

**FINANCIAL STATEMENT ANALYSIS AND DECISION MAKING PROCESS  
A CASE STUDY OF CENTENARY RURAL DEVELOPMENT BANK IN  
KAMPALA TOWN UGANDA**

**BY**

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## DECLARATION

I MUGISHA AMBROSE, hereby declare to Kampala International University that the contents of this research report are the result of my own study and findings to the best of my knowledge. In addition, it has not been submitted for award of Bachelors Degree in any other recognized institution of higher learning.

Researcher's signature.....  
Date .....23<sup>rd</sup>/August/2016.....

### APPROVAL

This is to certify that this report has been prepared under supervision and submitted to the college of economics and management sciences with my approval.

Supervisor's Name : Mrs. Nakibule Saudah

Signature : ..... 

Date : ..... 23<sup>rd</sup> / 08 / 2016 .....

## **DEDICATION**

This work is dedicated to my beloved mum Mrs. BIRUNGI MABLE my dad Mr. BARYAYEBWA RICHARD and my brother Ainembabazi Elasmus for their moral support that has enabled me prosper in my academic endeavours.

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First and foremost I thank the almighty lord for his unconditional love, protection and care which helped me to accomplish every task towards conducting my research.

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***“GOD BLESS YOU”***

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## **LIST OF ABBREVIATIONS**

<b>GAAP</b>	Generally Accepted accounting Principles
<b>IAS</b>	International Accounting Standards
<b>BFIA</b>	Banking and Financial Institutions Act
<b>ADA</b>	Advanced Diploma in Accountancy
<b>IFRS</b>	International Financial Report Standard
<b>CIMA</b>	Chartered Institute of Management Accountants
<b>UShs</b>	Ugandan Shillings

### **ABSTRACT.**

The study analyzed the effect of financial statement analysis on decision making process a case study of centenary rural development bank Kampala town Uganda. The specific objectives of the study were, to determine whether management make use of financial statement in decision making, to find out and identify the role of financial statement in proper decision making, to identify the limitation pertaining to the use of financial statement in decision making. The study used qualitative and quantitative data sources to analyze data collected. This was done with the aid of computer packages Ms word and Ms excel whereby charts and graphs were presented.

The study found out that to a small extent (13%) financial statements are based on by the management to make good economic decisions. However, majority of the respondents agreed that the management make good economic decisions without basing on financial statements.

To the limitations of financial statement in decision making, loss of data is one of the biggest challenge limiting financial statement in decision making a 37.5% . The financial statement analysis should provide working experience through combining theoretical skills band practical skills, it should provide useful recommendations and suggestions to the organization on improving the financial reporting.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

This chapter covered the background to the problem, statement of the problem, research objectives, research questions, and significance of the study, scope of the study and conceptual framework.

#### **1.1 Background to the study**

The purpose of accounting is to provide financial report about a profitable or non profitable organization. This information is of interest to owners, managers and other parties outside the business since accounting is used to gather and communicate financial information. It is often known as the language of business.

Nevertheless many companies and organizations all over the world are experiencing difficulties in decision making processes resulting from poor prepared financial statement. Nobles (2002), Postulated that to some extent financial statements may be prepared in such a way that may not meet the needs of the users, this problem is explained worldwide; external environment culture, legal system, taxation and inflation may influence it.

Cole (2000) postulated that in most continental Europe, Asia and Africa, the traditional scarcity of 'outsiders' shareholders has meant that external financial reporting has been largely invented for the purpose of protecting creditors or controllers of economy. This has not encouraged the development of flexibility, judgment, fairness or experimentation. However, it does not lead to more careful accounting. This is because creditors are interested in worst case; they are likely to get their money back, whereas shareholders may be interested in an unbiased estimate of future prospects. Practically it has been done in continental Africa to give wrong financial information for tax evasion, fraudulent practice and complexity data. These entire scenarios do mislead financial decision making processes.

According to Adolf et al (1978), preparing financial report to be used in decision-making is a difficult task to many if not all of the commercial, industrial and government organizations in Uganda. This has caused the failure to deliver productive decisions due to lack of sufficient records to base decisions. Adolf and others pointed out that the commercial and industrial

parastatal compositions of Uganda and fiscal affairs of the Ugandan government have been characterized too often by mismanagement, lack of controls and accountability, operating losses and irresponsibility, insufficiently trained and unsophisticated management, lack of adequate accounting and statistical data upon which to base decisions.

Adolf et al (1978) also postulated that non-profit organizations such as government and charities typically present statements which exhibit their resources and the way those resources were distributed or held. Stewardship and responsibility are the focus for these statements, thus it needs financial report suited for disclosing useful information to different users within and outside the organization.

The study will examine and assess how Centenary rural development bank (CRDB) makes use of financial report in decision making.

### **1.2 Statement of the Problem**

Managers as the decision makers mostly depend on financial reports. If poorly prepared, summarized and presented it may mislead the decision makers into making a poor decision which may affect the overall operations of the organization. Many public and private organizations are faced with the problem of making sound decision due to poor, inaccurate preparation of financial report, low level of education of the manager entrusted with the organization decision making process, poor infrastructure and lack of the computer knowledge.

This study was to evaluate the role and importance of financial statement in decision making in ensuring that managers use them effectively in an effort to make the best decisions that enabled an organization achieve its goals. Therefore, the study assessed the extent to which the organization makes use of financial statement in decision making.

### **1.3 Purpose of the Study**

The purpose of the study was to investigate the importance of financial statement in decision making process.

#### **1.4 Objectives of the study**

1. To determine whether management make use of financial statement in decision making.
2. To find out and identify the role of financial statement in proper decision making.
3. To identify the limitation pertaining to the use of financial statement in decision making.

#### **1.5 Research Questions**

- 1 To what extent does the management make use of financial statement in decision making?
2. What is the role of financial statements in decision making?
3. What are the limitations of financial statement in decision making process?

#### **1.6 Scope of the Study**

The study focused on the following scopes;

##### **1.6.1 Geographical scope**

The study was conducted from Centenary rural development bank (CRDB) Entebbe branch which is located in Kampala Uganda. One of the reasons to why I chose CRDB is of its good geographical location that is, it is located nearby making it easy for me to collect data

##### **1.6.2 Content scope**

The study was limited to the various departments in the bank that is finance, accounting, human resource and sales department.

The study examined the various types of financial statement like income statement, balance sheet, cashbooks and cash flows that affect the decision making process in Centenary rural development bank (CRDB).

##### **1.6.3 Time scope**

The study was conducted between March 2016 and August 2016

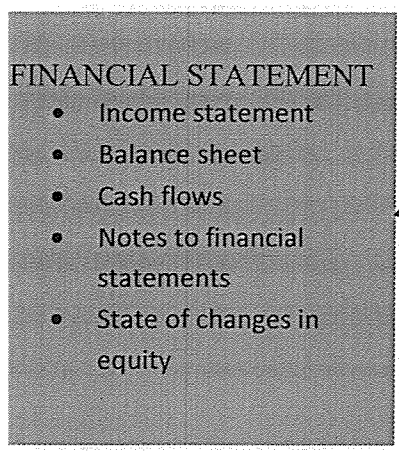
### 1.7 Significance of study

The findings of this study were to be of help to the researcher because;

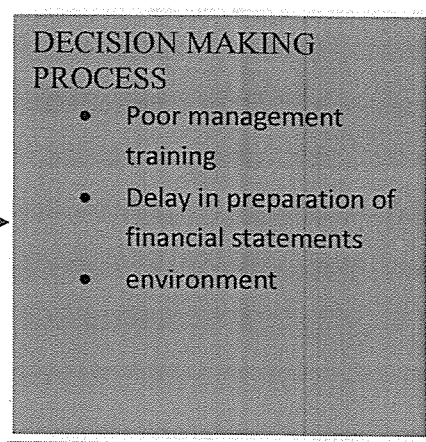
1. The study provided working experience through combining theoretical skills and practical skills.
2. The study provided useful recommendations and suggestions to the organization on improving the financial reporting.
3. The study was to serve as a guide for future references for other researchers in case they endeavored in conducting further study on the same or similar problems.
4. The study was to help different individuals for example the bank managers through giving them aid to accomplish different tasks assigned.

### 1.8 Conceptual Framework

#### INDEPENDENT VARIABLE



#### DEPENDENT VARIABLE



There are various methods used to analyze the financial statements, they are; income statement, balance sheet and cash flows. It was through this financial statement that the bank was able to determine their financial position and performance of the bank. Many banks were faced with the problem of making sound decisions due to poor, inaccurate and delays in preparation of the financial statements. Poor management training would also slow down the decision making since



the managers are mostly given the responsibility of making the organization decisions. Environment also would affect decision making since managers took one decision in a particular situation and quite another in a different situation. Preparing financial statement to be used in decision-making was a difficult task to many if not all of the commercial banks. This caused the failure to deliver productive decisions due to lack of sufficient records to base decisions.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

The study covered conceptual review and ideas from experts/ authors, theoretical review in line with the variables under study, review of related literature and the related studies.

The chapter covered fundamental definitions of key terms to be used in the study, relevant of theories and principles of the study, and clear links of the proposed study to other previous studies it also covered all materials that the researcher surveyed similar to the study.

#### **2.1 Conceptual Review**

##### **Financial statement**

Financial statement can be defined as the results of the activities of an entity and is prepared to help interested persons decide on questions such as whether to lend its money or to invest in its shares. Financial statement analysis can also be seen as part of the link between the financial reports and the decision making process.

According to IAS 1, a complete set of financial statement should contain the following:

##### **Income Statement**

It is referred as the Profit and Loss Account or Income statement in the case of trading enterprises, which is calculated to summarize the results of the operation of an enterprise during the accounting period. In the case of government, charity organizations, whose motive is to provide services, this would be a summary statement Income and expenditure, being a summary of all the statements signed by accounting officer as per section 25 subsection 2(a) and 2(c) of the Public Finance Act, 2001 (applies only for Government Organizations).

### **Balance Sheet**

This shows the financial position of an entity on a specific date. Each entity should present in its financial reports based on the nature of its operations, clear classification between current assets and fixed assets and another between its current long-term liabilities as separate classifications on the face of balance sheet.

### **Cash Flow Statement**

It provides the basis on how an entity generates cash and cash equivalents and uses them from various sources and various dealings respectively.

### **Statement of changes in Equity**

This shows the changes in share capital, profit or loss for the period and any other accumulated reserve such as the share premium. These were presented on the face of statement of changes in equity or in the notes.

#### **2.1.1 Analysis of financial statements**

Analysis of Financial Statements supplies essential guidelines and strategies for examining financial report and making them a powerful tool in your own decision making. Financial statements were not prepared as an end in themselves but in order that users can make decisions. The financial statements therefore need to be analyzed and interpreted. Financial statements are analyzed by calculating ratios, for example, current ratio, debt /equity ratio, earnings per share and after tax return on equity.

The information gathered by calculating ratios allows comparisons with

- The performance of the business in previous years
- The budgeted or planned performance in the current year

The ratios themselves do not tell one what to do, but they do point one in the right direction. Ratios should therefore, make it easier to make better decisions.

Ratio analysis was also used to measure liquidity and solvency, but one of the most important purposes of ratio analysis was to help users to appraise an organization's past performance and, from that appraise, to make judgments (decisions) about its likely future performance.

### **2.1.2 Qualitative characteristics of financial statement**

There were necessary attributes to be possessed by a financial report so as to enable interested parties to make rational economic decisions. The useful information contained in financial report possessed the following characteristics according to Alexander D and Briton A (1986)

#### **a) Understandability**

Different users obviously have different levels of ability as regards understanding of accounting. Understandability doesn't mean necessarily simplicity. It means that a report geared to abilities and knowledge of the users' concerned reports. Simple aspect being reported to the users with little or no background knowledge is leading to be considered very simple. The problem really arises when we have the task of reporting on complex activities but to the non expert users.

#### **b) Relevance**

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

#### **c) Reliability**

To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users. The information may be relevant, so unreliable in nature or representation that its recognition may be potentially misleading.

#### **d) Accuracy**

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

**e) Timeliness**

This means the information presented to the user in time for use to be made of it. Information presented has to be up to date as possible. Approximate information, were available from time to assist some decision or action is likely to be more useful than presented after the decision has already been made.

**f) Completeness**

To be reliable the information must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficit in terms of its relevance.

**g) Objectivity**

The information prepared must be objective or unbiased in that it should meet all proper users needs and neutral in that the reception of the answer should be biased towards the interest if any one user group.

**2.1.3 Objectives of Financial Statement**

According to International financial reporting standard 1<sup>st</sup> July (2004)

The main objectives of financial statements were:

- a) To provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in decision making and evaluating decisions about the allocation of resources.
- b) To provide information that is useful for decision making and to demonstrate accountability of the entity for the resources entrusted to it by:
  - Providing information about resources, allocation and uses of financial resources.
  - Providing information about how the entity financed its activities and met its cash requirements.

- Providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments.
- Providing information about the financial condition of the entity and changes in it.
- Providing aggregate information useful in evaluating the entity's performance in terms of service, efficiency and accomplishments.

CIMA Examination Kit (New edition Focused, Nov 1996 and 1997) page 239 explained that the objectives of financial reports were to provide users with greater level of information about the results and resources of a group that was available from profit and loss account.

Thus it was evident that the objective of financial statement was about giving information about the organization's financial position and operations which provided the basis for decision making.

#### **2.1.4 Users of Financial Statement**

As it has been discussed earlier, the purpose of accounting is to provide financial information for decision makers about economic activities. The value of financial report was determined by how well it met the needs of those who used it. It was concerned with measuring financial resources used to acquire other resources, the conversion of resources into goods and services and the prices of goods and services sold to costumers.

The following were the users of financial statement:

**a. Owners and managers**

Owners wanted to know exactly what they could earn from what they have invested by observing the financial performance and the position of the firm. To the managers they were also interested in this financial report since they were the firm's decision makers.

**b. Investors**

Financial reports helped investors to evaluate the risk and the return they expected from their investments or if they were interested to invest.

c. Supplies

These were the people who were providing goods and service to the firm in terms of credit. Therefore they were interested in financial report in order to know the condition of the organization that they were providing temporal financial assistance in terms of goods and services, if they meet with their conditions.

d. Employees

These were workers in the firm and they were supposed to be paid their salaries and wages and they were interested to know about their job security.

e. Those who were providing financial accommodation to an enterprise, including banks etc.

f. The public including, tax payers, consumers, and other community and special interest groups such as political parties, environmental protection societies and regional pressure groups.

g. The government with its ministries and several regulatory authorities, including tax authorities, department and agencies concerned with the supervision of commerce and industries and local authorities

## **2.2 Theoretical Review**

Fleischman and Kindersley (2001) wrote an article about the study on the purpose of financial information. They postulated that; one of the purposes of financial statement was to facilitate the decision making of financial report users. They argued that to effectively use the information in annual financial report, however, users have to be able to understand them. To further such understanding, annual reports included written explanations of financial information referred to in the public sector as the letter of transmittal and in the private sector as Management's Discussion and Analysis (MD&A).

They argued that although the intent of these two documents is the same, the users can be quite different. Private companies generally expected users to have a reasonable understanding of business and finance, while public entities must communicate with a much more diverse

audience that included citizens with little knowledge in financial matters. The readability of letter of transmittal is relative to the management's discussion and analysis.

In their article, the authors also presented the results of a study to determine the readability of letters of transmittal relative to management's discussion and analysis. The author founded that both documents were an ineffective communication method for 80 percent of the population. And despite the fact that letters of transmittal were targeted at a more diverse, less financially astute audience than the MD&As, the letters of transmittal were significantly more difficult to read.

## **2.3 Review of Related Literature**

### **2.3.1 To determine whether management make use of financial statement in decision making.**

There were some academicians who conducted their studies related to this topic.

Fleischman and Kindersley (2001) wrote an article about the study on the purpose of financial information. They postulated that; one of the purposes of financial report was to facilitate the decision making of financial report users. They argued that to effectively use the information in annual financial report, however, users have to be able to understand them. To further such understanding, annual reports included written explanations of financial information referred to in the public sector as the letter of transmittal and in the private sector as Management's Discussion and Analysis (MD&A).

Financial statement provides valuable information in terms of revenues being generated and the expenses being incurred during a particular period. It offers effective tools to management for making decisions as to how revenues may be generated more and expenses may be reduced or controlled.

Financial statement is also used to compare trends in which a business has either grown to make more money or has made more losses. Not only it provides the information in relation to current performance of a business entity but also gives useful information about the past performance during the year while enabling managers to evaluate how both revenues and expenses have been affected in every month. It thus financial statement serves lots of purposes offering to provide effective tools for decision making.

### 2.3.2 To find out and identify the role of financial statement in proper decision making

They argued that although the intent of these two documents was the same, the users could be quite different. Private companies generally expected users to have a reasonable understanding of business and finance, while public entities must communicate with a much more diverse audience that included citizens with little knowledge in financial matters. The readability of letter of transmittal is relative to the management's discussion and analysis.

In their article, the authors also present the results of a study to determine the readability of letters of transmittal relative to management's discussion and analysis. The author found that both documents were an ineffective communication method for 80 percent of the population. And despite the fact that letters of transmittal were targeted at a more diverse, less financially astute audience than the MD&As, the letters of transmittal were significantly more difficult to read.

Based on these findings, the author suggested that preparers of both types of documents should use smaller, more familiar words in their financial communication and that standard-setting bodies establish guidelines or limits on the average syllables per word and average words per sentence in written financial communications.

Professor Monyo wrote an article on the usefulness of financial reports. Monyo (2000). He pointed out that, the market received large amount of information that was relevant to a particular firm. Thus at one level it was said that the annual report was just one piece of information that could help the market to form opinions on the financial strength of an organization and it's potential for taking advantages of future position of the firm.

### 2.3.3 To identify the limitation pertaining to the use of financial statement in decision making.

Financial statement analyzed in aggregate form, many financial statements are prepared only in aggregate form without a breakdown by geographical area, fixed costs, variable costs and responsibility centers.

Financial statement is analyzed based on estimators; one of the limitations in the analysis of financial statement is that, many dollar items included in the statements are estimators. Such



items include valuing inventory (and thus cost of sales) computing the annual expense for depreciation determining doubtful accounts (bad debts) and deciding whether to write off goodwill or carry it on the balance sheet as an intangible asset. Thus, financial statements are not exact although they often give an impression of preciseness by being shown 'to the last penny'

Different accounting methods and techniques in financial statement analysis, different companies even in the same industry use different accounting methods and techniques in the financial statement analysis process which is another major limitation.

Financial statement analysis does not project the actual problems of a company, financial statements do not show many factors that affect the financial condition and potential profitability of a company, such factors as order backlog, proposed capital, expenditures and the importance of intangible assets (such as patents and intellectual property) and they personnel are often not revealed.

Financial statement analysis relies on historical accounting data, another major limitation of financial statement analysis is that it is based on historical accounting data, analysis of these statements depicts past relationships. The analyst and the business owner are more interested in what is going on now and what is probable for the future. Although a business's characteristics seldom change rapidly and analysis relies heavily on past data must be aware the future to be different.

## **2.4 Review of related literature**

### **2.4.1 Decision Making Process**

Decision comes from the word decide, which means that to choose on in preference to other variable alternatives. Decision-making involves a choice of actions or strategies, the outcome of which may be known for certainty or completely unknown. Decision making had been defined by different users, as follows;

According to Weihrich and Koontz (2001), Decision-making is the selection of a course of action from among alternatives; it is the core of planning. . Decision making involve a choice of strategies of the outcomes of which may be known for certainty or completely unknown. Decision making is referred as the process of choosing a course of action from among

alternatives to achieve a desired goal. It consists of activities a manager performs to come to a conclusion.

According to Garrison, (2000), decision making is often a difficult task that is complicated by the existence of numerous alternatives and massive amount of data, only some of which may be relevant. Every decision involves choosing from among at least two alternatives. The cost and benefit of each alternative should be compared. An essential function of management is to take decision and decisions have to be taken whenever there are alternative courses of action.

Cole (1993) defined Decision-making as an accepted part of everyday human life.

According to Gupta (2001): Decision-making is the process of choosing a course of action from among alternatives to achieve desired goals. It consists of activities a manager performs to reach conclusion. Decision-making is the process of selection and aim is to select the best alternatives.

#### **2.4.2 Features of decision-making**

Gupta (2002) pointed out the features of decision-making to be the following:

- Decision making is a goal-oriented process. A decision is made to achieve some goals or objectives. The intention is to move towards some desired state of affairs.
- Decision making implies set of alternatives.
- A decision problem arises only when there are two or more alternatives.
- Decision making is dynamic process. It involves time dimension and a time lag. The techniques used for choice vary with the type of problem involved and the time available for its solution.
- Decision-making is always related to the environment. A manager may take one decision in a particular situation and quite another in a different situation.
- Decision making is a continuous process or ongoing process. Managers have to take series of decisions
- Decision making implies freedom to the decision maker regarding the final choice. It also involves commitment of resources in specified ways.

### **2.4.3 Types of Decisions**

Basing on different situations in which decisions are made, time and procedures to be followed upon making such decisions, there are various types of decision making. According to Gupta (2001); the main types of decision-making are as follows:

#### **i. Programmed and non-programmed decisions**

Programmed decisions are solutions to routine problems determined by rules and procedures or habit.

Non- programmed decisions are specific solutions created through unstructured process to deal with non-routine problems.

#### **ii. Routine Decisions**

These are of repetitive nature. They involve short-term commitments and have minor impact on the future of the organization. These decisions are generally made at lower levels of management in day-to-day operation of the business. This is established to make quick decisions.

#### **iii. Strategic decisions**

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

#### **iv. Organizational decisions**

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

#### **v. Personal decision**

These are decision made by managers as individuals and on their own behalf. Such decisions can't be delegated. Decisions to marry, to buy a house, to send children in a boarding school are

example of personal decisions. Such decisions affect the personal life of a manager but may affect the organization indirectly or directly. For example the decision of the chief Executive to retire early may have a direct effect on his company.

**vi. Individual decisions**

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

**vii. Group decisions**

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

#### **2.4.4 The role of decision-making**

According to Gupta (2001): the roles of decision-making are as follows:

- Decision making is the vehicle for carrying managerial workload and discharging managerial responsibilities.
- Decision making is ubiquitous and permeates every step in the management process.
- It penetrates all the functions of management.
- It is therefore noted that, decision making is a persuasive management task.

#### **2.4.5 Uses of financial statement in decision making**

Financial statement in decision making exist to provide information about the financial characteristics of organization to individuals and groups interested on those organization.

The processes of financial statement in decision making do not take place in vacuum. They are significantly affected by economic and social environment in which they are conducted, they are a reflection of prevailing notions of accounting theory and they are strongly influenced by the regulatory system which operates to control them.

Simon (1988) noted that it's often necessary to interpret financial reports in order to identify the strength and weakness of a company and highlight any underlying trend in its operation hence make a reliable decision. He however, said that one of the methods of identifying the company's strength and weakness is the use of ratio analysis. It is therefore observed that an entity's trends in its operation can be obtained upon analysis of financial reports which provided the basis for decision making.

A George (1993) pointed out that management uses accounting records (for example balance sheet, profit and loss account statement and so on) when making future resources allocation decisions concerning long-term and short-term investment.

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

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter was about how the researcher arrived at the findings of the study. It included research design, study population, sample framework; sampling techniques, research instruments, data collection instruments and data analysis.

#### **3.1 Research Design**

The research design applied was a cross-sectional survey that entailed both quantitative and qualitative forms; the qualitative design is used to collect information from respondents on the importance of financial statements in decision making process.

Both quantitative and qualitative techniques were applied during the study. Qualitative techniques were applied to provide answers to question like: how the financial statement assisted the management in making decision, to what extent management made use of financial report in decision making, while the quantitative techniques were used to review the role of financial report in making decision.

#### **3.2. Study Population**

Different managerial levels together with accounting departments (head of department and chief accountant total number of 100) were consulted during the study on different areas in order to gather enough data to make a conclusion of the study

#### **3.3. Sampling Techniques**

The following techniques were applied for data collection during the study so as to obtain the true representation of the population; In order for the researcher to collect data during the study the researcher would choose to use proportional or disproportional stratified random sampling technique to ensure a balance of respondent from each department, in this method the researcher divided the population into strata (groups) according to the number of specific groups of population that would be included in sample, then from each stratum a sample would be randomly drawn either proportionally or disproportionally. One of the reasons to why I chose this method is, it could provide greater precision than a simple random sample of the same size

and because of its greater precision, a stratified sample often required a smaller sample which saved money.(Moore, CL (1984), Management Accounting, 6<sup>th</sup> Edition, South West Publishing)

### 3.4. Sample Size

The sample size therefore comprised of eighty (80) respondents out of 100 people comprising of thirteen (13) managers from each department, eighteen (18) accountants, eighteen (18) people from human resource, fifteen (15) people from finance and sixteen (16) from logistic department. This is the size found affordable and adequate for the purpose of the study. According to Sloven, sample size was determined by the formula below

$$n = N / [1 + N(c)^2]$$

Where

n = sample size

N = target population

C =margin of error at 5% standard value

Sample size

$$n = \frac{100}{[1 + 100(.05)^2]} = 80 \text{ respondents}$$

Sample size = 80 respondents

### 3.5. Data Collection instruments

Basic collection method that was used to come up with relevant and adequate information was the use of questionnaires, interview and documentation

#### 3.5.1 Questionnaires

A set of questions was prepared and the employees from the various departments were requested to fill them. Questionnaires were designed in such a manner that relevant information gathered becomes useful in depicting the operation trend of the organization.

### **3.5.2 Interview**

The target respondents would be those staffs in accounting and finance, this aimed at obtaining necessary information for the study. The respondent's opinions would provide relevant information.

### **3.5.3. Documentations**

It involved examining the bank reports on performance for the period of two financial years from (2009/2010-2010/2011). This assisted the researcher to compare those aspects between the two years so as to find out what improvement had been realized especially on decision making process by using such records.



## **CHAPTER FOUR**

### **DATA INTERPRETATION, ANALYSIS AND PRESENTATION OF THE STUDY FINDINGS**

#### **4.0 Introduction**

The study was set to investigate the importance of financial statement in decision making process. The findings from the study were presented and analyzed based on objectives of the study as were formulated in chapter one of this report. This was done with the aid of computer packages Ms Word and Ms Excel where by graphs and charts were presented. This includes both the quantitative data and qualitative data. The quantitative data has been presented using frequencies, tables and percentages. Interpretative analysis has been used to attach meaning to each of the scores obtained quantitatively. The qualitative data has been summarized and presented using interpretative analysis and qualitative matrices.

#### **4.1 Background information of the respondents**

Background information of the respondents was also considered by the study. Under the respondents background, different variables were considered which included was gender, age, marital status and education level of the respondents as well.

##### **4.1.1 Gender of respondent**

The study had both male and female respondents and male persons were more than female ones interacted with.

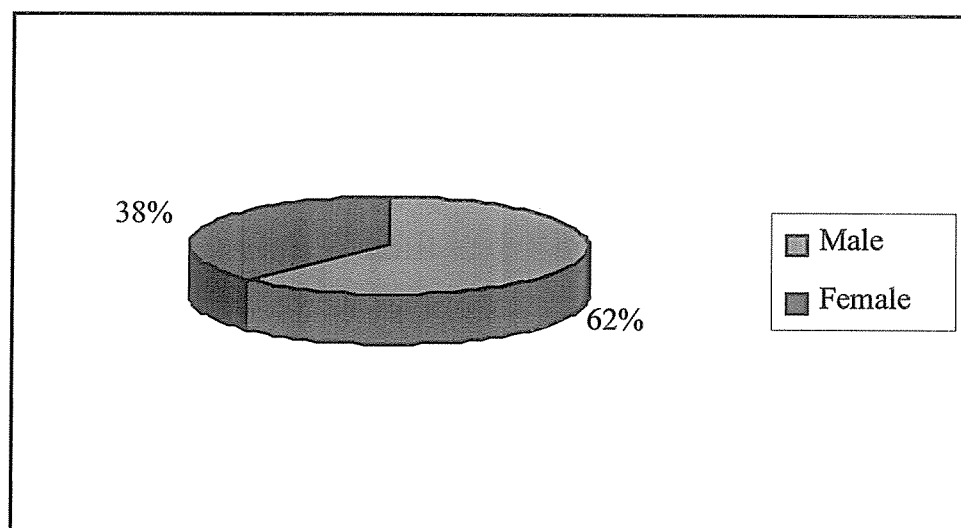
**Table: 1 showing gender distributions of respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	30	63
Female	50	37
<b>Total</b>	<b>80</b>	<b>100</b>

**Source: Primary Data 2016**

According to findings as in Table 2, 30(37%) of respondents were found to be male persons while only 50(63%) were female respondents. This was because the study was voluntary and thus more male persons compared to female ones were much more willing to participate and express their views comfortably. However the female respondents in the study also were crucial in revealing information that the study used to generate this report.

**Figure: 1 showing gender distributions of respondents**



**Source: Primary Data 2016**

#### **4.1.2 Marital status of respondent**

The study considered the marital status of respondents and the married, single, widowed and separated/divorced persons were interacted with while in the field. The established information in relation to marital status was revealed as in Table 3.

**Table: 2 showing marital status of respondents**

Marital status	Frequency	Percentage
Married	06	07
Single	70	87
Widow(er)	03	02
Separated/divorced	01	01
<b>Total</b>	<b>80</b>	<b>100</b>

**Source: Primary Data, 2016**

The study found out that 06(07%) of respondents were married, only a respondent (01%) had separated/divorced, 03(02%) of them were widow(er) while single persons were the majority thus constituting 70(87%) of the total respondents. All the employees selected were all single. Therefore, the marital status of respondents had no bias in as far as influencing the responses and understanding of study variables that were under investigation.

#### 4.1.3 Education level of respondents

The study examined the education level of respondents so as to guide the flow of interview in as far as asking specific questions to specific education level of respondents was concerned. The study considered only three variables and they were; diploma, degree and other levels of education.

**Table: 3 showing education level of respondents in Centenary Rural Development Bank Kampala**

Education level	Frequency	Percentage
Diploma	13	16
Degree	62	78
Certificates	05	06
<b>Total</b>	<b>80</b>	<b>100</b>

**Source: Primary Data 2016**

From table 4, it showed that most of respondents had degrees with 78%, followed by those of diplomas with 16%, those with certificates were 06% of the total respondents interviewed. More educated people are still employed due to lack of capital to start up their own businesses. The above results gave a general understanding of the level of education of the respondents to mean that they had the ability to understand and interpret the questionnaire correctly.

## 4.2 Management Use of Financial Statement in Decision Making

**Table 4: The extent to which the management make use of financial statement in decision making?**

		Frequency	Percentages (%)
	Very high	26	32
	Medium	38	48
	Low	16	20
	Total	80	100

**Source: Primary data 2016**

The respondents were asked on the extent to which the management make use of financial statement in decision making. Results in table 4.5 above indicate that 32% of the respondents agreed that the extent to which the management make use of financial statement in decision making is very high, 20% said its low while the majority of the respondent which is 48% its medium. This implies that Decision comes from the word decide, which means that to choose on in preference to other variable alternatives. Decision-making involves a choice of actions or strategies, the outcome of which may be known for certainty or completely unknown.

### 4.2.1 Finding on whether the management make good economic decision in the absence of financial statement

**Table 5: Management make good economic decision in the absence of financial statement**

	Frequency	Percent (%)
Strongly agree	40	50
Agree	10	13
Disagree	20	25
Strongly disagree	10	13
Total	80	100

**Sources: primary data**

Results in table 4.7 above indicate that 50% of the respondents strongly agreed that; management make good economic decision in the absence of financial statement. 13% agreed, 25% disagreed and 13% strongly disagreed. Majority of the respondents strongly agreed. This implies that the management make good economic decision in the absence of financial statement. They provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in decision making and evaluating decisions about the allocation of resources.

**Table 6: The financial reports available to management for decision making in Centenary rural development bank (CRDB) Entebbe branch Include:**

<b>DEBT</b>	<b>Frequency</b>	<b>Percentage</b>
Income statement	30	37.5
Income and Expenditure Account	09	11.3
Cash flow statements	07	8.8
Balance sheet	12	15
Directors report	20	25
Statement of accounting policies and explanatory notes.	02	2.5
Total	80	100

**Source: Primary Data, 2016**

As shown in table above, it revealed that most of the respondents accepted that the financial reports have contributed to income statement on the bank. 37.5% of the 30 respondents agreed, 11.3% that Income and Expenditure Account can help the bank in decision making. However the 15% balance sheet can help .n the decision making of the management of centenary bank to make financial reports. 25% viewed that Directors report provides information that is useful for decision making and to demonstrate accountability of the entity for the resources entrusted to it by providing information about resources, allocation and uses of financial resources.

### 4.3 Role of Financial Statement in Decision Making

**Table 7 Role of Financial Statement in Decision Making**

<b>ROLE</b>	<b>Frequency</b>	<b>Percent age</b>
Provides a valuable summary of the entities economic history	40	50
Provide appropriate information in a standardized format for the taking of financially based decisions	40	50
Total	80	100

**Source: Primary data, 2016**

As shown in the table above only 50% confirmed that financial statement as communications medium provides a valuable summary of the entities economic history. It is useful to establish the performance as well as the future potential of the entity.

The remaining 50% of the respondents confirmed that financial statement provides appropriate information in a standardized format for the taking of financially based decisions. This implies that the primary purpose of the accountant is to provide appropriate information in a standardized format for the taking of financially based decisions. For this purpose the financial statements generally follows a standardized structure.

The financial statements are a record of the activities but do not provide an evaluation of the data. Despite the important role of the financial statements they do not provide an evaluation of the accounting results. In order to be able to use the information contained in the various financial statements for financial decision-making, a number of measurements and evaluations needs to be made to the numbers. Only then will the information be useful as a tool for decision-making.

#### 4.3.1 Who are the users of financial reports prepared in Centenary rural development bank

Table: 8; Showing the users of financial reports prepared in Centenary rural development bank

Users of financial reports	Frequency	Percentage
Business owners	30	37.5
Investors	20	25
Suppliers	11	14
The government	09	11.3
Public	05	6.3
Employees	05	6.3
Total	80	100

Source; Primary Data, 2016

From the table above, 38% of the respondents shows how business owners to be one of the users of financial reports at centenary bank. This is because the business owners want to know exactly what they earn from what they have invested by observing the financial performance and the position of the firm. To the managers they were also interested in this financial report since they were the firm's decision makers. 25% said that Investors can also make the use of financial reports. This is because financial reports help investors to evaluate the risk and the return they expect from their investments or if they were interested to invest.

14% of the respondents remarks on Supplies. They believed that the suppliers are the people who were providing goods and service to the firm in terms of credit. Therefore they were interested in financial report in order to know the condition of the organization that they were providing temporal financial assistance in terms of goods and services, if they meet with their conditions.

Also, from the table, 6.3% of the respondent agrees that employees are one of the users of financial reports in the banking industry. This is because workers in the firm and they were supposed to be paid their salaries and wages and they were interested to know about their job security.

#### 4.4 Limitations of financial statement in decision making process

The respondent wanted to know whether there are limitations facing financial statement in decision making. The results are indicated in the table below;

**Table 9: showing Limitations of financial statement in decision making process**

Statement	Frequency	Percentages%
Loss of data	30	37.5
Lack of important information	20	25
Poor transactions during recording	15	18.7
Problem of simple entries	15	18.7
<b>Total</b>	<b>80</b>	<b>100</b>

**Source: Primary Data 2016**

From the table above, 37.5% of the respondent said that loss of data is one of the biggest challenges limiting financial statement in decision making process. 25% said that its lack of important information which limits decision making process. While 18.7% and 18.7% said its Poor transactions during recording and Problem of simple entries respectively.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter presents the summary of findings as discussed in previous chapters, conclusion, recommendations of the financial statement analysis and decision making process at centenary rural development bank in Kampala town Uganda

#### **5.1 summary of findings**

When conducting the study, the research questions and objectives were aimed at explaining the repercussion of decision making process and financial statement analysis.

The three major objectives of the study as shown in chapter one were, to determine whether management make use of financial statement in decision making, to find out and identify the role of financial statement in proper decision making, to identify the limitation pertaining to the use of financial statement in decision making..

The study was set to investigate the importance of financial statement in decision making process. Basing on this objective, the extent to which the management makes use of financial statement in decision making, the researcher found out that the respondents responded that the use of financial statement in decision making is fair and it constituted 48%.

Basing on the second objective of the study, management making good economic decision in the absence of financial statement, majority of the respondents strongly agreed rising to 50%. This implies that the management makes good economic decision in the absence of financial statement. They provide information about financial position, performance and cash flows of an entity that is useful to a wide range of users in decision making and evaluating decisions about the allocation of resources.

The limitations of financial statement in decision making process which is indicated as the third objective is of great importance to the respondents where by they wanted to know whether there are limitations facing financial statement in decision making. The respondent said that loss of data is one of the biggest challenges limiting financial statement in decision making and it constituted 37.5%, other limitations include, problem of simple entries, poor transactions during recording.

## **5.2 conclusions**

Despite the fact that the management can make good economic decision in the absence of financial statement, they provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in decision making and evaluating decisions about the allocation of resources. However, financial statement face a problem of loss of data, lack of important information, problem of simple entries, mentioned but a few. Hence to overcome all these, financial statement shouldn't be given an upper hand during decision making process.

## **5.3 Recommendations.**

According to the findings on this outcome, financial statement analysis helps decision making that is it provides investors a baseline of analysis and comparison between the financial health of security issuing institutions. Financial statement analysis helps creditors assess the solvency, liquidity and creditworthiness of business. It also helps organizations make business about how to allocate scarce resources.

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## APPNDICES

### APPENDIX 1: RESEARCH INSTRUMENTS

#### a) Research Questionnaires

Dear Sir/ Madam,

As a student pursuing Bachelor Degree in Economics and Applied Statistics, am carrying out a research on the topic 'The Effectiveness of financial statement in decision making process. The data obtained will be in critical analysis of the role played by financial report in making organizational economic decision; and will also identify problems and challenges if any, associated with financial reporting in the organization so that possible solutions can be suggested. Your response will be treated in confidentiality and will strictly be used for academic purposes

I hereby request that you answer them to the best of your knowledge.

Thank you in Advance.

#### PERSONAL DATA

##### ➤ Age

a) 18-26

☐

c) 36-45

☐

b) 27-35

☐

d) 46and above

☐

##### ➤ Sex

a) Male

☐

b) Female

☐

##### ➤ Marital status

a) Married

☐

b) single

☐

##### ➤ Department

Accounting

☐

Human resource

☐

Management

☐

Finance

☐

Logistics

☐

Sales and marketing

☐

## 2. MANAGEMENT USE OF FINANCIAL STATEMENT IN DECISION MAKING

i To what extent do management rely on financial statement for decision making?

- a) Very high [      ]
- b) Medium [      ]
- c) Low [      ]

ii. Can management make good economic decision in the absence of financial statement?

- a. Strongly agree [      ]      b. Agrees [      ]
- c. Disagrees [      ]      d. strongly disagrees [      ]

iii. The financial reports available to management for decision making in Centenary rural development bank (CRDB) Entebbe branch Include:

Put a tick

- a) Income statement [      ]
- b) Income and Expenditure Account [      ]
- c) Cash flow statements [      ]
- d) Balance sheet [      ]
- e) Directors report [      ]
- f) Statement of accounting policies and explanatory notes. [      ]

## 3. ROLE OF FINANCIAL STATEMENT IN DECISION MAKING

I. What role do financial statements play in decision making?

.....  
.....  
.....

ii. What are the contents of accounting records in your organization that can assist in decision making?

- a) Entries from day to day (money received and used ) [     ]
- b) A record of the assets and liabilities [     ]
- c) Capital net worth and net profit of the period. [     ]

Please, if there is others mention.....

.....

.....

iii. . Who are the users of financial reports prepared in Centenary rural development bank (CRDB)?

- a Owners [     ]
- b Investors [     ]
- c managers [     ]
- d Employees [     ]
- e The government [     ]
- f The public [     ]

#### 4. LIMITATIONS OF FINANCIAL STATEMENT IN DECISION MAKING PROCESS

i. What problems do you normally encounter during preparation of financial report?

- a) Loss of data
- b) Lack of important information
- c) Poor transaction figures during recording
- d) Problems of simple entry

Please, if there is others mention.....

.....

.....

.....

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

.....  
.....  
.....  
.....

iii. What are the factors that hinder the effective use of financial statement in decision making?

- a) lack of knowledge
- b) changes in accounting standard
- c) misinterpretation of financial statement

Please mention if there is any other.....

.....  
.....  
.....

iv. What is the maximum time that account records are kept available for inspection by officers of the company?

- a) A year [    ]
- b) A year to 5years [    ]
- c) 5years to 10years. [    ]
- d) More than 10years [    ]

v. How long does it take before a transaction is actually recorded in the books of accounts?

- a) Immediately [    ]
- b) 1-2 day [    ]
- c) 2- 3 days [    ]
- d) More than 3days [    ]

*“Thank you in advance for your corporation”*



## **b) Interview Guide**

The following questions will be asked in the interview as the researcher notes the answers

1. What is your position in Centenary rural development bank (CRDB)?
2. How often do you prepare financial statements?
3. What types of financial statements do you prepare?
4. Who is responsible for preparing the financial statements?
5. Can management make good economic decision in the absence of financial statement?
6. Does management depend entirely on financial statement for their decision making?
7. What are some of the problems that the bank faces in their preparation of financial statements?
8. What role does financial statement play in decision making process?
9. Who are the users of financial statements prepared by Centenary rural development bank (CRDB)?

## APPENDIX 2: RESEARCH BUDGET

	ITEMS	UShs
1	Traveling Expenses	120,000
2	Meals and Accommodation Expenses	180,000
3	Stationery	10,000
4	Printing	17,400
5	Binding	30,000
6	Internet surfing	25,000
	TOTAL	382,400

### APPENDIX 3: TIME FRAME

NO	ACTIVITY	MARCH 2016	APRIL 2016	MAY 2016	JUNE 2016	JULY 2016	AUGUST 2016
1	Topic identification						
2	Proposal writing						
3	Data collection and analysis						
4	Report writing						
5	Report correction and submission						

#### APPENDIX 4: RESEARCHER'S CURRICULUM VITAE

NAME : MUGISHA AMBROSE  
NATIONALITY : UGANDAN  
GENDER : MALE  
MARITAL STATUS : SINGLE  
ADDRESS : KANSANGA-KAMPALA  
TEL. NO : 0706402441  
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#### PROFILE

A self-driven and very hard working, currently done with a bachelor in Economics and Applied Statistics and waiting to graduate in November 2016. I have a passion for new learning experience, very analytical with particular attention to detail. I have the ability to display consideration and appropriate responsiveness to the need and capabilities of a group team work in varied situations while demonstrating tact, empathy, sensitive and respect in interaction with others.

#### EDUCATION BACKGROUND

YEAR	INSTITUTION	AWARD
2013 up to date	Kampala International University	Bachelor of Economics and Applied Statistics (BEAS)
2011-2012	Ishaka vocational secondary school	Uganda Advanced Certificate of Education (U.A.C.E)
2007-2010	St kaggwa bushenyi high school	Uganda Certificate o Education (U.C.E)
2000-2006	St kaggwa boarding primary school	Primary Leaving Examination (P.L.E)

#### WORKING EXPERIENCE

4<sup>th</sup> June 2015 to 28<sup>th</sup> July 2015      Internship at Bushenyi Ishaka municipal council

#### MAJOR RESPONSIBILITIES

Book keeping, record keeping, document execution after making payments.

Conducting research by collecting and analyzing data about child birth and mortality rates at bushenyi health center

### **MAJOR ACCOMPLISHMENT**

I up dated the population about the services, performance and also the services provided by the Ministry of Health through bushenyi Local Government in order to improve their health conditions.

Maintained proper book keeping, effective interpersonal communications among fellow workers and interns.

### **SKILLS ACQUIRED**

Computers skills, acquired myself with Microsoft excel filling and organization skills, analyzing data using SPSS, stata and Epi-data, typing skills as a result of mail business, team work and time keeping and timely accomplishment of task.

### **OTHER SKILLS**

Complaints handling and proper resolution, interaction skills as I was able to meet many people of different classes, book keeping, analysis and evaluation of data, interpretation of the results from data analysis, and confidentiality of organization information.

Ability to recognize and resolve issues promptly

Ability to work under pressure, without super vision for the better service delivery

Self discipline and strong work ethics.

High level of practical, technical and professional competence

### **LANGUAGE SPOKEN**

Language	Listening	Reading	Speaking	Writing
English	Excellent	Excellent	Fluent	Excellent
Lunyakole	Excellent	Excellent	Fluent	Good
Luganda	Excellent	Good	Fluent	Good

## **REFEREES**

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