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Abstract:

**Purpose** – The purpose of this paper is to study the role of financial statement in solving the current financial problems in banking sector. The discussions and illustrations of the study are centered 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.

**Design/Methodology/Approach** – Random sample of 80 respondents have been selected. The opinions of respondents have been collected personally through questionnaire and also informal discussion. The collected data have been tabulated in a suitable sheet prepared for the purpose. After analysis and interpretation, conclusion has been drawn.

**Findings** – The study reveals that financial statements are playing significant roles in investment decision making. Even, there is relationship between financial statement and investment decision making. The companies should try as much as possible to put forward financial statements that reflect a true and fair view.

**Research limitations/implications** – The scope of this study is limited to check the utility of financial statement in solving the current financial problems with special reference to HDFC Bank. This study is based on the opinions of the respondents.

**Practical implications** – This research will find possible key factors in solving the problems like assessing the financial position, performance evaluation as financial statement in investment decision making in India is the life blood of every organisation to the potential investor.

**Originality/value** – This research will be of immense benefit to banks by improving the banking performance, financial analysts and investors. The study intends to help these stockholders in decision making. The study helps in widening knowledge financial statement in investment decision making. It also assists in determining the profitability of a bank.

**Keywords**: Financial Statement, Investment Decision Making, Bank, Performance

**Paper Type**: Research paper

**Introduction**

Now-a-days many corporate organisations owe a duty to fully disclose matters concerning their operations so as to aid investors in making investment decisions. Both large and small organisations in addition to satisfying the legislating requirement tend to retain existing investors and to attract potential ones through the publication of their financial statements where the capital stock of a corporation is widely held and its affairs are of interest to general public relations. The discussions and illustrations of the study will be centered 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. Financial statement provides important information for a wide variety of decision, investors draw information from the statement of the firm in whose security they contemplate investing. This makes them confident before making any important decisions. Decision makers who contemplate acquiring total or partial ownership of an enterprise expect to secure returns on their investment such as dividends and increase in the value of their investment [capital gain]. Both dividends and increase in the value of shares of company depend on the future profitability of the enterprise. So investors are interested in future profitability. Past income dividend data are used to forecast returns from dividend and increase in share prices.

The global financial crisis began around 2007 and was considered the worst financial crisis since the great depression of the 1930s. A liquidity shortfall in the United States banking system was one of the major causes. The collapse of the housing market also played a major role that lead to the failure of key businesses, declined in consumer wealth, and commitments by the government through the use of bailouts and favorable tax policies. Many economists debated about the role...
of accountants in the financial crisis. More specifically, some economists tried to pinpoint the role of auditors. Some economists argued that the lack of transparency in companies’ financial statements led to the financial crisis. Many companies and banks reached collapse or are nearly there because of weak financial audits. Indeed, one can say that financial auditors should have been much more involved in the prevention process. However, had auditors not been around, the financial crisis would have been even worse. In this paper, the researchers aim to present the importance and role of financial statements in any financial institutions like banking sector.

**Problem of the Study**

Financial statements are playing very important role for mitigating the effects of financial crisis. Had auditing not been around, the financial crisis would have been even worse. The researchers studied that the role of financial statement in mitigating the problems in HDFC Bank has some problems for both company finance as well as director which include tools to aid prospective investors in accessing the financial position of the corporate organisation, evaluation of performance of a company in investment decision making and determination of profitability of a company.

These problems are the problems to look into in this research work. The problems analysed tend to scare away both existing and potential investors. The reason of this study is to adequately look into the above problems and suggest possible solution to any of them. Nevertheless, this research will find possible key factors in solving these problems because financial statement in investment decision making in India is the life blood of every organisation to the potential investor.

**Objectives of the Study**

The main aim of this research is to study the role of financial statement in solving the current financial problems in HDFC Bank. The specific objectives are as follows:

1. To examine how a set of analytical tools will aid prospective investors in assessing the financial position of the corporate organisation.
2. To evaluate the performance of a company for investment decision making.
3. To determine the profitability of the company.

**Research Questions**

The researchers have decided to check the utility of financial statements in decision making. It was also decided to see how financial statements are useful for forecasting the performance of a bank. This study also assists in determining the profitability of a bank.

**Hypotheses of the Study**

In this research, the following hypotheses are formulated for the study:

- **H₀** Financial statements are not used to be relied upon in investment decision making in a bank.
- **H₁** Financial statements are used to be relied upon in investment decision making in a bank.
- **H₀** Financial statements are not useful for forecasting bank’s performance.
- **H₁** Financial statements are useful for forecasting bank’s performance.

**Significance of the Study**

In this study, the focus has been given on the importance of financial statements in investment decision making the problems before they actually happen in order to prevent the company losses. This study will be of immense benefit to banks by improving the banking performance, financial analysts and investors. This is because the study intends to help these stockholders in decision making. The study will help in widening knowledge financial statement in investment decision making, it will also make the organisation to appreciate the importance of sound financial statement in the provision of information necessary for decision making. It will review the improvement in the organisation handling the financial statement and show equally the ways through which improvement could be accomplished.

**Research Methodology**

The data were collected with the help of following sources. Both the primary and secondary sources of data were used for the data collection. The primary data were collected with the questionnaire. Similarly, informal discussions were held with the respondents to gain valid data. The secondary data were collected from various reference books, journals, magazines and with the help of internet.

**Anatomy of Financial Statements**

Financial statements primarily comprise two basic statements: (1) the position statement or the balance sheet; (2) the income statement or profit and loss account. However, Generally Accepted Accounting Principles (GAAP) specify that a complete set of financial statements must include a balance sheet, an income statement, a statement of changes in owner’s accounts and a statement of changes in financial position. Financial statements comprise a number of statements generally prepared at the end of every financial year to assess the various financial activities and strength of an enterprise which are presented in the following figure.
Results and Discussion
The data collected and analysed have been presented in a table. The interpretation and inference are also given. The primary data which was collected through the questionnaire has proved to be the most appropriate source of information for this study. The questionnaires distributed and frequency rate is given below.

Table No. 1
Response Rate of the Questionnaires

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributed questionnaires</td>
<td>100</td>
</tr>
<tr>
<td>Returned questionnaires</td>
<td>80</td>
</tr>
<tr>
<td>Non returned questionnaires</td>
<td>20</td>
</tr>
<tr>
<td>Response rate</td>
<td>80%</td>
</tr>
</tbody>
</table>

As shown in the above table, 100 questionnaires were distributed among respondents. Out of the total number of questionnaires distributed 80 were returned, while 20 of them were not returned. The questionnaires that have been used in the data collection have 21 questions. The questionnaire was divided into two parts. The first part was related to the personal information such as sex, age, education qualification, position, experience (question 1 to 5) while second part (question 6 to 21) was related to financial statements and opinions of the respondents. However, as stated earlier, only questions that are relevant to the research questions were presented in the following table.

Table No. 2
Opinions of the Respondents

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Question</th>
<th>Response</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Does financial statement play any role in investment decision making?</td>
<td></td>
<td>80 (100)</td>
<td>0 (0)</td>
</tr>
<tr>
<td>2</td>
<td>Does the financial statement reveal the competence of management's company?</td>
<td></td>
<td>78 (97.5)</td>
<td>2 (2.5)</td>
</tr>
<tr>
<td>3</td>
<td>Is it appropriate to believe in the ability of past financial statement in forecasting future performance?</td>
<td></td>
<td>73 (91.25)</td>
<td>7 (8.75)</td>
</tr>
<tr>
<td>4</td>
<td>Is there any relationship between financial statement and investment decision making?</td>
<td></td>
<td>79 (98.75)</td>
<td>1 (1.25)</td>
</tr>
<tr>
<td>5</td>
<td>Does the state of the financial statement influence the investors to buy shares from the company?</td>
<td></td>
<td>74 (92.5)</td>
<td>6 (7.5)</td>
</tr>
<tr>
<td>6</td>
<td>Does the financial statement of a company predict the future financial stand of a company?</td>
<td></td>
<td>71 (88.75)</td>
<td>9 (11.25)</td>
</tr>
<tr>
<td>7</td>
<td>Does the financial statement afford users the opportunity of using funds flow analysis?</td>
<td></td>
<td>72 (90)</td>
<td>8 (10)</td>
</tr>
<tr>
<td>8</td>
<td>Is ratio analysis veritable tool for investment decision?</td>
<td></td>
<td>77 (96.25)</td>
<td>3 (3.75)</td>
</tr>
<tr>
<td>9</td>
<td>Does the cash flow on investment serve as a tool on investment decision?</td>
<td></td>
<td>76 (95)</td>
<td>4 (5)</td>
</tr>
<tr>
<td>10</td>
<td>Is the present value the only tool used for investment decision?</td>
<td></td>
<td>10 (12.5)</td>
<td>70 (87.5)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Question</th>
<th>Response</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Is financial statement used for investment decision making in a company?</td>
<td></td>
<td>80</td>
<td>0</td>
</tr>
<tr>
<td>12</td>
<td>Does financial statement help users to know the state of affairs' company?</td>
<td></td>
<td>78</td>
<td>2</td>
</tr>
<tr>
<td>13</td>
<td>Does the financial statement use to be relied upon in the investment decision making?</td>
<td></td>
<td>68</td>
<td>12</td>
</tr>
<tr>
<td>14</td>
<td>Does financial statement useful for forecasting company’s performance?</td>
<td></td>
<td>76</td>
<td>4</td>
</tr>
<tr>
<td>15</td>
<td>Is there positive and significant relationship between financial statement and investment decision making?</td>
<td></td>
<td>80</td>
<td>0</td>
</tr>
<tr>
<td>16</td>
<td>Does financial statement provide various facts of business such as accurate records of its income and expenses and also its assets and liabilities?</td>
<td></td>
<td>78</td>
<td>2</td>
</tr>
</tbody>
</table>

(Figures in the bracket indicate percentage to total) (Source: Primary Data)

Findings

- All 80 (100%) respondents agreed that financial statements are playing significant roles in investment decision making.
- More than 97 per cent (78) of the respondents agreed that financial statements reveal the competence of management of the company while 2(2.5%) of the respondents disagreed.
- Out of the total respondents 73 (91.25%) respondents agreed that it is appropriate to believe in the ability of past financial statement in forecasting future performance whereas 7 (8.75%) disagreed.
- All 79 (98.75%) respondents agreed that there is relationship between financial statement and investment decision making. Only 1 (1.25%) respondent disagreed.
- 74 (92.5%) respondents agreed that the state of financial statement influenced the investors to buy shares from the company while 6 (7.5%) of the respondents disagreed.
- Total 71 (88.75%) respondents agreed that the financial statement of a company predicts the future financial stand of a company while 9 (11.25%) respondents disagreed.
- Overall 72 (90%) respondents agreed that the financial statement afford users the opportunity of using funds flow analysis.
- More than 96.25 per cent respondents agreed that ratio is a veritable tool for investment decision making.
- 76 (95%) respondents agreed that the cash flow investment serves as a tool on investment decision making, while only 4 (5%) respondents disagreed.
- Only 10 (12.25%) respondents agreed on the net present value is the only tool used for investment decision while more than 87.5 per cent respondents disagreed.
- Cent per cent respondents agreed that financial statement is used for investment decision making in a company while none of the respondents disagreed.
- Out of the respondents, 78 (97.5%) respondents agreed that financial statements help the users to know the state of affairs of the companies.
- 85 per cent respondents agreed that financial statement is used to be relied upon in investment decision making while 12 (15%) respondents were disagree with this statement.
- Total 76 (95%) respondents agreed that financial statements are useful for forecasting company’s performance while only 5 per cent respondents disagreed.
- All the respondents agreed that there is a positive and significant relationship between financial statement and investment decision making.
- More than 97 per cent respondents agreed that financial statements provide various facts of a business such as, accurate records of its income and expenses and also its assets and liabilities while only 2 respondents disagreed with this statement.
Conclusion

The basic aim of this study was to determine the importance of financial statement in investment decision making. This is because prospective investors use financial statements of concerns as a major parameter for assessing the profitability and the risk of investing in such ventures and the aim of financial statement is to provide financial information about an entity to interested parties. The information can become meaningful through financial interpretations and decisions unveil the essence of financial statement as the major custodian of financial information necessary for any investment decision. Investment are not made on a vacuum hence, there are bedrocks on which they will stand. The researchers conclude by saying that financial statement plays a vital role in investment decision making; for instance, where companies invest hundreds of billions of rupees every year in fixed assets. By their nature, these investment decisions have the potential to affect the firm’s fortunes over several years. For a good decision can boost earning sharply and dramatically increase the value of the firm.

This financial information can be subjected to various scrutiny and analysis depending on the investors before making their investment decisions. This is subjected to their analysis and interpretations before they can go ahead in the investment decision concerning any company. Hence, it is opined that companies should try as much as possible to posit financial statements that reflects a true and fair view of what is propose to represent as a way of appreciating their companies the more.

It is opined that financial statement analysis is just a tool to access a company’s performance. There are several other factors like economy, competition, technology etc. which play a decisive role in the fluctuation of the future stock price. After analysing the financial statement it is the investor’s decision where to invest. Factors like the readiness of the investor in taking risk, the amount of capital they have with them, their special interest in certain brands and their desired rate of return, location and several other factors diversify the investors as well.

Recommendations

Financial statements play an essential role in modern economies, partly because of series of regulatory pronouncements and investor demands for greater accountability and data transparency. Businesses rely on a network of operating resources and technological equipment to identify what's important when analysing accounting reports and recommending steps for compliance. Bank principals understand that producing accurate performance data generally hinges on steadily training book-keeping and hiring top accounting talent. Having competent personnel spearhead financial analysis is a money saver, as it provides the firm with timely, useful insight about its operating activities.

Having gone through this study, the following recommendations are made.

1. Every company should ensure that all material fact is reflected in their financial statement.
2. There should be a prompt provision of the financial statement at the end of each financial year.
3. Investment decision should not be on a vacuum or rule of thumb rather, the financial statements should be used as bedrock.
4. Every company should adhere to the demand of subjecting their financial statements to statutory audit as a way of authenticating their contents.
5. No investment decisions on a company should be taken without the consideration of a company’s financial statements.

Further Research

Further research should be undertaken by selecting more banks of similar characteristics. By
Another important step would be to add comparative study of private and public sector banks with respect to the role of their financial statements.

References

Websites
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