

**THE ROLE OF FINANCIAL STATEMENTS IN INVESTMENT
DECISION MAKING:
A CASE OF TANGA PORT AUTHORITY**

**THE ROLE OF FINANCIAL STATEMENTS IN INVESTMENT DECISION
MAKING
A CASE OF TANGA PORT AUTHORITY**

By

Amina Haji Nkuhi

**A Dissertation Submitted in Partial/Fulfilment of the Requirements for Award of a
Master of Business Administration of Mzumbe University**

2015

CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by The Mzumbe University a Dissertation titled: “**The Role of Financial Statements in Investment Decision Making**” in partial fulfilment of the requirement of the degree of Master of Business Administration in Corporate Management of Mzumbe University

.....

Major supervisor

.....

Internal Examiner

.....

External Examiner

Accepted for the School Board

DEAN DIRECTOR /FACULTY/DOCTORATE/SCHOOL/BOARD

DECLARATION AND COPYRIGHT

I **Amina Nkuhi**, declare that, this research study is my own original work and it has not been presented and will not be presented to any other university for a similar or any degree award.

Signature: _____

Date _____

© **Amina Nkuhi, 2015**

This dissertation is a copyright material protected under the Berne Convention, the Copyright Act 1999 and other international and national enactments, in that behalf, on intellectual property. It may not be reproduced by any means in full or in part, except for short extracts in fair dealings, for research or private study, critical scholarly review or discourse with an acknowledgement, without the written permission of Mzumbe University, on behalf of the author.

ACKNOWLEDGEMENT

First and foremost, I would like to thank Allah for giving me the strength and intelligence during my studies. Specifically, I thank him for his guidance and protection throughout the whole period of my research and report writing.

I also extend my sincere thanks to my supervisor Mr. Mnzava, J.A. who spared time to read my paper and ensure that this paper is written in the required standards. I would like to express my heartfelt appreciation to the other Mzumbe University lecturers. Special thank go to Emmanuel Akili.

Last but not least, I would extend my sincere gratitude to the management of TPA and staff for their cooperation during the data collection exercise and one on one interview.

DEDICATION

I would like to dedicate this dissertation to my dearest family especially my father and mother. Their support and contribution psychologically, financially and physically is invaluable. Finally I dedicate this dissertation to my friends who have been inspiring and encouraging me in carrying out this study.

ABSTRACT

This study intended to investigate the role of financial statements in investment decision making. The study questions were to examine how financials aid investors in decision making, evaluate the performance of a company for investment decision making, and appraise the fundamental use of financial statement information.

The approach was to work with the TPA and general public to achieve the set objectives. In summary, the approach and research methodologies involved; desk study to review current literatures; pilot study and the actual field research study.

Data analysis was conducted on the basis of data collected. Explanatory analysis using Ms Excel, and SPSS were used. The findings show that financials are critical in investment decision making. Investors are confident with TPA financials. Majority of the respondents appeared to be knowledgeable with financial variables specifically, the gearing ratios, liquidity ratios and profitability ratios.

TPA faces government interventions in financial reporting, and qualified audit reports. Conclusion was based on findings that investor need to get proper interpretations of financial reports, making consultations and get other none financial information in investment decision making. The study recommends; both females and males must be included in any study, need to use informed sample, encourage usage of financials in investment decision making, need for TPA to fully apply the IFRS principles in the preparation of its financials and investors to seek consultancy services in the use of financial reports to make investment decisions.

LIST OF ABBREVIATIONS

AGM	Annual General Meeting
APC	Auditing Practices Committee
ARR	Accounting Rate of Return
DCF	Discounted Cash Flow
HQ	Head quarters
IFRS	International Financial Reporting Standards
IRR	Internal rate of return
IRR	Internal Rate of Return
NBAA	National Board of Auditors and Accountants
NPV	Net Present Value
NPV	Net Present Value
PB	Payback period
PhD	Doctor of Philosophy
PI	Profitability index
PI	Profitability Index
ROI	Return on Investment
U.S	United States

TABLE OF CONTENTS

CERTIFICATION	i
DECLARATION AND COPYRIGHT	ii
ACKNOWLEDGEMENT.....	iii
DEDICATION	iv
ABSTRACT	v
LIST OF ABBREVIATIONS	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	x
LIST OF FIGURES	xi
CHAPTER ONE	1
INTRODUCTION AND BACKGROUND INFORMATION	1
1.1 Introduction.....	1
1.2 Background of the Problem	1
1.3 Statement of the Problem.....	2
1.4 Research Objectives.....	3
1.4.1 General Objective.....	3
1.4.2 Specific Objectives.....	3
1.5 Research Questions.....	3
1.6 Significance of the Study	4
1.7 Scope of the Study	4
1.8 Limitations of the Study	4
CHAPTER TWO.....	5
LITERATURE REVIEW	5
2.0 Introduction.....	5
2.1 Definitions of terms	8
2.2 Characteristic of Financial Statements	10
2.3 Features of Financial Statements	11

2.4 Objectives of Financial Statements.....	12
2.5 Analysis of Financial Statement	12
2.6 Accounting Information Tools.....	15
2.7 Definition and Nature of Investment Decisions.....	19
2.8 Investment Evaluation Criteria	21
2.9 The Role of Financial State in Investment Decision	24
2.10 Empirical Literature Review.....	26
2.11 Conceptual Frame Work.....	27
CHAPTER THREE.....	29
RESEARCH METHODOLOGY	29
3.1 Introduction.....	29
3.2 Research Paradigms and Design.....	29
3.3 Area of the study.....	30
3.4 Population of the Study.....	30
3.5 Sample Size and Sampling Techniques	30
3.5.1 Sample and Sample Size	30
3.5.2 Sampling Procedures.....	30
3.6 Data Collection Methods and Approach.....	30
3.6.1 Sources of Data Collection.....	30
3.6.2 Validity Testing.....	31
3.7 Management and Analysis of Data.....	32
3.7.1 Data Cleaning.....	32
3.7.2 Data analysis	32
CHAPTER FOUR	33
DISCUSSION AND PRESENTATION OF MAJOR FINDINGS.....	33
4.1 Personal Details of the Respondents.....	33
4.1.1 Gender of the respondents.....	33
4.1.2 Age of the respondents.....	35

4.1.3 Occupation of the respondents	36
4.1.4 Academic background of respondents	37
4.1.5 Education levels of the respondents	38
4.2 Use of Financial Statements in the Assessment of Financial Position	40
4.2.1 Use of financial statement information in investment decision making	40
4.2.2 The adequacy of TPA financials for use in investment decision making	41
4.2.3 The Variables looked at in assessing company's financial position	43
4.3 Financial Statements in Forecasting Company's Performance and challenges faced by TPA	44
4.3.1 Extent to which financials help investor to take opportunities	44
4.3.2 Reliability of NPVs calculated from financials' information	45
4.3.3 Challenges of TPA financials.....	46
4.3.4 Recommendations to Investors using TPA financials	47
CHAPTER FIVE	49
CONCLUSIONS AND RECOMMENDATIONS	49
5.1 Conclusion	49
5.2 Recommendations.....	50
REFERENCES	51
APPENDICES.....	54

LIST OF TABLES

Table 4.1: Occupation of the respondents	36
Table 4.2: Do you use TPA financials in a move to invest?	40
Table 4.3: Do you think TPA financials are adequate for investment decision making?	41
Table 4.4: Adequacy of financials in addressing investment information requirements	42
Table 4.5: Extent to which financials help investor to take opportunities	44
Table 4.6: Reliability of NPVs calculated from financials' information	45
Table 4.7: Challenges of TPA financials.....	46
Table 4.8: Recommendations to Investors using TPA financials.....	47

LIST OF FIGURES

Figure 2.1: Illustration of the Conceptual Framework	27
Figure 4.1: Gender of the respondents	34
Figure 4.2: Age of the respondents.....	35
Figure 4.3: Academic background of respondents	38
Figure 4.4: Level of education of the respondents	39
Figure 4.5: Variables looked at in assessing company's financial position	43

CHAPTER ONE

INTRODUCTION AND BACKGROUND INFORMATION

1.1 Introduction

This chapter consists of five sub-sections. These are introductory part, background of the problem, statement of the problem, research objective, research questions, significance of the study, scope of the study, and limitation of the study.

1.2 Background of the Problem

Decision making process requires information – financial and non-financial information as well. The most important financial information needed in the process of business decision comes from accounting. Therefore, we can say that accounting is a service function to management. It basically, processes or gathers and studies “raw data” and converts them into suitable information in the process of decision making. The basic characteristics of the accounting are: Gathering, processing and presenting accounting (financial) information; information considering company’s business and those directed towards different interested users.

Accounting process contains several phases. Basically, it is a process in which input data are converted into output information. (© Katarina Zager, Lajos Zager, 2006).

Organizations both public and private need to disclose financial information relating to their operations in order to assist investors in making investment decisions. They do so as a matter to satisfy the legal requirement, retain existing investors and to attract potential ones through the publication of their financial statements where the capital stock of an organization is widely held and its affairs are of interest to general public relations (Amedu, 2008).

This study was centred on the financial statement presented to shareholders and also available for potential investors, bond holders and trade creditors as a tool of information for investment decision. Financial statement based on result on past

activities are analysed and interpreted as a basis for predicting future rate of returns and assessment of risk.

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

Financial statement are analysed in order to use the information in financial statements to ascertain the profitability and financial soundness of the firm, to Judge the managerial efficiency for inter form comparison of similar nature and to make valuable for costs. Financial statement analysis is critical in making effective stock investment decisions. If investors will not do research for their stock investments, They will essentially engage in glorified gambling. The statement of financial position and statement of comprehensive income, cash flow statement and statement of owners' equity each offers unique insights. Combined, they can give you a good sense of a company's overall financial picture.

1.3 Statement of the Problem

It was observed, that the position of financial statements as an investment decision making tool in Tanzania, Tanga Ports in particular, has some problems to both investors and managers of businesses who are not aware of the importance of interdependence relationship that exist between investors and business organizations. Such problems include:

Firstly, whether all necessary disclosure have been made by the management of the enterprises, which can now convince a person that deductions made base on the financial statement is not misleading. Secondly, evaluation of performance of a company in investment decisions making and how to determine the profitability of a company.

The researcher focused on the above listed problems in this study. The problems analysed tend to threaten both existing and potential investors. Existence of these problems in Tanzania particular Tanga port has prompted the researcher to carry out this research in order to specifically find out the importance of financial statements in investment decision making.

1.4 Research Objectives

1.4.1 General Objective

The general objective of this study is to ascertain the role of financial statement in investment decision making in Tanzania, Tanzania Ports Authority in particular.

1.4.2 Specific Objectives

The specific objectives are as follows:

- i. To examine how financial statement as a set of analytical tools aid prospective investors in assessing the financial position of the corporate business.
- ii. To evaluate the performance of a company for investment decision making from a financial statement perspective.
- iii. To appraise the fundamental use of financial statement information, this is to provide information for investment decision making.

1.5 Research Questions

- i. How does financial statement as analytical tools aid prospective investors in assessing the financial position of the corporate business?
- ii. Are financial statements useful for forecasting company's performance?
- iii. To what extent does the financial statement information enable users to get the required information for investment decision making?

1.6 Significance of the Study

The study will enhance benefit to different types of stakeholders by improving their organisation performance, such stakeholders are financial analysts, investors and other financial organisation by widening their knowledge on the use of the financial statement in decision making process

The study will make organisation (Tanzania Ports Authority) to appreciate the importance of sound financial statement in provision of information necessary for decision making.

Finally this research will equally serve as reference to students in this noble institution and other school who may be interested to embark on further research study.

1.7 Scope of the Study

This study was limited to Tanzania ports Authority specifically Tanga port in Tanzania

1.8 Limitations of the Study

- i. Limited timelines. The researcher was not able to extend the frontiers of his study to capture many issues in regard to the role of financial statements in investments decision making. This is because the researcher needs to meet the University specified deadline.
- ii. Financial Limitation. The researcher had to minimize cost by utilizing little time in the field by being very specific so as to have study done under the limited financial resources.
- iii. Furthermore, the scope of this study aims at investigating the role of financial statements in investments decision making. Researcher depended on findings obtained from respondents in the selected samples. This limited generalization of findings.
- iv. There are limited literature sources to explain all is needed in regard to the role of financial statements in investments decision making in the context of Tanzania.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter comprises only three sub-sections. Theoretical Literature review, Empirical Review (past study reviews) as well as Conceptual Framework respectively).

Theoretical Framework

The theoretical framework gives the meaning of a word in terms of the theories on financial statement such as proprietary, residual equity theory, and DuPont mean-variance of portfolio investment theory. It assumes both knowledge and acceptance of the theories that this research work depends upon. *European Journal of Business, Economics and Accountancy*

DuPont Mean - Variance of Portfolio Investment Theory

According to Adebimpe (2009) who adopted DuPont equation stated that, it is an expression which breaks return on equity down into three parts. The name comes from the DuPont Corporation, which created and implemented this portfolio formula into their business operations in the 1920s. It was adopted from Markowitz Mean-Variance Portfolio theory which states that profit of a firm is a function of total sales, total assets, shareholder equity contribution and the liabilities (debts). This formula is known by many other names, including DuPont analysis, DuPont identity, the DuPont model, the DuPont method, or the strategic profit model

ROE=NETINCOME/SALES*SALES/TOTALASSETS*TOTAL ASSETS/AVERAGE SHAREHOLDERS EQUITY.

In the DuPont equation, ROE is equal to profit margin multiplied by asset turnover multiplied by financial leverage. Under DuPont analysis, return on equity is equal to the profit margin multiplied by asset turnover multiplied by financial leverage. By splitting ROE (return on equity) into three parts, companies can more easily understand changes

in their ROE over time. Components of the DuPont Equation: Profit Margin: Profit margin is a measure of *European Journal of Business, Economics and Accountancy* Vol. 3, No. 2, 2015 ISSN 2056-6018

Progressive Academic Publishing, UK Page 18 www.idpublications.org

Profitability. It is an indicator of a company's pricing strategies and how well the company controls operating costs. Profit margin is calculated by finding the net profit as a percentage of the total revenue. As one feature of the DuPont equation, if the profit margin of a company increases, every sale will bring more money to a company's bottom line resulting in a higher overall return on equity. Components of the DuPont Equation: Asset Turnover Asset turnover is a financial ratio that measures how efficiently a company uses its assets to generate sales revenue or sales income for the company. Companies with low profit margins tend to have high asset turnover, while those with high profit margins tend to have low asset turnover. Similar to profit margin, if asset turnover increases, a company will generate more sales per asset owned, once again resulting in a higher overall return on equity.

Components of the DuPont Equation: Financial Leverage: Financial leverage refers to the amount of (liabilities) debt that a company utilizes to **finance** its operations, as compared with the amount of equity that the company utilizes. As was the case with asset turnover and profit margin, increased financial leverage will also lead to an increase in return on equity. This is because the increased use of debt as financing will cause a company to have higher interest payments, which are tax deductible. Because **dividend** payments are not tax deductible, maintaining a high **proportion** of debt in a company's **capital structure** leads to a higher return on equity.

Proprietary and residual equity theory

Proprietary equity theorists such as Husband (1938), insisted that the accounting process of companies must be conducted from the shareholders' perspective. Staubus (1952, 1959), developed the residual equity theory which considered that the accounting must be done from the perspective of the residual equity holders, which for a going

concern coincides with that of the common shareholders. Residual equity theory is often regarded as a more restrictive form of proprietary theory.

Under the proprietary view, transactions and events are analyzed, recorded and accounted for as to their immediate effect on the proprietors. Financial statements are prepared from the viewpoint of the proprietors and are meant to measure and analyses their net worth expressed by the accounting equation:

$$(1) \Sigma assets - \Sigma liabilities = \Sigma equity, proprietorship or net worth$$

In the proprietary view, the assets are considered the proprietors' assets, and the liabilities are the proprietors' liabilities. According to Newlove and Garner (1951) under proprietary theory "liabilities are negative assets – negative properties, which must be sharply defined and separated in the accounting process." Revenues are increases in proprietorship and expenses are decreases. Net profits, "the excess of revenues over expenses, accrues directly to the owners; it represents an increase in the wealth of the proprietors." (Hendriksen and Van Breda, 1992) Staubus (1959) narrowed the concept of owners to common stockholders and considered preference shareholders as liability holders and stressed the importance to investors of the estimation of future cash receipts. The accounting equation becomes:

$$(2) Assets - Specific Equities (=Liabilities + Preferred Stock) = Residual Equity$$

The proprietary approach represents an agency view of the company where the main responsibility of management is to manage the firm in the best interests of the owners. As the assets and liabilities are considered the owners' assets and liabilities, the maximization of profits equals maximization of the increase in the shareholders' net assets. For this reason, the asset/liability approach to income determination, where income is the by-product of the valuation of assets and liabilities, is the most direct way of quantifying the increase in net assets. Under both the proprietary theory and the asset/liability approach to income determination, it is imperative that shareholders' interests are sharply distinguished from the interests of the providers of debt capital in order to be able to measure the increase in net assets.

2.1 Definitions of terms

Financial Statements: Represent a formal record of the financial activities of an entity. These are written reports that quantify the financial strength, performance and liquidity of a company. Financial Statements reflect the financial effects of business transactions and events on the entity

Financial Information: Data such as credit card numbers, credit ratings, account balances, and other monetary facts about a person or organization that are used in billing, credit assessment, loan transactions, and other financial activities. Financial information must be processed in order for business to be conducted, but it must also be carefully handled by businesses in order to ensure security for customers and to avoid the litigation and bad publicity that can stem from negligent or improper use. Read more: <http://www.businessdictionary.com/definition/financial-information.html#ixzz3Pl9ahB00> obtained on 20.02.2015.

Investment: There are two main classes of investment are (1) Fixed income investment such as bonds, fixed deposits, preference shares, and (2) Variable income investment such as business ownership (equities), or property ownership. In economics, investment means creation of capital or goods capable of producing other goods or services. Expenditure on education and health is recognized as an investment in human capital, and research and development in intellectual capital. Return on investment (ROI) is a key measure of an organizational performance. Read more: <http://www.businessdictionary.com/definition/investment.html#ixzz3PlBpAYTt> Obtained on 20.02.2015.

Financial Ratios: A financial analysis comparison in which certain financial statement items are divided by one another to reveal their logical interrelationships. Some financial ratios (such as net sales to net worth ratio and net income to net sales ratio) are called primary because they indicate the fundamental causes underlying a company's strengths. Others (such as current assets to current liabilities ratio, and

current liabilities to net worth ratio) are called secondary because they depict the company's competitive position and financial structure as effects of the causes identified by the primary ratios. See also activity ratios, efficiency ratios, investment ratios, leverage ratios, liquidity ratios, and profitability ratios

Decision Making

Decision making is the mental process of choosing from a set of alternatives. Every decision-making process produces an outcome that might be an action, a recommendation, or an opinion. Since doing nothing or remaining neutral is usually among the set of options one chooses from, selecting that course is also making a decision. 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, the financial information of an enterprise is contained in the financial statement.

Financial Statements

Past events and performances serve as background for making projections if they are to be realistic. The financial statements provide important information concerning past financial transactions and their effects on the profitability and the financial position of the business. Various users of financial statements such as owners, investors, creditors, management etc. must make an analysis of financial statements to make right decision. Therefore financial statements are the means of conveying to owners, management or to interested outsiders a concise picture of profitability and financial position of the business. Financial statements are the end products of the accounting process which give concise accounting information of the period after the accounting period is over.

Financial statements are the summary reports of a company's financial transactions. They report the end results of accounting activities during a given period of time. Financial statements provide the income or loss and financial position of a company. Financial statements are end of the period accounts prepared to show the profit or loss situation for a period of time and to assess the financial position and cash flow situation

on a particular date. Financial statements report the result of past activities. (company<http://accountlearning.blogspot.com/2009/10/financial-statements.html>) obtained on 18.01.2015.

Financial statement

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. They typically include basic financial statements, accompanied by a management discussion and analysis (http://en.wikipedia.org/wiki/Financial_statement, obtained on 18.01.2015).

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

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

2.2 Characteristic of Financial Statements

- i) ***Understand ability:*** The information must be readily understandable to users of the financial statements. This means that information must be clearly presented, with additional information supplied in the supporting footnotes as needed to assist in clarification.
- ii) ***Relevance:*** The information must be relevant to the needs of the users, which is the case when the information influences the economic decisions of users. This may involve reporting particularly relevant information, or information whose omission or misstatement could influence the economic decisions of users.

- iii) **Reliability:** The information must be free of material error and bias, and not misleading. Thus, the information should faithfully represent transactions and other events, reflect the underlying substance of events, and prudently represent estimates and uncertainties through proper disclosure.
- iv) **Comparability:** The information must be comparable to the financial information presented for other accounting periods, so that users can identify trends in the performance and financial position of the reporting entity.

2.3 Features of Financial Statements

- i) Financial statements are those statements which present historical data, which implies that financial statements reveal what has already happened and they do not tell anything about the future.
- ii) Financial statements are expressed in monetary terms, so profit and loss statements show the profitability of the business, balance sheet reveal the financial position of the company and cash flow statement reveal the cash position or liquidity which is there with the company.
- iii) Financial statements do not reveal the employee satisfaction levels, or effort put by the owner of the company and all other such qualitative factors are excluded from financial statements.
- iv) Financial statements should reveal all things and should not leave out anything which materially affects the decision of the person who is reading that financial statements and then taking decision regarding the company. For example prospective shareholders looked financial statements before investing into the company.
- v) Financial statements of the company should be prepared in such a way that they are comparable with the other companies in the same industry or they are comparable with past financial statements of the same company (<http://www.letslearnfinance.com/features-of-financial-statements.html>) obtained on 18.01.2015).

2.4 Objectives of Financial Statements

Financial statements of a company are the result of management's past actions and decisions. They are the end products of the accounting process. They give a picture of solvency and profitability of a company. The major objectives of the financial statements are as follows:

- i. To provide the financial information to the internal and external users.
- ii. To provide the information, which are useful in the decision making process.
- iii. To reveal the profitability and solvency of the company.
- iv. To help to evaluate the financial position and efficiency of the management

2.5 Analysis of Financial Statement

Users of financial statements can get further insight about financial strength and weakness of a company if they properly analyse information reported in these statements. Therefore, financial analysis is the process of identifying financial strength and weakness of a company by properly establishing relationships between the items in the balance sheet or statement of financial position and income statement. Also KaratarinaZager, Lagos Zager 2006, in special edition on consumer satisfaction-Global perspective pg 35. They argued that

In order to improve the usage of financial information in the context of the decision making process. The analysis of financial statements should be made. In that context, the financial statement analysis can be described as the process where data are converted from financial statements into usable information for business quality measurement by different analytical techniques, which is very important in the process of rational management. Therefore, to know the current level of business quality is very significant in the context of future business management, since management of the business try to ensure company's development and existence on the market. Financial statement analysis comes before the management process that is before the process of planning which is the component of the management process.

Planning is very important for good management. Good financial plan has to consider all company's strength and weaknesses. The task of financial statement analysis is to recognize good characteristics of the company so that Management could use the most of those advantages, but also to recognize company's weaknesses in order to take corrective actions. Because of that, we can say that management of the company is the most significant user of financial statement analysis. In the process of financial statements analysis it is possible to use the whole range of different instruments and procedures. First of all, it considers comparative financial statements and the horizontal analysis procedure together with structural financial statements and the vertical analysis procedure. By horizontal analysis which is based on the comparative financial statements it try to examine the tendency and dynamics of changes of particular basic financial statements positions.

Business efficiency and security of the company are estimated on the basis of observed changes. On the other hand, structural financial statements are the base for vertical analysis which allows insight into financial statement structure. Financial statements structure is very significant in the context of business quality

1. Internal Users

The internal users of financial statements are individuals who have direct bearing with the organization. They may include:

- i) Managers and Owners:** For the smooth operation of the organization, the managers and owners need the financial reports essential to make business decisions. So as to provide a more comprehensive view of the financial position of an organization, financial analysis is performed with the information supplied in the financial statements. The financial statement is used to formulate contractual terms between the company and other organizations.

A variable of the financial statement like the current debt to equity ratio is important in deciding the amount of long term capital that would be required to be raised. The financial statements of other companies can also provide

investment solutions to different companies. Sometimes it becomes difficult to decide the right field in which financial resources may be channelized. In such situations the financial statements of other companies provide the appropriate guideline.

- ii) **Employees:** The financial reports or the financial statements are of immense use to the employees of the company for making collective bargaining agreements. Such statements are used for discussing matters of promotion, rankings and salary hike.

2. External Users

The external users comprise of:

- iii) **Institutional Investors:** The external users of financial statements are basically the investors who use the financial statements to assess the financial strength of a company. This would help them to make logical investment decisions.
- iv) **Financial Institutions:** The users of financial statements are also the different financial institutions like banks and other lending institutions who decide whether to help the company with working capital or to issue debt security to it.
- v) **Government:** The financial statements of different companies are also used by the government to analyze whether the tax paid by them is accurate and is in line with their financial strength.
- vi) **Vendors:** The vendors who extend credit to a business require financial statements to assess the creditworthiness of the business (Jennins, A.R 2004).

2.6 Accounting Information Tools

Statements of Financial position

The statement of financial position follows the basic accounting equation assets equal liabilities plus owners' equity. The difference between what a company has and what it owes equals equity, or net worth. A high net worth may indicate that a company is relatively debt free, particularly if its owners' equity is higher, expressed as a percentage of assets, than other companies in its industry. www.readingfanatic.com obtained on 25.01.2015

Statement of comprehensive income

The statement of comprehensive income shows how much profit a company has earned during a given period. The format includes a gross profit calculation, followed by an operating income section. This produces operating income. Non-operating income or losses, including one-time or special sources of revenue or expense, are then added to derive net income. Gross profit is based on revenue minus the cost of producing the goods or services that a company sells, called the cost of goods sold. www.readingfanatic.com obtained on 25.01.2015.

This shows how efficiently the company generates income from its production. Operating income considers many other costs along with the cost of goods sold, including overhead and depreciation on equipment. This is important in determining the company's basic profitability, especially when compared to prior periods or to other companies in its field. Growing operating income is a good sign. Special items may positively or negatively affect a period's net income, but they are less likely to affect long-term concerns.

Cash Flow Statement

The statement of cash flows also reveals useful information when making investment decisions. It shows the net change in the company's cash position during a given period. In general, stable or growing cash flow means the company can cover its short-term debt payments and expenses, while also keeping up with any long-term debt

obligations. You can also look over the structure of the cash flow to see how much cash is generated from operating activities versus financing and investing. It is a good sign when a company's cash from operating income routinely exceeds its net income. This shows income is turning into cash. Typically, an effective cash position is favourable in an investment because it shows less risk of loan defaults or bankruptcy. www.readingfanatic.com obtained on 25.01.2015.

Statement of Owners' Equity

The statement of owners' equity isolates the equity section of the balance sheet. Its primary purpose is to show the trend in retained earnings for the company. Retained earnings are accumulated profits not paid out in dividends. This is useful in investment decisions because higher retained earnings relative to dividends means you get less dividend income. However, this often means the company is looking to grow and is holding onto income for reinvestment versus paying it out in the near term. www.readingfanatic.com obtained on 25.01.2015.

Statement of 'Accounting Policies

The statement of accounting policies comprises specific policies and procedures used by a company to prepare its financial statements. These include any methods, measurement systems and procedures for presenting disclosures. Accounting policies differ from accounting principles in that the principles are the rules and the policies are a company's way of adhering to the rules. <http://www.investopedia.com/terms/a/accounting-policies.asp> Obtained on 24.01.2015.

Notes on the accounts

The notes to the accounts are a series of notes that are referred to in the main body of the financial statements.

The notes give further details on the numbers given in the accounts. The importance of these numbers should not be underestimated. The accounts are not complete without the notes. Investors who rely on the main body of the accounts and ignore the notes are

likely to find themselves **misled** (<http://moneyterms.co.uk/notes-to-accounts/> obtained on 25.01.2015).

The Auditor's Reports: The role of auditors has become increasingly important since audit was first made compulsory under the companies and Allied matters Act (CAMA 2004) as amended. An audit must be carried out by accountants belonging to a recognized body by the department of trade, auditors are guiding the presentation of accounts not only by the legal requirements as confirmed by Olumhense A. Imoisili (the Nigerian accountant) but also by:

- i) Recommendation of accounting principles and
- ii) Statement of standard accounting principles (SSAP)

One of the first tasks of any user of financial report write R. G May, G. G Mueller and T. H. Williams (1995) is to check to see that the auditors have not qualified their approval in any way. The reports and the accounts must be sent to all their shareholders and holders of the debentures and loan stocks not less than 21 days before the annual general meeting (AGM). A copy must be lodged with the registrar of companies not more than 7 months after the company's financial year ends.

Auditing standard paragraph 6 "the auditors' operational standard" 1st April 1990, the auditing practices committee (APC), auditing guidelines on review of financial statement states that:

The auditors should carry out a review of the financial statement as in conjunction with the conclusions drawn from the audit evidence obtained, is sufficient to give him a reasonable basis for his opinion in the financial statement.

The general purpose of the auditors review: the auditor is required to form opinion on the enterprise's financial statement as the whole. Having accumulated audit evidence about individual items or group of items in the accounts, the auditor should therefore carry out an overall review of the financial statement to satisfy him that a true and fair view is presented

The Director's Reports: The director's report gives certain factual information relating to the year under review which has to be disclosed by law. The details required by status to be disclosed in the director's report include statements of the following;

- i. The statement of the company affairs
- ii. Recommended dividend
- iii. Propose transfers to reserves
- iv. Political or charitable contributions
- v. Share on debentures issued during the years
- vi. Names of directors who served during the year
- vii. Directors shares and debenture ownership
- viii. Significant changes in fixed assets

Value Added Statements: The relevance of value added statement depends upon its value , to potential users, write Dr A.B Akinsonyime (1990) says that it provides a sound base for more realistic decision making .The value added statement emphasis on the partnership's performance in creating wealth, argued Galutier and under down (1992).

Further, they wrote that it does not treat the shareholders or potential investors with exclusive status afforded by convention statement of cash flow. Yet existing and prospective shareholder (and lenders) may benefit from studies of the company's value added disclosure, thus the potential effects of high wage and low company allocations on the company's future prospect for growth and further wealth creation can be realistically established. Put differently, therefore, value added statement is a measure of wealth creation of a firm and its employees.

2.7 Definition and Nature of Investment Decisions

As postulated by I. M Pandey (2005:141) investment decisions or analysis has to do with an efficient allocation of capital. It involves decision to commit the firm's funds to the long-term assets. Such decisions are of considerable importance to the firm since they tend to determine its value size by influencing its growths, profitability and risk.

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

The investment decisions of a firm are generally known as the capital budgeting decision may be defined as the firm's decision to invest its current funds most efficiently in the long-term assets in anticipation of an expected flow of benefits over a series of years. According to Canada and White (4) is the series of decisions by individual economic units as to how much and where resources will be obtained and expected for future. Situation where capital expenditure decisions are made or taken, they are based primarily with measurement of capital productivity which provides an objective means of measuring the economic worth of individual investment proposals in order to have a realistic basis for choosing among the firm's long run property. (Pandey 2005:141). The long-term asset is those which affect the firm's operation beyond the one year period.

The firm's investment decision would generally include expansion acquisition, modernization and replacements of the long-term assets. Sales of division or business divestment are also analyzed as an investment decision. Activities such as change in the methods of sales distribution or undertaking an advertisement campaign or a research and development programmes have long-term implications for the firm's expenditures and benefits, and therefore, they may also be evaluated as investment decisions.

It is important to note that investment in long-term assets invariably requires funds to be tied up in the current assets such as inventories and receivables, some of the features of investment decisions are as follows;

- i. The exchange of current funds for future benefits
- ii. The funds are invested in long-term assets
- iii. The benefits will occur to the firm over a series of years

The two importance aspects of investment decisions are;

- i. The evaluation of the prospective profitability of new investments.
- ii. The measurement of a cut-off rate against that the prospective return of new investment could be compared.

Future benefits of investment are difficult to measure and cannot be predicted with certainty. Risk in investment arises because of the uncertain returns. Investment proposals should therefore, be evaluated in terms of expected return and risk. Beside the decision to commit funds in new investment proposals, capital budgeting also involves replacement decisions that are decision of recommitting funds when an asset become less productive or non profitable. The correct cut off rate in investments is the opportunity cost of capital which is the expected rate of return that an investor could earn by investing in financial assets of equivalent risk.

It is significant to emphasize that expenditures and benefits of an investment should be measured in cash. In an investment analysis, it is cash flow which is important, not the accounting profit. It may also be pointed out that investment decisions affect the firm's value. The firm's value will increase if investments are profitable and add to the shareholder's wealth. These increases are reflected in the financial statement of the firm, which invariably are used as tool for investment decisions owing to certain analysis inherent in them.

2.8 Investment Evaluation Criteria

There are three steps involved in the evaluation of an investment:

- i) Estimation of cash flows rate and inflow
- ii) Estimation of the required rate of return
- iii) The opportunity cost of capital
- iv) Application of aspersion rule for making the choice

The investment decision rules may be referred to as capital budgeting technique or investment criteria. A sound appraisal technique should be used to measure the economic worth of an investment project. The essential property of a sound technique is that, it should maximize the shareholders wealth Porterfield (1995:287) submits that as a corollary to the above, that a sound investment evolution criterion should posses the following others characteristics:

- i. It should consider all cash flows to determine the true profitability of the project.
- ii. It should provide for an objective and unambiguous way of separating good project from bad.
- iii. It should help ranking of project to their true profitability.
- iv. It should recognize the fact that the bigger cash flow s are preferable to little ones.
- v. It should help to choose among mutually exclusive project that project which maximize the shareholder wealth.
- vi. It should be criterion which is applicable to any conceivable investment project independent of others,

A number of capital budgeting techniques are in practice. They may be grouped in the following two categories.

1. Discounted cash flow (DCF) criteria;

- i. Net present value (NPV)
- ii. Internal rate of return (IRR)
- iii. Profitability index (PI)

- iv. Discounted payback period
2. Non discounted cash flow criteria
- i. Payback period (PB)
 - ii. Accounting rate of return (ARR)

In view of Colin Drury (2004:498), by discounted cash flow techniques and calculating the NPV, IRR, PI, PB, ARR.

Net Present Value Method: This method is the present value of the net cash inflow less the project's initial investment outlay if the rate of return from the project is greater than the return from an equivalent risk investment in financial market, the NPV will be positive. Alternatively, if the rate of return is lower, the NPV will be negative. A positive NPV indicates that an investment should be accepted, while a negative value indicates that it should be rejected.

Thus, zero NPV indicates that firm should be indifferent to whether the project is accepted or rejected. The NPV can be expressed as;

$$NPV = FV_1 + \frac{FV_2}{(1+k)^1} + \frac{FV_3}{(1+K)^2} + \dots + \frac{FV_n}{(1+K)^h} - 10$$

Internal Rate of Return (Irr): This represents the true interest rate earned on an investment over the course of its economic life. The interest rate "K" that when used to discount all cash flows resulting from all investment will equate the present value of the cash receipts to the present value of the cash outlays. In other words, the discount rate causes the net present value of an investment to be zero. Alternatively, the IRR can be described as the maximum loss of capital that can be applied to finance a project.

The IRR is found by solving for the value of K

$$IRR = 10 = \frac{FV_1}{(1+K)^1} + \frac{FV_2}{(1+K)^2} + \frac{FV_3}{(1+K)^3} + \dots + \frac{FV_N}{(1+K)^A}$$

Profitability Index (Pi): The third method of evaluating investment proposals also takes into account the time value of money. This is the ratio of the present value of cash inflows at the required rate of return, to the initial cash outflow of the investment. In situations where the PI is greater than one, the investment should be accepted, whereas it is less than one, the investment should be rejected, in cases where the PI is equal to one the investment may be accepted, the formula for calculating PI is as follows.

PI = present value of cash inflows

Initial cash outlay

$$= \frac{PV(c+)}{E} = \frac{C_e}{C_o}$$

$$C_o = \frac{C_t}{(1+k)^t}$$

Pay Back (Pb): This is one of the simplest and most frequently used methods of capital investment appraisal. It is defined as the length of time that is required for the cash proceeds from an investment to recover the original cash outlay required by the investment. If the cash flows from the investment is constant each year, the payback period can be calculated by dividing the total initial cash outlay by the amount of the expected annual cash proceeds. But if the expected proceeds are not constant from year to year, the payback period is determined by adding up the cash inflows expected in successive year until the total is equal to the original outlay. It is calculated by

$$PB = \frac{\text{Initial investment}}{\text{Annual cash inflow (annuity)}}$$

$$= \frac{C_o}{C}$$

Discount Payback Period: This is the number of periods taken in recovering the investment outlay on the present value basis of which the discounted value are then used to calculate whether an investment is likely to be profitable, but it cannot estimate how profitable the investment will be.

Accounting Rate of Return (Arr): This is also known as return on investment (ROI), is the ratio of the average after tax profit divided by the average investment. The average investment would be equal to half of the original investment if it were

depreciated constantly. Alternatively, it can be found out by dividing the total of the investment's book values after depreciation by the life of the project. The ARR can be determined by the following equation

$$\text{ARR} = \frac{\text{Average income}}{\text{Average investment}} \times 100$$

It is worthy to mention among the above mentioned criteria, that the net present value (NPV) criterion is the most valid techniques of evaluating an investment project. It is generally consistent with the objective of maximization of the shareholders wealth which is shown in the financial statement.

2.9 The Role of Financial State in Investment Decision

The aim of financial statement is to provide financial information about an entity to interested parties. The information contained in the reports, however, it can only become meaningful through financial interpretations derived from the analysis of the reported data. This interpretations and decision unveils the essence of financial statements as the major custodian of financial information necessary for any investment decisions Investment decisions are not made on a vacuum hence; there are bedrocks on which they will stand.

One major tool for these investment decisions is the ratio analysis. Ratio analysis is the judgmental process which aims at evaluating the current and past financial positions and the results of an entity the primary objectives of determining the best possible estimate.

About the future conditions and performances it provides a quick diagnostic look at an entity's financial health and trigger off subsequent financial and operational analysis Okwoli, (1992:9) from the foregoing, the figures that are used in the financial analysis are being dedicated from the financial statements which in turn inform our investment decisions.

U.S Gavtan (2005:236) explains the term ratios as a process of determining and interpreting the relationship between the items of financial statement to provide a useful

understanding of the performance, solvency and profitability of an enterprise. More so, for ratio to be useful investment decision, it must be compared with earlier periods to indicate trends or compared with similar organizations in the industry to determine strengths and weaknesses ideally compared with the industrial average. Financial statement analysis enable management of the company to get acquainted with the business quality, but the questions of the analysis are not solved by horizontal and vertical analysis procedures of balance sheet, profit and loss account and cash flow statement. In the context of measuring business quality on the basis of financial statements, the most significant financial ratios formed from basic financial statements should be used.

These are as follows. According to Weston J. F and Brigham E.F, (1984:154). They divided the ratio into six fundamental types, which are;

- i. **Liquidity Ratio:** this ratio measures the firm's ability to meet its maturing short-term (current) obligations.
- ii. **Leverage Ratio:** this ratio measures the proportion of debt and equity in financing the firm's assets.
- iii. **Activity Ratio:** This ratio measures how efficiently and effectively the firm is utilizing its resources management overall effectiveness as shown by the returns generated on sales and investment.
- iv. **Growth Ratio:** measures the firm's ability to maintain its economic position in the growth of the economy and industry.
- v. **Valuation Ratio:** which are the most complete measures of performance because they reflect risk ratios (first two) and the returns ratio (the following three). Valuation ratios are of great importance since they related directly to the goal of maximizing the value of the firm and shareholders wealth. As noted earlier the list of ratios are not exhaustive rather it is tailored to the nature of the problem, which it is intended to help in solving.

2.10 Empirical Literature Review

According to A Adebayo, M. et- al (2013), they examine the impact of accounting information system in assisting organizations in making sound and effective investment decisions. The major source of data to their research was primary data through the administration of questionnaires. Regression was analysis and Karl pear son's correlation was used for data analysis. Their findings shows that accounting information system is an indispensable tool in investment decision making in today's turbulent world. Organizations are however advised to invest on information technology tools as to improve their efficiency, effectiveness and their overall performance.

Corporate organization owe a duty to fully disclose matter concerning their operations so as to aid investors in making investment decision because investment decision makers rely on information obtained from financial statement to predict future rates of returns. Without the financial statement, there will be a problem of how to determine a profit of company, and evaluation of performance of a company. The general objective was to ascertain the role of financial statement in investment decision making. The study was based on survey and questionnaire used to gather information. He discovered from the test of hypotheses that financial statement is relied upon investment decision making and financial statement are useful for forecasting company performance. The conclusion was based on findings that financial statements plays a vital role in investment decision making and recommends that no investment decision should be taken without consideration of company's financial statements .Mercy (2014) .

Otley(2012) argues that financial statement is an important part of the fabric of organizational life and need to be evaluated in their wider managerial, organizational and environmental context. Therefore the effectiveness of financial report not only depends on the purpose of such systems but also depend on contingency factors of each organisation. Financial statement are said to be effective when information provided by their series widely the requirements of users. Effective financial statement should systematically provide information which has a potential effective on investment

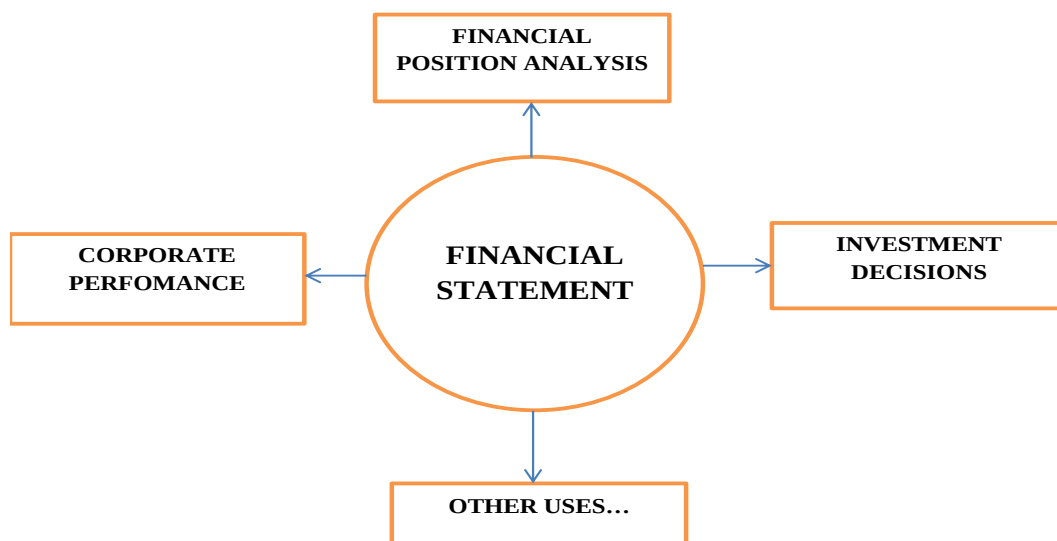
decision making by the prospective investors. The perception of investors about a company ability affect the market prices of the company's security relative to others in the industry .financial statement can only be useful if they are well understood. Published financial statement is the information source that is mostly directly related to the item of interest to both existing and potential investors.

The above finding are from previous studies which indicate that financial statements play an important role in investment decision making .But they didn't show how investors are going to obtain and understand those information contained in financial statements for properly investment decision

2.11 Conceptual Frame Work

Conceptual framework refers to the framework of thinking that the researcher will use to achieve his research objectives. The below conceptual framework guides the investment decisions. Thus, financial statements do influence greatly investments decisions by informing investors about the investment project analysis, corporate financial positions, and corporate financial performances.

Figure 2.1: Illustration of the Conceptual Framework



The conceptual frameworks above touch the critical aspects of how the research will think out to appreciate the role of financial statement in investment decision making. Investment decisions are made during investment analysis to accept or reject a project by looking at financial statements of the expected profit and loss as well as cash flows that help to calculate net present values of a project. This is because from financial statement we can know the corporate financial position, investment profitability projections, and understanding the corporate financial position in terms of asset and liability comparisons from the balance sheet.

Other important aspects are Investment profitability projects. Looking at financial statement companies or in individual investors can decide which investments opportunities to pursue. Financial statements show clearly the trend of performance of investment projects.

In addition, financial statements dictate the mode of financing to be adopted by a firm. In a financial statement one can see the ratios between debt and equity and determining financing options in the pursuit of investment opportunities. This is base of firm's financial position which is clear from financial statement.

Lastly, financial statement have critical role in influencing investment decisions through the corporate financial performance. Financial market information disclosures can lead to movements in the value of capital market variables and greatly influence investment decisions. This is because such information disclosure through financial statement clearly shows corporate performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents a systematic procedure on the choice and rationale pertaining to all decisions in planning and implementation of strategies that will be adopted to collect data and undertake analytical aspects.

3.2 Research Paradigms and Design

This study were predominantly exploratory although to a limited extent will wish to examine relationship between variables including a discussion on descriptive statistics. Also will be a basic research aiming at discovering knowledge regarding household perceptions and opinions in regard to the role of financial statements in investment decision making.

A good research design is often characterized by adjectives like flexible, appropriate, efficient, economical and the like. Generally, the research design, which minimizes bias and maximizes reliability of data collected and analyzed, is considered to be a good design (Kothari, 1990, p.31).

Studies involving the hypothesis testing of a causal relationship between variables require a high design which will permit inferences about causality in addition to minimization unreliability and maximization of reliability (Kothari, 1990, p.33). Kothari (ibid) continued to elaborate that, besides availability of time, money and skills of research staff, means of obtaining information must be given due weight while working out relevant details of the defined research problems.

3.3. Area of the study

In this research work, the researcher used Government enterprises Tanzania Port Authority Head Quarters office situated in Dar es Salaam city as a case study.

3.4 Population of the Study

This is the set of people or entities to which findings are to be generalized. In determination of the Role of financial statements in investment decision making, the study focused on the employees working with TPA Head quarters, and others stakeholders.

3.5 Sample Size and Sampling Techniques

3.5.1 Sample and Sample Size

Personal Interviews were conducted to 30 TPA staff and 20 from investors and other stake holders in the country also

40 questionnaires were distributed to TPA Head quarters office staff.

3.5.2 Sampling Procedures

The study adopted a convenience non-random sampling approach due to inability to specify a sampling frame. Convenience sampling involves selecting cases that are the easiest to obtain for a sample. The sample selection process is continued until a required sample size has been reached.

3.6 Data Collection Methods and Approach

3.6.1 Sources of Data Collection

This refers to where the information originates. In carrying out this study, the researcher made uses of both primary and secondary sources of data.

3.6.1.1 Sources of primary data are original or first nature. The advantage of this type of data is that the exact information wanted is obtained. The primary sources of data were obtained from oral interview with top management staff questionnaire were also drafted and administered to enable the researcher obtain wide range of information which were not possible using oral interview due to lack of time and opportunity.

3.6.1.2 Secondary Sources: the secondary source of data involves information gotten from already conducted research work that relates to the study. This includes textbooks, journals, magazines, internet language to avoid ambiguity in understanding of the questions. The reliability of the instrument is based on the accounting theorist.

During the study, both primary and secondary data were collected. Primary data were generated directly from the Tanzania Port Authority(HQ) and other stake holders using structured personal questionnaires. A research assistant was employed in conducting the interview. Reasons for selecting questionnaire, method of data collection used by researcher .

3.6.2 Validity Testing

Validity deals with personal settings and times to which findings can be generalized (Cronbach, 1971). He defines validity as the extent to which the instrument actually accomplishes what it seeks to measure.

Validity aspect was be observed in this research during planning and implementation stages. During the planning stage, an expert was be consulted to check the questionnaire before actual data collection. All questions were be pre-tested in the relevant study areas. Modifications were be made before actual data collection for the purpose of measuring theoretical meaning of concepts and consistency of language used to represent concepts thus, validity test.

3.7 Management and Analysis of Data

3.7.1 Data Cleaning

Data Cleaning is a two-step process including detection and the correction of errors in a data set. The raw data needed sorting out, recording and checking so as to discover various types of errors as well as irregularities. The data with desired completeness, uniformity and accuracy was accepted as well and was edited accordingly ready for further processing. The basic purpose of editing will be to improve some minimum quality standards in the raw data. Incomplete questions are not anticipated because the researcher assistant administered them.

3.7.2 Data analysis

The researcher employed mostly statistical tools to analyse the data though, to a lesser extent, qualitative analysis was performed. Coding and tabulation of data may become necessary to see if there could be patterns and meaningful interpretations. A Statistical Package for Social Science (SPSS) program served to generate frequencies and higher statistical analysis such as correlation coefficient.

The appropriate analytical method for quantitative data in social science depends on the type of measurement scales used and parameters being investigated (Kothari, 2004). The study collected data that measure the relationship between microfinance services and household livelihoods.

CHAPTER FOUR

DISCUSSION AND PRESENTATION OF MAJOR FINDINGS

4.1 Personal Details of the Respondents

This section presents the social economic profiles of the respondents interviewed during the study. The issues focused in this section include; gender, age, educational background and qualifications as well as the occupation of the respondents. The rationale for the information collected is to establish relationship and appreciate the rightfulness of the sample used for the study.

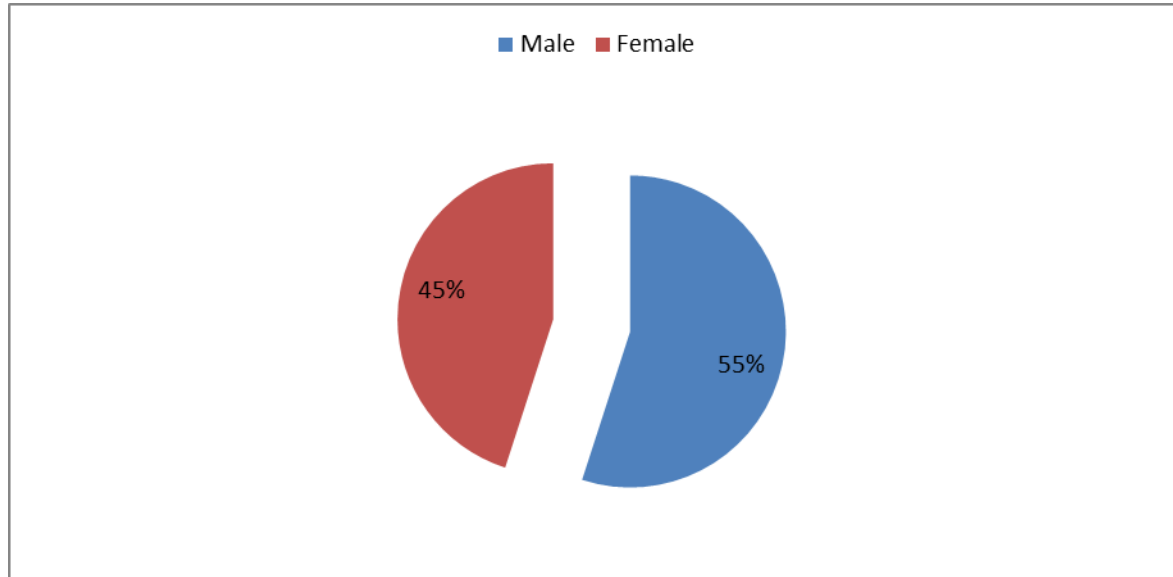
4.1.1. Gender of the respondents

Gender refers to the socially accepted features that distinguish females from males. Gender issues influence the pace of development of any particular society as well as redirecting the observance and respect for human dignity and rights.

Figure 4.1 shows the gender of the respondents interviewed. Many respondents about 55 percent were males. Only few respondents about 45 percent were females.

The data implies that the researcher balanced the sample between males and females. In addition, since most respondents are from TPA it also implies that the institution (TPA) minds of gender balance in its recruitment strategies.

Figure 4.1: Gender of the respondents



Source: *A study on the role of financial Statements in Investment Decision Making, 2015*

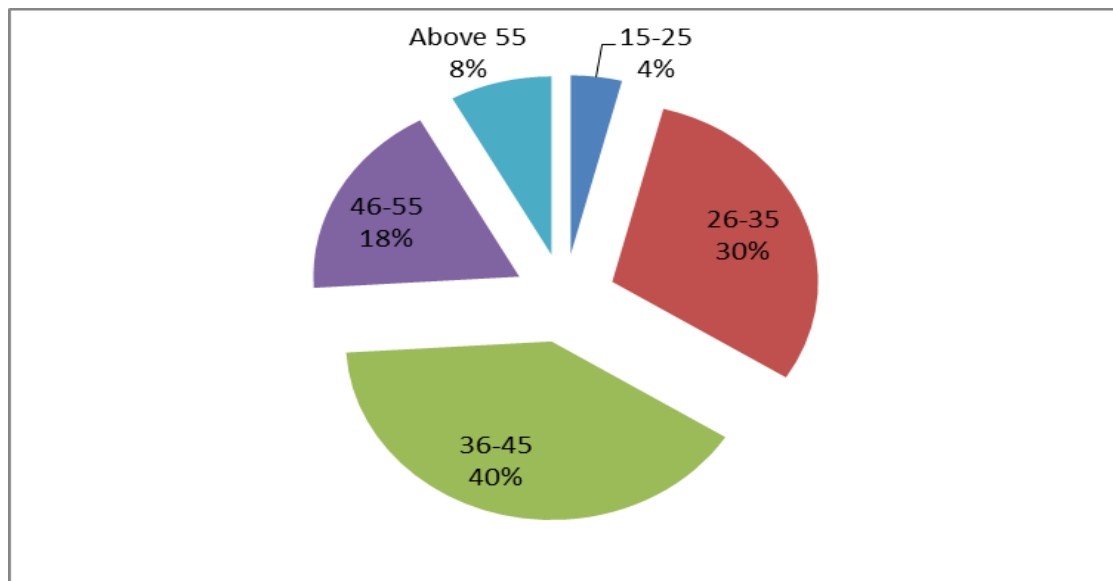
It means that the perceptions regarding the role of financial statements in investment decision making are not gender biased. Both males and females have equal roles in the economy and hence their views are equally valuable towards understanding a particular phenomenon in researcher (Jamal, 2008).

Therefore, the study recommends to other researchers that its paramount to include both females and males in any study. This is because; today both males and females have almost equally interacted in the social and economic lives.

4.1.2. Age of the respondents

Age can be defined as length of time that somebody or something has existed, usually expressed in years. It's a period of human life, measured by years from birth, usually marked by a certain stage or degree of mental or physical development and involving legal responsibility and capacity.

Figure 4.2: Age of the respondents



Source: *A study on the role of financial Statements in Investment Decision Making, 2015*

According to World Bank, 1985, people are grouped according to age groups such as 0-14, 15-24, 25-34, 35-44, 45-60 and above 60 with an objective to enhance analysis and derivation of meaningful interpretations. 0-14 years, are considered to be children who are under parents' guardianship, 15-24 years are youths who are considered to be at school and who start participating in various development activities, 25-34 years are youths who are considered to be employed or self-employed, 35-44 years are adults, 45-60 years are aged adults who are considered to be in retiring process and they are not so productive, above 60 years old are people who have retired and they are considered to be non-productive.

Figure 4.2 shows the age of the respondents in the study. The table shows that the respondents were almost evenly spread across age groups. Majority of the respondents i.e. 70 percent were aged 26 to 45 years. A few of them i.e. 26 percent were aged above 45 years whereas only 4 percent were aged between 15 and 25 years.

The data implies that majority of the respondents were matured and experienced people at both work place and business whichever occupation could be. This seems that researcher's technique to ensure informed data on the role of financial statements in investment decision making is collected.

Therefore, it's strategically advised that for a researcher to achieve best results, he or she must strict his/her sample in such a way that informed data is collected. It makes little sense if data is collected from youngsters who do not have any exposure in regard to the subject matter and yet you appreciated the same as study findings.

4.1.3. Occupation of the respondents

Current occupational therapy theory states that occupation "is everything people do to occupy themselves, including looking after themselves (self-care), enjoying life (leisure), and contributing to the social and economic fabric of their communities (productivity)" (Hammell, 2004). However, in respect of this study, the researcher aimed at understanding the linkage between respondents' occupation and housing finance aspects.

Table 4.1: Occupation of the respondents

	F	%
Accountants	7	14%
Economists	4	8%
Business men	12	24%
MIS	4	8%
Financial analyst	8	16%
Planning officer	6	12%
Other	9	18%

Source: *A study on the role of financial Statements in Investment Decision Making, 2015*

Table 4.1 shows the occupation of the respondents during the study. The data shows that the respondents were spread across many occupations. Businessmen (24%); accountants (14%), planning and financial analysts (28%) and other (18%). The other category includes informal businessmen, and farmers.

Data analysis (cross tabulations) indicates that although businessmen were the majority, they are less knowledgeable in about financial statements and their role in investment decision making. This is mainly because; most of business men in Tanzania and elsewhere in the developing world do not have sufficient education levels.

The financial analysts and accountants are the most informed categories. They are the preparers and users of financial statements to a great extent. Thus, their good constitute of the sample signal highly reliability of the obtained results and their recommendations and views are quite realistic in most variables.

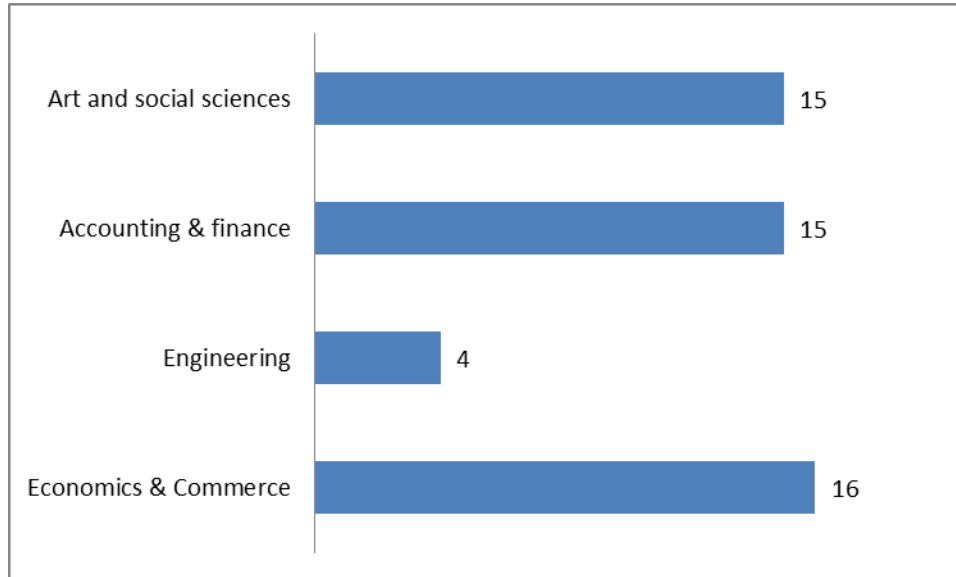
Therefore, the study recommends that for a research study to hold water a good mix of the sample is needed. This is highly commendable because, in such a mix the researcher obtained informed results.

4.1.4. Academic background of respondents

Academic background entails the kind, type of knowledge acquired by someone at a specific point in time. According to Encarta Encyclopaedia 2007, education background of individuals is influenced by interest, parental guidance and peer group influence.

Figure 4.3 shows the academic background of the respondents contacted during the study. The data shows that most of the respondents about 65 percent have art and social sciences as well as accounting and finance backgrounds.

Figure 4.3: Academic background of respondents



Source: *A study on the role of financial Statements in Investment Decision Making, 2015*

About 35 percent of the respondents have economics and finance background. This entails that the sample had good representation from different academic backgrounds. In addition, it shows that the respondents are well informed about financial statements from preparation and user perspectives.

Therefore, it is also recommended that given nature of various studies, the element of academic background is key and need to be considered in order to achieve informed results. This was considered by the researcher in this study and hence adds great value in terms of data reliability and validity.

4.1.5. Education levels of the respondents

Education refers to the process of imparting knowledge from one generation to another either formally or informally. Currently, people get education from various sources including, web based sources (internet) (Encarta Encyclopaedia, 2010). Education is a significant determinant of one's efficiency in any particular activity, be it in office or in

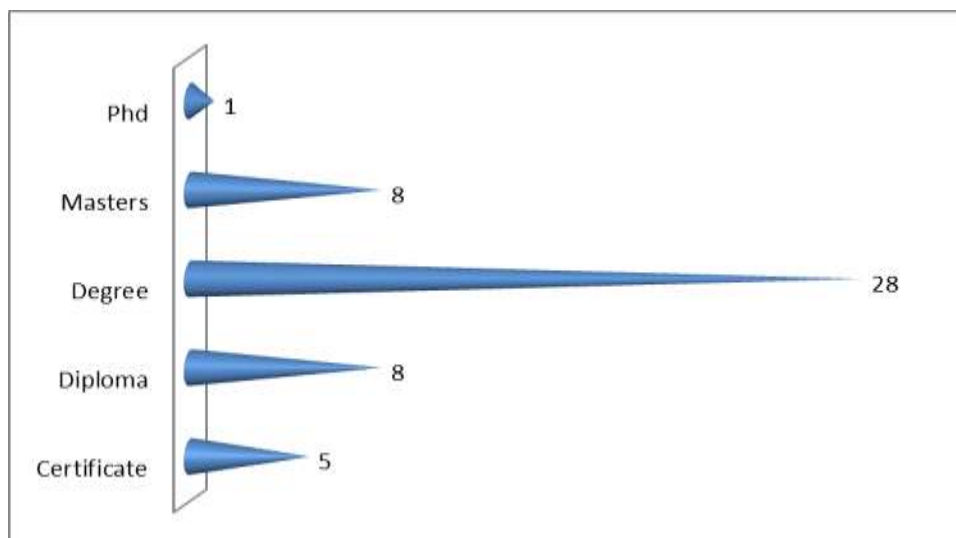
business (Alexandria, 2006). It does occupy and it takes important place in many investments, production and the government programme for socio-economic development. Technical and training is being promoted by the government and the private sector institutions.

This section investigates levels of education of the household members (respondents) involved in the study These levels of education include primary education, Secondary Education, College/Diploma Education and University graduate.

Table 4.2 shows the levels of education of the respondents interviewed during the study. The table shows that respondents in this study were mainly graduates. The data shows that majority of the respondents i.e. 90 percent (45 respondents) are university graduates with diplomas, degrees, master's degrees and PhD. A very few of them about 10 percent are certificate holders.

33 percent have secondary education, 19 percent primary education, 10 percent college education and 3 percent have university/tertiary education.

Figure 4.4: Level of education of the respondents



Source: *A study on the role of financial Statements in Investment Decision Making, 2015*

Therefore the study recommend that for research study to obtain well informed results both level of education of respondent should be included in the sample

4.2 Use of Financial Statements in the Assessment of Financial Position

This section looks at the stakeholders views in regard to the use of financial statements in investment decision making. The key elements looked at in this section include; the actual use of the financials, the adequacy of the financials and the consequential dependability in using them, and the specific variables that stakeholders look for in financial statements when they want to invest in the Tanzania Ports Authority.

4.2.1 Use of financial statement information in investment decision making

In investment decision making, there are many information that stakeholders can use to make the move. Stakeholders can use their just experience in dealing with the company to invest, interest and long term plans of the investor, management quality information, the constitution of the board of directors as well as the way people management issues are done in an organization (Craig, 2009).

Table 4.2: Do you use TPA financials in a move to invest?

	F	%
Yes	45	90%
No	5	10%

Source: *A study on the role of financial Statements in Investment Decision Making, 2015*

Table 4.2 shows the opinion of the respondents as to whether they use financial statements information in making any move to invest. The table shows that majority about 90 percent of the respondents do use financials information in a move to invest. Just a very few of them about 10 percent do not use financials information.

The use of financial information is popular because, financial statements do contain valuable information that is key to determine profitable investments. Such information include; return on equity, return on assets, asset-liability ratios, liquidity ratios, debt

to equity ratios etc. Such information shows clearly, whether the company is performing or not.

Therefore, the study recommends that financial information are key sources of information to use in making any investment move.

4.2.2 The adequacy of TPA financials for use in investment decision making

Financial statements are prepared as per the International Financial Reporting Standards (IFRS) guidelines. These guidelines dictate things to follow that will ensure good quality of all reports (NBAA, 2010).

Table 4.3 shows the opinion of the respondents in regard to the adequacy of the financials prepared by TPA. The table shows that many respondents about 68 percent are in opinion that the TPA financials are adequate to use in the investment decision making process.

Table 4.3: Do you think TPA financials are adequate for investment decision making?

	F	%
Yes	34	68%
No	16	32%

Source: *A study on the role of financial Statements in Investment Decision Making, 2015*

A few of them about 32 percent say that the TPA financial statements are not adequate to use in the process of investment decision making. There are many reasons why financials could be inadequate. Such reasons include, data manipulation, lack of skills in the preparation of financials, and impairments i.e. refusal to report some key information as per IFRS guidelines.

The data implies that there are some stakeholders who are not in confident with the financials published by TPA. This is dangerous as it would lead to reputational issues in the long. The TPA seems to override some guidelines in the preparation of financials which reduce the level of confidence in using the same for investment decision making. Further, table 4.4 shows the areas where respondents acknowledge that financials provided by TPA are adequate in terms of addressing financial investment needs.

Table 4.4: Adequacy of financials in addressing investment information requirements

	Not adequate	Little adequate	Moderately adequate	Adequate	Highly adequate
Investment project analysis	0%	0%	12%	88%	0%
Portfolio management	0%	0%	14%	86%	0%
Capital markets	72%	8%	20%	0%	0%
Financing decisions	0%	0%	0%	10%	90%

Source: A study on the role of financial Statements in Investment Decision Making, 2015

The data shows that majority of the respondents about 86 percent consider data from financials as adequate to guide investors in investment project analysis and portfolio management. Also, about 90 percent of the respondents acknowledge the adequacy of financials in facilitating financing decisions.

On the other hand, the respondents about 72 percent said that financial data is not adequate to use in capital market decision making. This is because, capital markets are very volatile and one needs to be very current to make decisions.

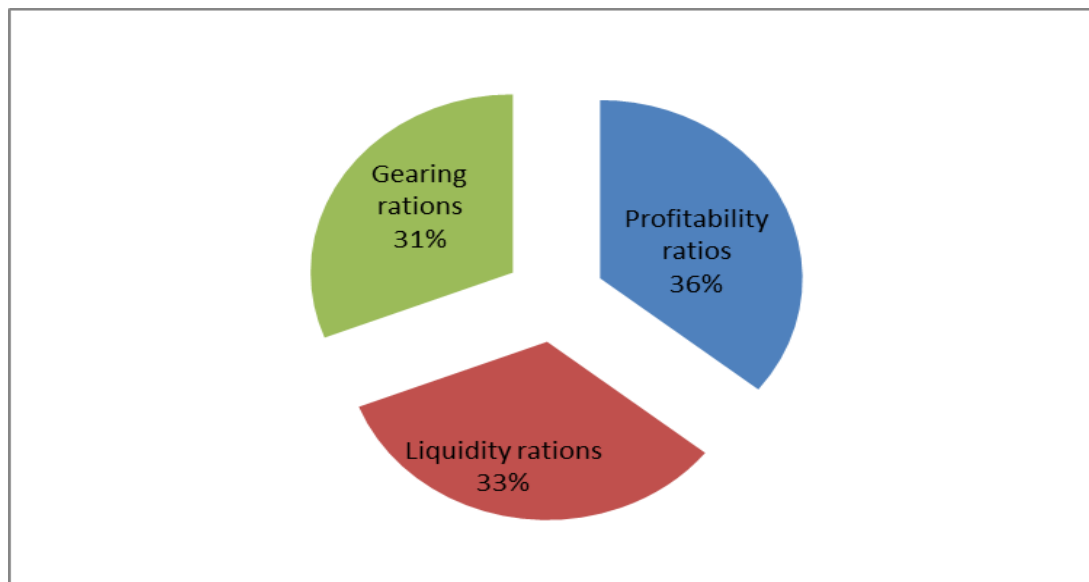
Therefore, the study recommends TPA to apply the IFRS principles in the preparation of its financials to eliminate any doubt from the public. In addition, financials should not be used for investments in capital market decision making as they are not adequate.

4.2.3 The Variables looked at in assessing company's financial position

Variables are measurable items that are used to define a behavior of a particular phenomenon (Encarta, 2007). There are various variables that are used to define the financial position of a company. Such variables are extracted from both income statements and balance sheet. They include items like return on assets, return on equity and other financial performance ratios.

Figure 4.5 shows the variables that stakeholders look at to determine the financial position of a firm from financial statements in the move to make investment decision.

Figure 4.5: Variables looked at in assessing company's financial position



Source: *A study on the role of financial Statements in Investment Decision Making, 2015*

The data shows that gearing ratios, liquidity ratios, and profitability ratios are the key financial variables that stakeholder look at in the process of investment decision making. These ratios clearly show whether a company is performing or not and therefore clearly guides investors whether to invest or not.

The data further implies that the respondents are well informed of what they want from financial statements. They are able to clearly identify what they want for decision making purposes.

Therefore, the study recommends that financial statements should be prepared in way that data on gearing ratios, profitability ratios and liquidity ratios are accurate and reliable. This is because such information used by investors for decision making.

4.3 Financial Statements in Forecasting Company's Performance and challenges faced by TPA

Financial information is key in forecasting financial performance of an entity (Kato, 2007). When, financial data is collected over let's say 5 years and the averages calculated, then the same can be used to forecast scores in the next 2 or 3 years. This strength of financial statements data makes the financial statements key sources of information to Investors.

4.3.1 Extent to which financials help investor to take opportunities

Financial information if well prepared greatly assist investors to take opportunities since they display company's growth opportunities (Nkoba, 2007).

Table 4.5 shows the extent to which financial information can help investors to take opportunities appropriately. The table shows that majority of the respondents that is 72 percent acknowledge that financials are helpful in helping investors take positions.

Table 4.5: Extent to which financials help investor to take opportunities

	F	%
Not helpful	0	0%
Little helpful	2	4%
Moderately helpful	6	12%
Helpful	36	72%
Very highly helpful	6	12%

Source: *A study on the role of financial Statements in Investment Decision Making, 2015*

This implies that majority of the respondents are financial information users and they are knowledgeable. Their confidence in the financial data in terms of helping them take investment opportunities implies that they know what financials contain and display.

Therefore, the study recommends that investors need to very much use financial information. This is because it does help them take various investment opportunities beforehand.

4.3.2 Reliability of NPVs calculated from financials' information

In finance, the net present value (NPV) or net present worth (NPW) is defined as the sum of the present values (PVs) of incoming and outgoing cash flows over a period of time. Incoming and outgoing cash flows can also be described as benefit and cost cash flows, respectively. The difference between the present value of cash inflows and the present value of cash outflows. The difference between the present value of cash inflows and the present value of cash outflows (Investopedia, 2013).

Table 4.6 shows the reliability respondents have with the net present values calculated from financial statements data. The table shows that majority of the respondents consider the net present values calculated as reliable.

Table 4.6: Reliability of NPVs calculated from financials' information

	F	%
Not reliable	0	0%
Little reliable	1	2%
Moderately reliable	12	24%
Reliable	35	70%
Highly reliable	2	4%

Source: A study on the role of financial Statements in Investment Decision Making, 2015

This implies that majority of the respondents are financial information users and they are knowledgeable. Their confidence in the net present values calculated from the financial data implies that they know that financials contain and display.

In addition, the data shows that investors can use financial statements to determine whether their investments will pay or not pay at the end of the day. Net present values give assurances to investors that their investments will yield positive returns at the end of the day. A negative net present value would make investors abandon an investment outright.

Therefore, the study recommends that investors need to be good users of financial information as the net present values calculated are reliable. This is because it does help them take various investment opportunities beforehand.

4.3.3 Challenges of TPA financials

There are many challenges that face organizations in their financial reporting. The central challenges are whether to report the financials from executive point of view or from regulator point of view (Andrew, 1994).

Table 4.7 shows the challenges TPA faces in the preparation of its financials. The data shows that majority of the respondents about 73 percent claim that the major challenges are government interventions that drives preparation of reports based on political interests as well as the problem of qualified audit reports.

Table 4.7: Challenges of TPA financials

	F	%
Government intervention	35	70%
Qualified audit reports	38	76%
None consistence	24	48%

Source: *A study on the role of financial Statements in Investment Decision Making, 2015*

A few of the respondents about 48 percent claim that there are many challenges, without specifically stating out the specifics.

The data implies that there some level of government intervention in the managing performance of the TPA. The intervention is so strong that it influences their financial reporting. This becomes a challenge in terms of the quality of the financials to objective stakeholders like the investors.

In addition, it seems TPA is far from achieving professional levels in the preparations of financial statements. The IFRS are not adhered to the required standards. This leads to frequent qualified audit reports of the financials.

Therefore, for the TPA financials to be useful in aiding investment decision making, it is recommended that TPA accountants and financial analysts should prepare well their reports strictly as per the IFRS. In addition, the TPA management needs to refrain from government interventions in their financials.

4.3.4 Recommendations to Investors using TPA financials

Subject matter experts interviewed during the study had useful recommendations. Table 4.8 shows the recommendations provided by the respondents to all investors who normally use financials to make their investment decision

The table shows that respondents had mixed recommendations to investors who use financial in their decision making processes. Majority of the respondents that is about 94 percent recommended that proper interpretations of financial reports and getting other none financial information is very key before making the decision.

Table 4.8: Recommendations to Investors using TPA financials

	F	%
Make proper interpretation	23	46%
Use other information as well	26	52%
Consult	12	24%
Seek internal information that is not disclosed	24	48%

Source: *A study on the role of financial Statements in Investment Decision Making, 2015*

In addition, they also recommended that making consultations is key as well. These findings imply that it's very challenge to strictly use financial information to make investment decision without additional data or interpretation assistance.

In Tanzania there are many consulting firms that assist investors to interpret financial statements before making such decisions. Although there are costs involved, its worth than using them bluntly without correct interpretations.

Therefore, the study recommends that investors need to seek consultancy services in the use of financial reports to make investment decisions. Also, they need to seek other none financial information to conclude the attractiveness of a particular firm for investment purposes.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

Chapter Five presents the conclusion consisting of main findings and the study recommendations.

5.1. Conclusion

The study used a representative sample that took into account gender, age, education and occupational balances. This was adhering to guarantee data reliability that is free from biasness and of course collection of well-informed data.

The role of financial statements in investment decision making appears to be very critical though dependent on some few conditions. The study indicated that investment stakeholder is confident about financial statements in investment decision making. This is mainly because it was also found that to a large extent the financial reports are adequate enough for effective decision making.

Majority of the respondents appeared to be knowledgeable of variables that they need from financial reports. Specifically, the key variables mentioned to aid investment decision making included; gearing ratios, liquidity ratios and profitability ratios.

However, the TPA faces some few challenges that need to be put into account. Such challenges include government interventions that drive preparation of reports based on political interests as well as the problem of qualified audit reports.

With the challenges highlighted, Investors are hence recommended to get proper interpretations of financial reports, making consultations and get other none financial information is very key before making the decision.

5.2 Recommendations

Researchers need to include both females and males in any study since today both males and females have almost equally interacted in the social and economic lives.

There is a need to collect data from informed sample. This strategically advised to achieve best results in terms of data reliability and validity.

Academic background is key and need to be considered in order to achieve informed results in academic researches.

Investors are strictly advised to use financial information in making any investment move. This is because it does help them to take various investment opportunities beforehand.

There is a need for TPA to fully apply the IFRS principles in the preparation of its financials to eliminate any doubt from the public. This goes hand in hand with restricting government influence in the preparation of the reports.

There is a need for investors to seek consultancy services in the use of financial reports to make investment decisions.

References

- © Katarina Zager, Lajos Zager, 2006 36 *Innovative Marketing, Volume 2, Issue 3, 2006*
- Adam, J and Kamuzora F.K (2008): “*Research Methods for Business and Social Studies*” – Mzumbe Book Project, PP.106- 107
- Adebayo, M, Idowo, K.A, Yusuf, B and Bolarinwa, S.A(2013). Accounting Information System as an aid to decision making in food and beverage companies in Nigeria., *Australian Journal of Business and Management Research*, vol 3 (9) Pp 26-33
- Adebimpe, O. U. (2009). Accounting Disclosures and Corporate Attributes in Nigeria Listed Companies. *Unpublished PhD Thesis submitted to the Department of Accounting, College of Business and Social Sciences, Covenant University, Ota, Ogun State, Nigeria.*
- Akinsoyime, A. B. (1990). *The Objective of Accounting in a Dynamic*
- Andrew B, (1994): Some challenges in financial reporting for regulatory agencies address, Accountants and Exchange commission, Washington, D.C . (Amedu, 2008)
- Cronbach, 1971: Data reliability and Validity Testing.
- Drury, C. 2004. Management and cost accounting 6 edition , Singapore; seng les press
- Hendriksen &Van Breda (1992)
- Husband, G.R. (1938).The Corporate-Entity Fiction and Accounting Theory’ *The Accounting Review*, 13(3), pp. 241-253.
- Jennins , A.R (2004). Financial Accounting 2 edition . New York; Thomson learning.
- Kato, P (2008): Financial Investment Analysis, Institute of Finance management, Dar es Salaam

Kothari, C.R. (1990) “*Research Methodology, Methods and Technique New Delhi*

Mercy A.A, (2014). The role of financial statement in investment decision making; A case study of first bank of Nigerian Plc), *International journal of accounting information system* (2), 91-105.

New Age International Publishers, 2nd Revised Editions, PP.5-236.

Newslove & Gardner 1951

Nkoba F (2010): Financial performance and Present value analysis, Institute of Finance management, Dar es Salaam

Otley, D. (2012). The contingency Theory of Management and Prognosis Accounting organisation and society 194-208.

Pandey, I. M. (2005). Financial Management. 9th edition. India; vikas Irish Publication Ltd

Saunders, et al., (2000): Research Methods for Business Students, 5th edition, Pearson education Limited, Malaysia.

Society Seminar NCAI Jos

Staubus, G. J. (1959).The Residual Equity Point of View in Accounting’ *The Accounting Review*, 34(1), pp. 3-13.

<http://www.investopedia.com/terms/a/accounting-policies.asp> Obtained on 24.01.2015.

<http://www.businessdictionary.com/definition/investment.html#ixzz3PIBpAYTt>

Obtained on 20.02.2015.

(company<http://accountlearning.blogspot.com/2009/10/financial-statements.html>)
obtained on 18.01.2015

(http://en.wikipedia.org/wiki/Financial_statement, obtained on 18.01.2015).

(<http://moneyterms.co.uk/notes-to-accounts/> obtained on 25.01.2015).

www.readingfanatic.com obtained on 25.01.2015.

APPENDICES

APPENDIX I: QUESTIONNAIRE

A: RESPONDENTS' PERSONAL INFORMATION AND SOCIAL ECONOMIC PROFILES

1. What is your gender? [Male] [Female]
2. What is your age? [15-25] [26-35] [36-45] [46-55] [Above 55]
3. What is your occupation
.....
.....
.....
4. What is your education background?
[a] Economic & Commerce
[b] Art and social sciences
[c] Engineering
[d] Accounting & finance
[e] None
5. What is your level of education
[a] Certificate
[b] Diploma
[c] Degree
[d] Masters
[e] PhD
[f] None

B: FINANCIAL STATEMENTS IN THE ASSESSMENT OF FINANCIAL POSITION

1. Do you use financial statements in assessing TPA financial position in a move to invest?
[Yes] [No]

2. Do you think TPA financial statements are adequately rich in information to aid investment Decision making? [Yes] [No]

3. What specific variables do you look at when assessing company's financial position?
 - i.
 - ii.
 - iii.

C: FINANCIAL STATEMENTS IN FORECASTING COMPANY'S PERFORMANCE

1. To what extent do you think financial statements help an investor take advantage of investment opportunities? Use five point scale ranking.

1	2	3	4	5
Not helpful	Little helpful	Moderately helpful	Helpful	Very highly helpful

2. Do you think net present values calculated using information of financial statements is reliable information in investment decision making?

1	2	3	4	5
Not reliable	Little reliable	Moderately reliable	Reliable	Highly reliable

3. Do you think financial statements are everything in understanding company's performance? [Yes] [No]
4. If No to No 3 above state the reasons
- i.
- ii.
- iii.

D: FINANCIAL STATEMENT AND USERS' STRATEGIC INFORMATION FOR INVESTMENT DECISION MAKING

1. Please, rank the level of adequacy financial statements address investment information requirements in decision making. Kindly, look at the below important investment areas. Circle the appropriate box.

Investment area/Ranking	Not adequate	Little adequate	Moderately adequate	Adequate	Highly adequate
Investment Project analysis	1	2	3	4	5
Portfolio management	1	2	3	4	5
Capital markets	1	2	3	4	5
Financing Decisions	1	2	3	4	5

E: CHALLENGES AND RECOMMENDATIONS

1. What do you consider to be the challenges of TPA financial statements in respect to investment decision making?
 - i.
 - ii.
 - iii.
2. Apart from the information obtainable on financial statements, what other information do you think is key for investment decision making
 - i.
 - ii.
 - iii.
3. What do you recommend to investors and TPA in regard to use of financial statements in investment decision making?
.....
.....
.....

APPENDIX II: WORK PLAN

Time Scale and Work Plan

This study took 16 weeks from March 2015 to July 2015. The activities which were done for the whole period have been summarized in the Gant chart (**Appendix 1I**)

ACTIVITY	A	B	C	D
TIMEFRAME	Plan and design of the research proposal	Data collection	Data entry, reviews and analysis and report writing	Submission of the Dissertation
March & April All through				
May To June wk 1-2				
June wk 3-4 to July wk 1-2				
July Wk 3-4				

APPENDIX III: BUDGET

Budget

The budget for this study was be Tshs 1,399,000/- (Tshs 1 million Three hundred ninety nine thousand only) **Appendix111**. The researcher financed through savings, relative assistance and if possible a personal bank loan.

Items	Quantity	Cost Per Unit	Amount in TZS
Typesetting & printing	70 pages	1500/=	105,000/=
Photocopies	250 pages	100/=	250,000/=
Binding Lamination	4 copies	10,000/=	40,000/=
Notebook	2 pc	2000/=	4,000/=
Meals Allowance	10 days	20,000/=	200,000/=
Data collection (Admin & assistance)	10 days	80,000/=	800,000/=
TOTAL			1,399,000/=