are kept.

iii. Internal control system

As per research findings there is no pre-audit section principally responsible for the production of proper financial reports by scrutinizing the existing system of accounting and examination of payments and collection of receipts. Though there is no existing internal audit in the CCKL the internal control system is still works properly as it ensures segregation of duties. This comprises of different subunits including Revenue section, Salaries section, Imprest section and Final Account section. This facilitates fraud and error detection and avoidance.

As per the researcher's findings financial reports of CCKL are prepared in compliance with International Financial Reporting Standards (IFRS). The company also complies with other provisions of Section 25(4) of the Public Finance Act No.6, 2001. CCKL also uses its accounting manual as a tool for the preparation of financial reports/statements. The research study observed the following financial reports; statement of position; income statement /income and expenditure account; cash flow statement; and statement of changes in equity.

4.2.3 Problems and challenges faced in preparing financial statements

When issuers prepare financial statements using more than one set of accounting standards, they may find it difficult to explain to investors the accuracy of both sets of financial statements if significantly different operating results, financial positions or cash flow classifications are reported under different standards for the same period. Questions about the credibility of an entity's financial reporting are likely where the differences highlight how one approach masks poor financial performance, lack of profitability, or deteriorating asset quality. However, the efficiency of capital allocation by investors would be reduced without consistent, comparable, relevant and reliable information regarding the financial condition and operating performance of potential investments. According to the research findings observed the problems and challenges identified at CCKL were:

i. **Insufficient number of qualified staff**

Most organizations that attempt to implement a strategic staffing process follow a fairly traditional approach. Usually, these organizations include staff planning as a component of their annual business planning process. But most often, implementing different, more pragmatic approaches to strategic staffing can yield the high-quality results that organizations need and expect (Thomas P. Bechet, unknown)

With the situation in CCKL, research findings reveal that only one staff holds a CPA and is not used as required. DFA holds an Ordinal Diploma, Chief Accountant holds a BA in Accounting, Finance Development Manager has a National Accounting Diploma II, and Finance Manager possess an Advanced Diploma while other staff are either undergraduate or Diploma holders in the Accounting discipline.

ii. **Inadequate data**

Data are used in almost all the activities of companies and constitute the basis for decisions on operational and strategic levels. Inadequate data can, therefore, have significantly negative impacts on the efficiency of an organization, while adequate data are often crucial to a company's success (Madnick et al., 2004). However, several industry expert surveys indicate that data adequacy is an area, to which many companies seem not to give sufficient attention or know how to deal with efficiently (Marsh, 2005).In this study, findings show that CCKL lacks a standardized collection of data. There is no fixed asset register which becomes a problem when preparing financial statement. Other problems identified in the findings are server and network problems and insufficient equipments (Insufficient computers and its peripherals, photocopiers and stationeries).

4.2.4 Solutions to improve financial reporting problems in CCKL

The last research question asked whether there were any prospects proposed by the organization to improve financial reporting. This part also combined the respondents' response on the need to improve CCKL financial statement. 100% of the respondents supported the idea of improvement based on the current international standard of financial reporting. However, they maintained that:

i. The accounting section should plans to conduct seminars, short and long courses for its personnel to improve the accounting and financial reporting practices in future. Such seminars must include IFRS.

ii. Train more of CCKL accounting staffs with computer skills, especially softwares accounts related packages.

iii. Train more accounting staffs to attain high professional qualifications such as CPA, post graduates so that they prepare and interpret good financial reports that can be used for investment decisions.

iv. It is therefore argued that CCKL has recognized financial reports to be of great importance in decision- making. It is the same reason more efforts are emphasized in ensuring that financial reports prepared are of high quality to meet rational decision- making.

v. Research findings have established that financial reports of CCKL are effective in organization decision- making. The organization is exercising proper accounting systems despite problems and challenges faced during financial reports preparations. The Organization has thence proposed various prospects in efforts to improve their financial reports as pointed out earlier.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter provides the summary, conclusion, recommendations and areas for further research. This is in confirmative with the other chapters that dealt comprehensively with the study objectives.

5.1 Summary of the findings

This study establishes the importance of financial reports in decision making. Research findings indicate that 50% of the respondents in the accounts department staff approved that financial statements are important ingredients in organization decision- making.

On the effectiveness of financial reports in making economic decisions, 60% of the respondents said it is highly effective. Based in a Likert grading system, findings revealed that 'Excellent' grade scored the highest percentage of points(60%), followed by 'Good' grade(40%), while 'fair' and 'poor' grades scored 0. This implies that most respondents believe CCKL is highly effective in its use of financial reports to make economic decisions. It can therefore be argued that financial reports are effective in making economic decisions.

On the awareness of the relationship between management and finance department, 50% of the respondents belonging to the Accounts Department are aware of the relationship between the two departments. And such awareness brings about a cordial relationship leading to job performance. For example, 47% of the respondents confirmed that the relationship is excellent.

On users of financial statements, 29% of the respondents suggested that it is the banks that use such information the most, followed by CCKL Staff with 22%. The rest of the users are government, donors and the general public with all gathering 17% of the respondents' support. This indicates that most users of financial statements prepared by CCKL includes members of the general public, stakeholders, government institutions, CCKL employees and international organizations (Donors).

For a complete evaluation of the financial position of the organization, CCKL financial information is necessary. It is also important to external users. 56 %(34) of the respondents believed that statement earnings play a fundamental role to both users and investors in matters of death and birth events.

5.2 Conclusion

In the context of this study it was revealed that financial reports/statements play an important role in choosing a course of action from among the alternative to achieve the desired goals. Based on the data collected, discussed and analyzed the researcher concludes that financial reports/statements play an important role in a big organization such as Coca-Cola. Various problems and challenges associated with financial reporting were discovered and solutions suggested. However, CCKL has put forward various strategies to improve its financial statements to make rational investment decisions. Hence their investment decision is based on their financial reports/statements. To improve this quality in the short and long run, continuous efforts should be adopted by Coca-Cola Kwanza Ltd to prepare their financial reports in line with International Financial Reporting Standards.

5.3 Recommendations

The following recommendations are deemed helpful and constructive to CCKL especially in the Accounts and Finance department, as well as other interested parties. Suggestions are based on the challenges discovered as previously analyzed in chapter four.

i. The management of CCKL should establish a Pre-Audit Unit for their financial statements to be prepared in accordance with an identified financial reporting framework i.e. give true and fair view.

ii. CCKL should provide thorough training and education on newly launched/adopted system, programs and procedures. This will make employees comfortable, efficient and effective in their tasks.

iii. Capacity building be emphasized especially Accounts staff who are not trained in the company to attend further trainings, so as to be useful in their roles. Other performance enhancements trainings and short courses could help curtail the problem of inefficiency and ineffectiveness in job performance.

iv. Accounting and Finance sections should be provided with enough office tools in order to perform their accounting duties efficiently. Lack of job tools affect their morals leading to ineffective job performance.

v. The management of CCKL should enhance their internal control system by upgrading their different accounting softwares and other hard wares. This upgrade should satisfy the needs of different decision makers.

5.4 Areas for further studies

An area which needs further research involves the changes made in various International accounting standards and frameworks and their effects on the quality of financial statements. It is a known fact most financial statements in companies including CKKL's are prepared from old accounting frameworks and conventions. More efforts need to be looked into this, plus the infusion of computerized accounting packages that have accounting look easier. Potential researchers could research into this to see if they add to any improvements to the current accounting standards,

REFERENCES

Adam, J. and Kamuzora, F. (2008), Research Methods for Business and Social Studies, Mzumbe Book Project, Morogoro-Tanzania

Alexander D. & Briton A. (1986), Financial Reporting, Great Britain Chapman & Hall Publishers

Alexander D., Briton A. &Jerissen, A. (2005), International Financial Reporting and Analysis, 2nd Edition, Thomson Learning.

Alti, A., (2003). How sensitive is Investment to Cash Flow when Financing Is Frictionless? *Journal of Finance*, 58, 707-722.

AMEDU, MERCY A (2012), Role of Financial Statement in Investment Decision Making, A Case Study of First Bank of Nigerian Plc. A Research Project Submitted In Partial Fulfilment Of The Requirement For The Award Of The Bachelor of Science (B. Sc) Degree In Accountancy. Faculty of Management and Social Sciences, Department Of Accountancy, Caritas University Maori Nike Enugu, Nigeria.

Anthony, R. (1999) Essentials of Accounting, 6th edition

Bailley K. (1994), Methods of social research, 4th Edition, New York, The Free Press.

Barry E and Jamie E. (2006), Financial accounting reporting and analysis, international edition. Second edition

Ben K. Agyei-Mensah (2012), Corporate financial reporting: Firm characteristics and the use of internet as a medium of communication by listed firms in Ghana. Department of Accounting and Finance, Christian Services University College, Kumasi, Ghana. African Journal of Business Management Vol. 6(6), pp.2299-2309, 15 February, 2012. Available online at http://www.academicjournals.org/AJBM DOI: 10.5897/AJBM11.1854, ISSN 1993-8233 ©2012 Academic Journals

Bond, S., J. Elston, J. Mairesse, B. Mulkay, (2003). Financial Factors and Investment in Belgium, France, Germany and the United Kingdom: a Comparison using Company Panel Data, *The Review of Economics and Statistics*, 85 (1), 153-165.

Broadbent, G., (1994), Financial Accounting Theory and Practice, 3rd Edition, Britain

Carmen Martinez-Carrascal and Annalisa Ferrando (2008), The impact of financial Position on investment an analysis for non-financial Corporations in the euro area. Working Paper Series, No 943 / September 2008. European Central Bank, 2008. http://www.ecb.europa.eu or from the Social Science Research Network electronic library at http://ssrn.com/abstract_id=1268868.

CIMA Examination Kit paper 9 (1996), Financial Reporting New Edition, Focused, November 1996 and 1997, Britain, At Foulks Lynch Ltd

Cole G (1994), Management Theory and Practice, 4th Edition, London, Aldine Place.

Cole, G., (2003) Research on Information Ability to Decisions, Mac Grawhill,

Cox, C. (2005), Speech by SEC chairman: Speech to SEC staff. August 4. Securities and Exchange Commission. Available at http://www.sec.gov/news/speech/spch080405cc.htm

David R. Myddelton (New Edition), Understanding Business, Accounting and Financial Decision, Eddie Mclaney Peter Atrill, Accounting an introduction 3rd Edition

Elliott, W. B. 2006. Are investors influenced by pro forma emphasis and reconciliations in earnings announcements? The Accounting Review 81 (1): 113-133.

Elliott, W.B., F.D. Hodge, K.E. Jackson. 2008. The association between nonprofessional investors' information choices and their portfolio returns: The importance of investing experience. Contemporary Accounting Research. 25 (Summer): 473-498.

Ericson, T. and T. Whited (2000). "Measurement Error and the Relationship between Investment and Q, *Journal of Political Economy*, 108, 1027-1057.

Exposure Draft (ED): Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information May 2008.

Fazzari, S., R.G. Hubbard and B. Petersen, (2000). Investments-Cash Flow Sensitivities are Useful: a Comment on Kaplan and Zingales, Quarterly Journal of Economics CXV: 2, 695-705.

Fazzari, S., R.G.Hubbard and B. Petersen, (1988). Financing Constraints and Corporate Investments, Brookings Papers on Economic Activity, 1, 41-195.

Financial Accounting Standards Board (FASB, 2008). *Original Pronouncements as Amended*. Statement of Financial Accounting Concepts No. 2, Qualitative Characteristics of Accounting Information.

Financial Reporting Council (FRC), True and Fair, July 2011. http://www.frc.org.uk/FRC-Documents/FRC/Paper-True-and-Fair.aspx.

Financial Statement Analysis, http://highered.mcgraw-hill.com/sites/dl/free/0073527122/788603/Chapter_13.pdf

Frank, W., (2005), Business Accounting, 10th Education, Vol. 1& 2, Pearson Education

George, P., (1993), Financial management, USA, Kent Publishing Company, International financial reporting standards

Gigerenzer, R., (2000) "Research on Decision-making and Information Visualization.

Gomes, J., (2001). "Financing investment", American Economic Review, 91, 1263-1285.

Hernando, I and C. Martinez-Carrascal, (2008). The Impact of Financial Variables on Firms Real Decisions: Evidence from Spanish Firm-level Data, Journal of Macroeconomics, 30, 543-561.

High Performing Investment Teams (Wiley, 2006), Investment Leadership: Building a Winning

IFRS Developments (2011), Changes to the presentation of other comprehensive income — amendments to IAS 1

International accounting standard and interpretation, (July 2004), London, United Kingdom.

IPSA (2004); A Comparison of Internal Controls Journal

Jennings A.R (1986), Financial Accounting Manual 2, Third Edition

Kaplan, S.N and L. Zingales, (1997). Do Investment Cash-Flow Sensitivities Provide Useful Measures of Financing Constraints, *Quarterly Journal of Economics*, CXII: 1, 169-216.

Kaplan, S.N and L. Zingales, (2000). Investment-Cash Flow Sensitivities are not valid measures of financing constraints, *Quarterly Journal of Economics*, CXV:2, 707-712.

Killagane Y.S.M (2006), Financial accounting for professional Students – Vol. I and II

Kindersley, L., and Fleischman, M., (2001) made 'Journal of Public Budgeting, Accounting, & Financial Management', Vol14, pp.1

Kumar R (1999). Research Methodology a step by step guide for beginners, London, Sage Publications.

Madnick, S., Wang, R., & Xian, X. (2004). The design and implementation of a corporate house holding knowledge processor to improve data quality. *Journal of Management Information Systems*, 20(1), 41-49.

Marsh, R. (2005). Drowning in dirty data? It's time to sink or swim: A four-stage methodology for total data quality management. *Database Marketing & Customer Strategy Management*, 12(2), 105–112. doi:10.1057/palgrave.dbm.3240247

Meighs, W. & Meighs R., (1987), The Basic for Business Decisions, 7th Edition, Canada, Mac crawn hill

Monyo M, (2000) The Accountant journal, Vol 12 no.3 (July-Sept) Tanzania, NBAA.

Alexander and Nobes second edition (2004), Financial Accounting an International Introduction

Needles, B.E. and Powers, M. (1990) A comparative study of models for accounting education. *Issues in Accounting Education*.

Peter A, Harvey D & Mclaney E (1996) Accounting for Business

Preparation of Financial Statements by Public Sector Entities (PFSPSE, 2009), Better Practice Guide, June 2009, ISBN No. 0 642 81073 7, Australian National Audit Office found on http://www.anao.gov.au/uploads/documents/ANAO_FinStat_BPG.pdf

Rita, M., and Carter, E., (1984) International financial Management, London, Printcehall

Saunders M, Lewis NK, Thornhill A (2007). Research methods for business students, 4th edition Financial Times, Prentice Hall.

Schion, D.A. (1987) Educating the Reflective Practitioner: Toward a Design for Teaching and Learning in the Professions. San Francisco: Jossey-Bass. *International Journal of Management Education 7(1)*

Senkoro H.K (2002), Journal of National Board of Accounting auditors

Simon, B., (1988), Interpretation of Financial Statements using Ratios, Canada, Mac Crawn Hill

Sivakumar Velayutham,(2008), The role of professional accounting programmes: towards a reflective practicum, Massey University, and Hector Perera, Macquarie University, DOI:10.3794/ijme.71.200

Smith, J.L. 2009. The Auditor's Loss Function and Investors' Perceptions of Audit Quality: Effects of Regulatory Change. Working Paper. University of Nevada—Las Vegas.

StudyMode.com(08,2013). The Importance of Financial Statements. Retrieved 08, 2013, from http://www.studymode.com/essays/The-Importance-Of-Financial-Statements-1009839.html

Thomas P. Bechet, The Walker Group, Developing Staffing Strategies That Work: Implementing Pragmatic, Non-traditional Approaches. 2131 E. Broadway Rd., Suite 24 Tempe, AZ 85282-1737, www.thewalkergroup.com

Turban, E., and L. Volonino, (2011). Information technology for management. (Wiley. Wade, M., and J. Hulland, 2004, Review: The resource-based view and information systems research: Review, extension, and suggestions for future research, MIS Quarterly, 28,107-142.

Warne, R.C. 2009. The Effects of Fair-Market Valuations of Non-Current Assets on the Judgments of Non professional Investors. Working Paper. George Mason University.

What Are Some of the Relevant Issues or Problems Encountered in the Development of Standards Accounting Process? (2013, 07). StudyMode.com. Retrieved 07, 2013, from http://www.studymode.com/essays/What-Are-Some-Of-The-Relevant-1039327.html

Whited, T. M., (1992). Debt, Liquidity Constraints, and Corporate Investment: Evidence from Panel Data, *Journal of Finance* XLVII, 1425-1460.

APPENDIXES

Appendix I: Respondent’s Letter

Title: ***Role Of Financial Statements Towards Performance Of Companies In Investment Decisions: A Case Of Coca- Cola Kwanza Limited (CCKL)***

Dear Respondent,

This questionnaire designed to gather information required for the purpose of the study, which is part and parcel of my academic requirement for a Master’s Degree studies in Science (Accounting & Finance), of Mzumbe University. You are kindly required to give specific to assist the researcher in investigating the role of financial statements towards performance of companies in investment decisions.

Cordially,

LILIAN MUNISI

Appendix I1: Questionnaire

Questionnaire Number:				

Instructions

Do not write your name. Tick (√) the appropriate answer and fill in the blanks with written information according to the instruction given

A: Personal Particulars

i. Your Academic Qualification (Put a tick)

ii. Post Graduate Degree/Diploma

iii. Under Graduate degree/Advanced Diploma

iv. Others

1. Accounting Professional Level (Put a tick)

i. ACCA,CIMA

ii. CPA

iii. Final stage

iv. Intermediate stage

v. Foundation stage

vi. Others

B: General Questions

2. The financial statements prepared at Coca-Cola Kwanza Limited include: (Put a tick)

a) Income statement

b) Income and Expenditure Account

c) Cash flow statements

d) Balance sheet

e) Directors report

f) Statement of accounting policies and explanatory notes.

3. Who are the users of financial statement prepared at Coca-Cola Kwanza Limited?

………………………………………………………………………………………

…….…………………………………………………………………………………

………..…………………………………………………………………………

……………………………………………………………………………………

4. What is the relationship between management and accounts and finance department during preparations of financial statement? (Please explain).

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

5. Can management make investment decision in the absence of financial statement?

YES ( ) NO ( )

6. If the answer in above question is NO; are investment decisions made using financial statement:

a) Highly effective

b) Moderate effective

c) Less effective

7. Is your accounting system (Put a tick)

a) Centralized

b) Decentralized

8. If the accounting system is centralized, how long does it take to get other accounting records from branches per accounting period in preparations of financial statement? State………………………………………………………………

9. Is your accounting system computerized? (Choose among the following)

YES ( ) NO ( )

10. If the answer in 11 above is YES, what are the benefits obtained from such computerized accounting system? Please explain

……………………………………………………………………………………

……………………………………………………………………………………

…………………………………..………………………………………………

11. If the accounting system is not computerized, do you think there is a need to computerize it?

YES ( ) NO ( )

12. When preparing financial statement, do you think it is necessary to adhere with Generally Accepted Accounting Principles (GAAPs)?

YES ( ) NO ( )

13. Has your company adopted International Financial Reporting Standards (IFRS) as announced by NBAA?

YES ( ) NO ( )

14. If your company is not yet adopted IFRS, what are the company's future plans towards this adoption? Please explain

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

15. Do you have any current standard guidelines in your company?

YES ( ) NO ( )

16. How many times does Accountant make review on those Accounting guidelines?

State………………………………………………………………………………

17. What are problems you normally encounter during preparation of financial statement? Please mention them.

……………………………………………………………………………………

……………………………………………………………………………………

18. What do you suggest to be the possible solutions for the above problems?

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

END

THANK A LOT FOR YOUR COOPERATION