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FINANCIAL STATEMENT ANALYSIS AND INVESTMENT DECISIONS: AN EMPIRICAL ANALYSIS.

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Keywords: *FSA, ratio analysis, trend analysis, horizontal analysis, vertical analysis, investment decisions*

Abstract: *Financial statement analysis (FSA) is seen as a tool at the disposal of both individual and corporate investors. Hence this study assessed the influence of FSA on investment decisions. The survey research was used and the population includes financial analysts, accountants, financial managers, managing directors and CEOs, shareholders, and stockbrokers. Purposive sampling was adopted in selecting 20 respondents from each of the categories listed above, hence study sample is 120. The questionnaire was the instrument the study used for data gathering. The data were analyzed using the PPMC and linear regression. The results showed correlation values of 0.796, 0.917, 0.810, and 0.778 and p-value of 0.000 across board, meaning that ratio, trend, horizontal, and vertical analyses of the financial statement have positive significant influence on investment decisions. The linear regression analysis posted r^2 value of 0.939 and p-value of 0.000 meaning that the combination of ratio, trend, horizontal, and vertical analyses has significant influence on investment decisions. The study then recommends that investors focus on key ratios to make informed decisions; financial advisors should encourage investors to focus on both revenue and expense trends to forecast future earnings potential; companies and investors use horizontal analysis to compare changes in financial statements over time, examining fluctuations in revenues, costs, and profitability; vertical analysis be used to assess the proportion of different elements of a financial statement relative to a key figures; and various methods of financial statement analysis should be combined before investment decisions are taken. In conclusion, financial statement analysis has strong significant influence on investment decisions.*

1.1 Introduction

Financial statement analysis (FSA) is a tool that is crucial in the evaluation of the health of a company financially, guiding both internal and external stakeholders in making informed decisions. By examining key metrics and ratios, financial statement analysis provides insights that guide informed investment decisions. FSA is

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seen as a process that reviews and evaluates financial reports of business concerns, specifically the key documents (Financial statements). By analyzing key financial documents, investors gain insights into the reporting organization's operational efficiency, profitability, solvency, and liquidity. Investors rely on this analysis to understand a firm's performance and make sound investment decisions. The company's performance, financial health, and potential for future growth are predicted by the investor by analyzing the financial statements. Furthermore, the financial information derived from financial statement will as well aid in the economic activities, investment, and financing decision-making process. The financial information of an enterprise required for making the decision is contained in the financial statements. In business, financial information helps its users predict the amount, time and inevitability of cash flows for making decisions (Berthilde & Rusibana, 2020). Making such decisions are valuable choices and are important to the value of the firm since a firm tends to determine its value size by influencing its growth, profitability index and stability. This comprehensive understanding enables more accurate risk assessments and helps ensure better returns on investment (Brigham & Houston, 2019). This process is crucial for both short-term traders and long-term investors as it reveals the underlying drivers of profitability and risk. Financial information analysts desire to analyze and evaluate firms earning capability makes future projections and make comparisons (Olayinka, 2022).

Studies on financial statement analysis and decision making has been widely studied by various researchers such as Olayinka (2022), Abdulshakour (2020), Anwar (2020), Sanyaolu et al. (2020), and Kaddumi (2017). Kawugana, et al. (2019) concludes by saying that financial statement plays a vital role in investment decision making. Dabash and Khamili (2017) study indicated that financial statements are of great importance in making investment decisions. Omodero (2019) debated that, the most important financial information needed in the process of investment decision comes from financial statements. Berthilde and Rusibana (2020) found positive relationship between investment decision and ratio analysis. Olayinka (2022) study concludes that financial statement analysis is adequate for effective decision making while Sanyaolu (2020) found a negative relationship between ratio analysis and Investment decision. This means that studies have shown conflicting results.

This study therefore sought to find out the influence financial statement analysis on investment decisions using various categories of investment decision makers.

1.2 Statement of the Problem

Generally, investors and stakeholders face the challenge of determining the true value of a company and its potential for future profitability. Financial statements are often complex, and without proper analysis, it is difficult to make

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accurate investment decisions which have led to many misguided investment decisions. Moreover, financial data can sometimes be misleading or incomplete, leading to poor investment choices. Investors often face difficulties interpreting complex financial data, leading to misguided investment decisions. FSA is a crucial process for understanding a business enterprise's financial strengths and weaknesses, but many investors struggle to fully leverage this information. The lack of a structured approach to financial analysis, combined with insufficient financial literacy, often leads to suboptimal investment decisions. This study seeks to address these challenges by examining how FSA aids in making more informed investment decisions. This highlights the need for a systematic approach to financial statement analysis that can help mitigate risks and identify opportunities.

1.3 Research Hypotheses

Ho_1: Ratio analysis has no significant influence on investment decisions.

Ho_2: Trend analysis has no significant influence on term investment decisions.

Ho_3: Horizontal analysis has no significant influence on term investment decisions.

Ho_4: Vertical analysis has no significant influence on term investment decisions.

Ho_5: Combination of ratio, trend, horizontal, and vertical analyses has no significant influence on investment decisions

2. 1 Conceptual Framework

2.1.1 Concept of Financial Statement Analysis

Ige and Adewumi (2020) posit that the financial statement is a key component in determining a firm's profitability, as it provides interested parties—both internal and external to the company—with a concise and accurate understanding of the firm's financial status and profitability index. A financial statement offers a concise overview of the company's financial activities for the twelve-month accounting period after the end of the fiscal year. It is a summary report of the firm's financial transactions, status, and accounting methods. It is a formal record of the financial actions/activities and position of a business, individual, or other entity. Financial statements (FSs), according to Auwalu and Ibrahim (2017), give investors, regulators, financial analysts, and other users in the process of making economic decisions information about the financial position, performance, and changes of a business in a standardized and accurate manner. The financial statements are a public source of information, and their content, structure, presentation, and approval are all subject to basic rules in order to give consumers access to detailed, timely, accurate, and trustworthy information (Suryanta & Thalassions). The statements include the cash flow of an entity, the statement of a firm's financial position at the same time, and the statement of profit or loss for the covered period. An institution's financial activity can be adequately reported through its financial statements. According to Olayinka (2022), the main objectives of the Financial Statements are to provide the general public with the necessary financial information about the

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company; produce information that is helpful in the process of making financial decisions; reveal the company's profitability, stability, solvency, and other financial details; and assist in assessing the effectiveness of management and the financial health of the company.

Analysis of financial statements is helpful in a lot of ways. For example, financial statement analysis data helps investors make well-informed decisions about the potential and viability of their investments; users of financial statements can learn more about the strengths and weaknesses of a company's finances if they properly analyze the information reported in these statements (Kawugana, et al., 2019); it helps investors assess risk exposure, evaluate profitability, and gauge the company's financial health; it also helps identify cost inefficiencies, ensures optimal cash flow management, and helps determine the viability of capital projects. In line with the viewpoint of economic and information systems, which provide a comprehensive overview of the activity of the economic unit and whose output is financial statements, Abdulshakour (2020) asserts that the financial statements are a reflection of the economic institution's activity. The process of examining and assessing a company's financial statements to learn more about its general health, solvency, liquidity, and financial performance is known as financial statement analysis. It entails examining the connections between the financial position and income statement accounts, how these connections evolve over time, and how a certain company stacks up against other businesses in the same sector. In order to assess performance and project possibilities and risk in the future, it is a process that looks at both historical and present financial data (Olayinka, 2022). Financial statement analysis is the process of analyzing financial data using a variety of instruments and approaches in order to assess the performance and future prospects of a business. The main goal is to determine the company's profitability, liquidity, and solvency using a variety of instruments and approaches, including as ratio analysis, trend analysis, and comparative analysis (Kimmel, et al., 2018).

i. Evaluate profitability: Ascertain whether a business is making enough money from its activities. Evaluates the profitability of the business in relation to its costs and other outlays. The return on equity (ROE) and net profit margin are important ratios (Robinson et al., 2020).

ii. Assess liquidity: Determine if the business can pay its short-term debts (obligations). Uses ratios like the current ratio and quick ratio to assess a company's capacity to pay short-term obligations (Bodie, et al, 2018).

iii. Assess solvency. Assess if the company is able to cover its long-term debts. Examines a company's capacity to pay off debt over the long run; this capacity is generally measured using the interest coverage ratio and debt-to-equity ratio (Brigham & Houston, 2019).

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iv. Examine efficiency to see how well a business employs its resources. Employs indicators like inventory turnover and asset turnover ratios to analyze how well a business uses its assets to produce or generate sales (Kimmel, et al., 2018).

v. Market Valuation. Reflects how the market perceives a company's value using ratios like the price-to-earnings (P/E) ratio and market-to-book ratio (Robinson et al., 2020).

2.1.2 Dimensions of Financial Statement Analysis (FSA)

FSA is the process of analyzing financial data using a variety of instruments and approaches in order to assess the performance and future prospects of a business. Analysis of financial statements is still a suitable framework for managing corporate operations for stakeholders such as directors, shareholders, and management. It is critical to understand strategies, tactics, and procedures for in-depth financial statement analysis. Analysts employ a number of strategies to get a reasonable picture of a company's long-term financial performance. Ratio, trend, horizontal and vertical analysis are financial analysis techniques are most frequently used practiced methods.

Ratio Analysis Concept

In order to perform this analysis, particular elements on financial statements are compared in order to calculate various financial ratios. Quantitative measures such as debt-to-equity, profitability, leverage, and liquidity ratios provide comprehensive understanding of a business's financial health. One method that helps organizations comprehend their financial state in detail is financial ratio analysis. When assessing the prior administration's execution in terms of liquidity, influence or equipping, efficacy, productivity, and value, ratio analysis might be helpful (Adesoye & Sanusi, 2022). This can give an organization a space to emphasize its opportunities, threats, and areas of strength and weakness. The financial ratio analysis method allows for the display of all of the firm's operational scenarios. Ratio analysis may also identify risk signs. Ratio analysis can address the what, when, who, which, why, and how of a company's resource allocation.

Concept of Trend Analysis

One of the study methods used by investors to determine their next move is trend analysis. This type of research looks at how financial data has changed over time to help spot trends and possible adjustments. Based on past data, this kind of analysis helps forecast future financial performance. This financial analysis technique is comparable to horizontal analysis. We compare and examine the financial accounts for three or more years using this strategy as well. The earliest year is designated as the base year in trend analysis. The goal is to look for any pattern in the financial data. These patterns could include any seasonal trend, increasing or decreasing sales, changes in spending, and more. Ratios can also be used by an analyst to spot any trends in the financial data.

Concept of Horizontal Analysis

The goal of horizontal analysis is to track variations in financial statements over time. This type of model's main goal is to identify and

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comprehend patterns (Ige and Aduwumi, 2020). Analysts use horizontal analysis to contrast the financial data (information) from one period with those from prior years. Here, analysts contrast/compare a line item with the same line item from a different time frame (quarter or year). This kind entails analyzing financial data from several time periods to find patterns and modifications in crucial line items. Changes can be found in sales, expenses, and other financial data over time by delving into horizontal analysis. The goal of horizontal analysis is to track variations in financial statements throughout/over time. That is, finding any meaningful change in any line item is the goal.

Concept of Vertical Analysis

When analyzing financial statements, vertical analysis remains a technique, method, and an approach. The analysis's main focus is the structure of the financial statements. Every line item in the financial statement is calculated in the vertical analysis as a percentage of other notable items, and this method allows for the visualization of the organization's value. The main goal of the analysis is to determine the percentage of a base item that each line item on financial statements represents. This technique among other things gives firm financial stability snapshot. This technique provides insights in respect of the relative share of diverse components in the same period, helping to pinpoint significance areas. Possible (potential) investors rely also on this method in taking investment decision, yet if a company fails to present her real condition in financial statement, investors can be misled (Sanyaolu, et al 2020).

In this method, calculation is made on every line item as a percentage of revenue (turnover) in the statement of comprehensive income and every line item is shown in proportion to total assets on the statement of financial position. Investors can evaluate them with previous years to spot any abnormal occurrences or activities after ratios have been calculated

2.1.3 Concept of Investment Decisions

Making decision is not the primary goal of every financial or venture activity, the decision is an option from a set of alternatives identified (Olayinka, 2022). Investment is allocating resources, like money, effort, and time on asset or venture and expecting that in future revenue and profit will be generated. A decision is a choice made after considering various alternatives and their potential outcomes. An investment decision is a choice made by an individual or organization to allocate resources into specific investment opportunities. Such investment opportunities can be real estate, bonds, stocks or any business ventures, based on thorough analysis and assessment of potential risks and rewards. Investment decisions involve selecting the best financial opportunities that will yield high returns while minimizing risk. These decisions are often based on data extracted from financial statements and require deep or detail understanding of financial ratios, company performance, and market trends. The investment decisions are greatly enhanced by critically analyzing the financial statements. Omodero (2019) argued that most financial information that are needed and vital in

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investment decision process are from financial statements.

The following rules should guide stakeholders in their investment decision:

i. Shareholders' wealth should be maximized in the decision.

ii. All cash flows should be considered in determining the project's true profitability.

iii. It should offer a clear, objective method for differentiating between good and bad projects.

iv. It should assist in projects ranking based on their actual/true profitability

v. It must acknowledge that larger cash flows are better and preferred than smaller ones, and that cash flows that are early are better and more preferred than later ones.

vi. It should aid assist in selecting among projects that are mutually exclusive and maximises owners' wealth.

vii. It should be a condition applicable to whichever investment project conceivably independent of others.

There are factors that influence investment decisions. They factors may be based on personal preferences, organizational objectives, economic conditions, and the market trends (Bhatia, 2023). They are considered as key factors that are common and they are tolerance in terms of risk, diversification, return on investment, liquidity, market conditions, and time horizons.

One is risk tolerance: An individual's comfort level with the uncertainty of future losses is referred to as their risk tolerance. One's risk tolerance is determined by factors that impact decision-making, including their financial status, aspirations, and psychological makeup (Bhatia, 2023). While risk-averse people prioritize safer options to minimize potential losses, those with a higher risk tolerance may select assets with bigger potential returns but also more volatility.

Two is return on investment (ROI). The kinds of investment decisions are heavily influenced by (ROI) (Bhatia, 2023). Investors choose investments that have attractive prospective returns relative to the degree of risk involved by weighing the potential return against the accompanying risk level involved. This appraisal is a significant determinant driving the selection of various investment possibilities. Although ROI is a metric that is critical, it is crucial to comprehend the distinction between ROI and return on assets in order to gain a comprehensive understanding of the profitability of an investment (Bhatia, 2023).

Three is the investor's time horizon, the length of time an investor is willing to hold an investment, or their time horizon, has a big influence on their decisions. While a shorter time horizon demands more cautious and conservative choices, a longer time horizon permits aggressive and ambitious growth plans. Long-term investors are able to withstand brief market swings and pursue larger returns by making growth investments (Bhatia, 2023). On the other hand, people with shorter time horizons value capital preservation more and might choose stable investments that meet their short-term demands.

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Four is market conditions. Investment decisions are heavily influenced by market conditions, which include inflation, interest rates, economic indicators, and general market trends. While economic downturns and higher interest rates can lead to cautious attitudes and a preference for more assets that are stable, positive economic outlooks, lower rates of interest and manageable inflation frequently drive risk-taking and investment in growth assets (Bhatia, 2023). Investors evaluate these factors in order to match their decisions with the current state of the economy. Their goal is to maximize returns while controlling risks according to the anticipated direction of the market. ***Five*** is diversification, the act of spreading investments among several asset classes or sectors in order to lower risk. Gains in other areas can balance out possible losses from underwhelming success in one by spreading resources across other investments. The goal of this strategy is to build a well-balanced portfolio that can withstand market volatility. By reducing the effect of a single investment's volatility on the portfolio as a whole, diversification increases the probability of consistent, long-term returns. ***Six*** is liquidity needs which dictates investor's rapid access to funds. Those in need of immediate or quick cash frequently prefer liquid assets that allow for quick withdrawals such as cash equivalents. On the other hand, investors with longer-term objectives could select less liquid assets, like real estate, which take longer to sell. Balancing liquidity demands or needs is vital as too much liquidity may hamper prospective returns, while too little could hinder timely financial obligations.

2.2. Theoretical Review

Efficient Market Hypothesis (EMH)

It was introduced by Eugene Fama and it posits that asset prices reflect fully all information available, making it not possible to outperform the market consistently via active trading strategies. This theory emphasizes that investors should focus on long-term investments, as short-term market movements are difficult to predict and often irrelevant for long-term profitability (Fama, 1970).

Modern Portfolio Theory (MPT)

Harry Markowitz developed the MPT. The theory provides a kind of framework for the construction of optimal portfolio by ensuring balance between risk and return. The theory emphasizes diversification to minimize risk, suggesting that a portfolio well-diversified can achieve better or improve returns without increasing risk disproportionately. This theory remains fundamental in investment decision-making (Markowitz, 1952).

2.3. Empirical Review

The goal of *Edori and Egileoniso (2024)* study is to find out stockbrokers' and investors' opinions on how financial performance affects investing decisions. Questionnaires were used to apply the survey design and collect data. One hundred and seventy-two (172) respondents were chosen using the non-probability method known as the purposive sampling methodology and data analysed with Pearson correlation. According to the study's findings, ROI, ROE, ROA, and NPM all significantly affect investment decisions and positive correlation with it. Using investment,

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financing, and dividend decisions as dimensions of financial management practices, *Edori and Egwanwor (2024)* critically assessed the impact of financial management practices on corporate performance-e in business organizations. Convenience sampling was employed in conjunction with the survey design to select 170 respondents from the manufacturing, financial, oil and gas, and MSMEs sectors. A questionnaire with a four-point Likert scale was employed. The PPMC and the multiple regression analysis served as instruments for inferential analysis. The result for all variables indicated that choices on finance, investments, and dividends had a big influence on how well a business performs. The R Square (R^2) for the combined predictor variables (investment, financing, and dividend decisions) showed significant influence as confirmed by the ANOVA results. Specifically, *Sarah and Athanase (2023)* evaluate various ratios analysis effect investment decision-making in Rwanda listed companies. The multiple regression analyses used in analyzing the data from returned questionnaires showed positive significant though with various degrees of correlation based on the various dimensions of the class of ratio. *Olayinka (2022)* used data from Nestlé Nigeria Plc annual report to ascertain the adequacy of financial statement analysis for decision making that is effective and found that FSA is sufficient for making effective decision. *Adesoye and Sanusi (2022)* using Nigerian banks sought to investigate the impact of ratio analysis on investment decisions. Using 10 banks financial statements records 2016 to 2020 made analysis via multiple regression found significant impact. *Ebe et al. (2021)* study on Nigerian commercial banks, specifically focusing on independent variables (GPM, NPM, DPS and EPS) and ROA (firm performance proxies). Using an ex-post facto research design, panel least square regression analysis was employed on data from five of the most capitalized banks between 2010 and 2020. The findings indicated a non-significant negative association between the independent variables and return on assets. *Situ and Omilabu (2021)* using federal universities in Nigeria assessed the quality financial reporting by applying Benford's Law to the 2017-2019 audited financial statements of Federal University of Agriculture (FUA), Abeokuta. The study used this unique approach to determine whether the university's financial data were consistent and reliable. The results showed no significant divergence from Benford's Law, indicating high quality and reliability of the financial statements. *Abdulshakour (2020)* did a study on institutions in Saudi Arabia exploring focusing on contribution of financial statements on decision accuracy under the Kingdom's Vision 2030. Utilizing a descriptive and analytical approach, data were gathered through questionnaires targeting financial decision-makers. Indication from the result is that accurate financial statements are crucial for making reliable decision, while inaccuracies reduce investor trust, underscoring the importance of transparency in financial reporting. *Anwar (2020)* investigated how SMEs investment decisions are influence by financial statement Using a quantitative research design and data from questionnaires, discovered a relationship that is positive. Also, the role level of education played was significant role, with more educated owners more likely to rely on financial statements for investment decisions. *Sanyaolu, et al. (2020)* based their study on Nigerian

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deposit money banks. Their findings showed an indication of positive as well as significant effect of profitability on investment decisions, though absence of significant and positive effect was shown in financial leverage and liquidity. *Bamidele et al. (2018)* explored the relationship existing between quality of financial reporting quality and decisions regarding investment in Nigerian deposit money banks. Study reports profitability to have both significant and positive effect on decisions of investment, and emphasised the centrality of high-quality financial reporting in influencing investor choices. *Kaddumi (2017)* study geographical focus Amman, looking at ratios (financial) and making decisions relating to investment in industrial companies. The study revealed that profitability indicators had a significant positive impact on investment decisions, while credit and asset utilization indicators had a negative effect. Other financial ratios showed no significant impact, highlighting the function of profitability in driving decisions on investment. *Dabash and Khamili (2017)* examination in Algeria stock exchange using descriptive and analytical methods with data from questionnaires targeting 85 investors found FSs to be critical in taking investment decision because of the result was significant. *Peltoniemi (2017)* did a study FSA and ID (investment decision) in) in Cameroon's microfinance institutions. The study used a descriptive approach and personal interviews with 60 financial department employees. Findings showed that while most employees understood the importance of financial statement analysis, few institutions utilized it effectively in decision-making, indicating a gap in practical application. *Sajid et al. (2016)* analyzed the impact of financial gearing on investment decisions in listed firms in Pakistan. Using data from financial statements between 2009 and 2013, the study found financial leverage (FL) negatively but significantly affected investment decisions. This suggested that higher debt levels deter investors due to the associated risks and the fixed charges against earnings. *Ahlam (2016)* investigation in Southern Mills Corporation in Sudan on FSA importance on decision making, used a case study and descriptive approach, results confirmed the importance of FSA in facilitating appropriate financial decisions and improving institutional performance. Islam and Kundu (2016) explored the role of investment in tertiary education in sustainable development in low-income countries. The study, employing a descriptive approach, focused on the challenges posed by globalization and the need for government investment in education to raise human capital to global standards. The findings underscored the importance of tertiary education for long-term economic growth, despite financial constraints.

2.4 Relationship between Financial Statement Analysis and Investment Decisions

According to empirical data, financial statement information is a major factor in a potential investor's choice to invest (Birt et al., 2020). Profit, cash flow, and assets are all included in financial information, and they are all available in the financial statement (Ige & Adewumi, 2020). It is arguable that when returns on investments rise, investors' value may also rise, which may attract new investors to an organization due to steady returns on investments. Therefore, financial statements are crucial for making investment decisions (Al-

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Hadrami, et al, 2020). However, if an investor wants to be able to read and understand financial statements, financial statement analysis (FSA) can be a very useful tool (Mrema, 2024). Conteh and Akuntansi's (2021) study looked at the analysis of financial accounts and the process of making investment decisions. They discovered that analyzing financial statements is essential while making investing decisions. Ratio analysis and investment decisions were discovered to be positively correlated by Berthilde and Rusibana (2020). According to Olayinka's (2022) research, financial statement analysis is sufficient for making wise decisions. On the other hand, Sanyaolu (2020) discovered a negative correlation between investment decision and value and ratio analysis.

3. Methodology

Egwanwor and Edori (2024) elucidates that research methodology must be very comprehensive, reproducible, and clear as it will ensure that the results revealed by the study are understandable and also dependable for the reviewers, readers, and researchers. Research design as defined by Edori and Edori (2022) is a framework that is "conceptualized within which social phenomena investigations are performed". The study employed the survey design. It is referred to as a method of design in which a researcher asks the question to different persons referred to as respondents. Kiabel (2020) defined it as a fact collecting journey, utilizing the pattern that is most appropriate in gathering information that are first-hand from respondents through questionnaire and interviews. The study population includes all individuals that analyses financial statements and takes investment decisions. This includes financial analysts, accountants, financial managers, Managing Directors and Chief Executive officers, shareholders, and stockbrokers. The study therefore used the purposive sampling methods to select 20 respondents from each of the categories listed above, hence making the study sample 120. The questionnaire was the instrument the study used for data gathering. The five Likert-scale questionnaire of Very Large Extent (VLE), Large Extent (LarE), Moderate Extent (ME), Low Extent (LowE), and No or Very Low Extent (N/VLE), with Likert Scale values of 5,4,3,2, and 1 respectively. The questionnaire is designed to gather insights on how individuals or organizations apply various types of financial statement analysis in the context of investment decisions. The data were analysed using the PPMC for hypotheses 1-4 and linear regression method for hypothesis 5.

4. Data Presentation and Analysis

4.1 Data Presentation

Table 1: Number of Respondents, Percentage, and Value

Variable	VLE (5)			LarE (4)			ME (3)			LowE (2)			N/VLE (1)			Total
	NOR	%	Val	NOR	%	Val	NOR	%	Val.	NOR	%	Val	NOR	%	Val	
Ratio Analysis																
1	41	34.2	205	62	51.7	248	11	9.17	33	4	3.33	8	2	1.67	2	120
2	37	30.8	185	71	59.2	284	9	7.5	27	2	1.67	4	1	0.83	1	120
3	72	60	360	48	40	192	0	0	0	0	0	0	0	0	0	120
4	30	25	150	66	55	264	21	17.5	63	3	2.5	6	0	0	0	120
Trend Analysis																

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5	51	42.5	255	69	57.5	276	0	0	0	0	0	0	0	0	0	120
6	65	54.2	325	53	44.2	212	2	1.67	6	0	0	0	0	0	0	120
7	33	27.5	165	77	64.2	308	10	8.33	30	0	0	0	0	0	0	120
8	70	58.3	350	49	40.8	196	1	0.83	3	0	0	0	0	0	0	120
Horizontal Analysis																
9	19	15.8	95	61	50.8	244	15	12.5	45	17	14.2	34	8	6.67	8	120
10	47	39.2	235	68	56.7	272	5	4.17	15	0	0	0	0	0	0	120
11	59	49.2	295	61	50.8	244	0	0	0	0	0	0	0	0	0	120
12	57	47.5	285	62	51.7	248	1	0.83	3	0	0	0	0	0	0	120
Vertical Analysis																
13	34	28.3	170	68	56.7	272	8	6.67	24	6	5	12	4	3.33	4	120
14	29	24.2	145	72	60	288	16	13.3	48	2	1.67	4	1	0.83	1	120
15	31	25.8	155	73	60.8	292	15	12.5	45	1	0.83	2	0	0	0	120
16	47	39.2	235	64	53.3	256	9	7.5	27	0	0	0	0	0	0	120
Investment Decision																
17	81	67.5	405	38	31.7	152	1	0.83	3	0	0	0	0	0	0	120
18	78	65	390	42	35	168	0	0	0	0	0	0	0	0	0	120
19	52	43.3	260	68	56.7	272	0	0	0	0	0	0	0	0	0	120
20	63	52.5	315	57	47.5	228	0	0	0	0	0	0	0	0	0	120

Authors Computation

Table 2: Value for Data Analysis

Ratio Analysis	Trend Analysis	Horizontal Analysis	Vertical Analysis	Investment Decision
205	225	95	170	405
248	276	244	272	152
33	0	45	24	3
8	0	34	12	0
2	0	8	4	0
185	325	235	145	390
284	212	272	288	168
27	6	15	48	0
4	0	0	4	0
1	0	0	1	0
360	165	295	155	260
192	308	244	292	272
0	30	0	45	0
0	0	0	2	0
0	0	0	0	0
150	350	285	235	315
264	196	248	256	228
63	3	3	27	0
6	0	0	0	0
0	0	0	0	0

Authors' Computation

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4.2 Data Analyses

The PPMC

The Pearson correlation coefficient (PPC) measures the linear relationship in terms of strength and direction variables, normally two. The value of the relationship ranges from -1 to 1. 1 means a perfect positive correlation (increase in one variable means proportional increase in the other). -1 means perfect negative correlation (increase in one variable result in a proportional decrease in the other). 0 coefficient means absence of linear relationship between variables.

The p-value (denoted as Sig. 2-tailed) tests the null hypothesis. A small p-value that is usually below 0.05 indicates evidence that is strong against formulated null hypothesis, suggesting a relationship between variables that is significant.

Ho_1: Ratio analysis (RA) has no significant influence on investment decisions (ID).

Correlations

		Ratio Analysis (RA)	Investment Decisions (ID)
Ratio Analysis (RA)	Pearson Correlation	1	.796**
	Sig. (2-tailed)		.000
	N	20	20
Investment Decisions (ID)	Pearson Correlation	.796**	1
	Sig. (2-tailed)	.000	
	N	20	20

**. Correlation is significant at the 0.05 level (2-tailed).

The correlation between Ratio Analysis (RA) and Investment Decisions (ID) is 0.796. This means a strong positive correlation (SPC) between RA and ID. In other words, as the effectiveness or application of ratio analysis increases, there tends to be a significant positive effect (SPE) on ID. This implies that firms relying on comprehensive ratio analysis are likely to take more investment decisions that are effective.

The p-value of 0.000 on RA and ID relationship is far below the threshold of 0.05, meaning a high significant correlation. Hence, the likelihood that this strong positive correlation is due to random chance is extremely low, confirming RA and ID significant relationship. Therefore, the null hypothesis was rejected.

The correlation analysis indicates a strong and significant positive influence of RA on ID. This suggests that businesses and investors that emphasize ratio analysis in their financial reviews have a tendency making more effective investment decisions. The high significance level (p = 0.000) provides strong evidence that this influence is unlikely due to chance, reinforcing ratio analysis importance as a strategic tool in financial management.

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Ho_2: Trend analysis has no significant influence on term investment decisions.

Correlations

		Trend Analysis (TA)	Investment Decisions (ID)
Trend Analysis (TA)	Pearson Correlation	1	.917**
	Sig. (2-tailed)		.000
	N	20	20
Investment Decisions (ID)	Pearson Correlation	.917**	1
	Sig. (2-tailed)	.000	
	N	20	20

**. Correlation is significant at the 0.05 level (2-tailed).

TA and ID correlation showed 0.917, signifying existence of a very strong correlation that is positive between them. That is to say, as the effectiveness or application of trend analysis increases, there effective investment decision also increases hence a positive influence. This implies that firms relying on comprehensive trend analysis will possibly make better informed investment decisions that are effective.

The 0.000 p-value for TA and ID is below the threshold of 0.05 meaning a high significant correlation is highly significant. Hence, the likelihood that this very strong positive correlation is due to random chance is extremely low, confirming a significant relationship between TA and ID. Therefore, the null hypothesis was rejected.

The correlation analysis indicates a very strong and significant positive influence of Trend Analysis on Investment Decisions. This suggests that businesses and investors that emphasize trend analysis in their financial reviews have a propensity to make better and effective investment decisions. The significance level is high (P = 0.000), provides strong evidence that this influence is unlikely due to chance, reinforcing the importance of trend analysis (TA) as a instrument that is strategic in financial management. Therefore, the null hypothesis of no significant influence was rejected.

Ho_3: Horizontal analysis has no significant influence on term investment decisions.

Correlations

		Horizontal Analysis (HA)	Investment Decisions (ID)
Horizontal Analysis (HA)	Pearson Correlation	1	.810**
	Sig. (2-tailed)		.000
	N	20	20
Investment Decisions (ID)	Pearson Correlation	.810**	1
	Sig. (2-tailed)	.000	
	N	20	20

**. Correlation is significant at the 0.05 level (2-tailed).

The correlation between Horizontal Analysis (HA) and Investment Decisions (ID) is 0.810. This suggests the existence of very strong correlation that is positive between Horizontal Analysis and Investment Decisions. This means that as HA increases effectively, it influences influence ID

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significantly and positively. The 0.000p-value is far below the 0.05 threshold. This means the correlation is highly significant. Hence, the likelihood that this very strong positive correlation is due to random chance is extremely low, confirming HA and ID significant relationship. The null hypothesis of no significant influence was not accepted but rejected.

Ho_4: Vertical analysis has no significant influence on term investment decisions.

Correlations

		Vertical Analysis (VA)	Investment Decisions (ID)
Vertical Analysis (VA)	Pearson Correlation	1	.778**
	Sig. (2-tailed)		.000
	N	20	20
Investment Decisions (ID)	Pearson Correlation	.778**	1
	Sig. (2-tailed)	.000	
	N	20	20

**. Correlation is significant at the 0.05 level (2-tailed).

Vertical Analysis (VA) and Investment Decisions (ID) correlation showed 0.778 suggesting a strong positive correlation. This means that as vertical analysis increases effectively, investment decisions will increase also hence demonstrating significant positive influence. P-value of 0.000 is far below 0.05 which is the threshold, meaning a correlation that is highly significant. Hence, the likelihood that this strong positive correlation is due to random chance is extremely low, confirming VA and ID significant relationship. Therefore, the rejection of the null hypothesis of no significant influence.

Ho_5: Combination of ratio, trend, horizontal, and vertical financial statements analyses has no influence that is significant on investment decisions

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.969[a]	.939	.923	41.30607

a. Predictors: (Constant), RA, TA, HA, VA

The correlation coefficient, R, is 0.969: which indicates the strength of the influence of the RA, TA, HA, and VA on Investment Decisions. 0.969 R value suggests a very strong positive correlation between the predictors and the investment decisions. The R Square (r^2) is 0.939. This value shows that 93.9% of the difference in Investment Decisions can be explained by RA, TA, HA, and VA. This indicates a high level of predictive accuracy.

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ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	394199.681	4	98549.920	57.760	.000[b]
	Residual	25592.869	15	1706.191		
	Total	419792.550	19			

a. Dependent Variable: Investment Decisions
b. Predictors: (Constant), Vertical Analysis, Ratio Analysis, Trend Analysis, Horizontal Analysis

A p-value of 0.000 confirms that the overall model is significant, meaning that the combined predictors (RA, TA, HA, and VA) have a significant influence ID. These tools, when used collectively, offer a complete evaluation of financial health of a company, aiding investors (existing and potential) in making well-informed decisions.

5. Summary, Conclusion and Recommendations

5.1 Summary

The result of the analysis showed RA, TA, HA, and VA have significant strong correlation and influence on investment decisions with Pearson correlation values of 0.796, 0.917, 0.810, and 0.778 respectively, and a P-value of 0.000 for hypotheses 1-4. Also, the combined R^2 0.939 and P-value of 0.000 was shown in the regression analysis. This means that the combination of ratio, trend, horizontal, and vertical analyses has influence classified as significant on investment decisions. In summary, there is summarized the finding as follows:

i. Ratio analysis has influence that is significant on investment decisions.
ii. Trend analysis has an influence that is significant on investment decisions.
iii. Horizontal analysis also has an influence that is significant on investment decisions.
iv. Vertical analysis has influence seen to be significant on investment decisions.
v. Combination of ratio, trend, horizontal, and vertical analyses has significant influence on investment decisions

5.2 Conclusions

The study was on financial statement analysis (FSA) influence on investment decision (ID). To achieve the purpose, five hypotheses were tested. The results revealed strong significant influence of the dimensions of FSA on ID. Therefore, the conclusion of the study is that FSA influence on ID is significant and the correlation between them is positive.

5.3 Recommendations

Recommendations made by the study are:

i. Financial analysts should standardize and simplify the interpretation of ratios to ensure uniform understanding among investors. It is recommended that investors focus on key ratios such ROE, ROA, EPS, and liquidity ratios (current ratio) to make informed decisions.

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Moreover, regular training and workshops should be conducted to enhance investors' ability to analyze financial ratios effectively.

ii. Financial advisors should encourage investors to focus on both revenue and expense trends to predict future earnings potential. Analyzing patterns in financial performance over several years can provide the needed understanding into a company's growth trajectory, stability, and potential performance in the future.

iii. Companies and investors use horizontal analysis to compare changes in financial statements over time, examining fluctuations in revenues, costs, and profitability. By identifying year-over-year changes in key financial line items, investors can assess the consistency of a company's financial growth or detect early warning signs of financial decline, enabling better investment decisions.

iv. Vertical analysis should be used to assess the proportion of different elements of a financial statement relative to a key figure, such as total assets or revenue. This can help investors understand how efficiently resources are being utilized within a company. Investors should apply vertical analysis to evaluate cost structure, assess profitability, and compare companies within the same industry for investment decisions.

v. Various methods of financial statement analysis should be combined before investment decisions are taken.

5.4 Practical Implications:

i. Influence on Investment Decisions. The strong correlation found in the study suggests that effective financial statement analysis practices are closely tied to the quality of investment decisions. Firms and investors that perform thorough ratio analyses (e.g., profitability ratios, liquidity ratios, debt ratios), trend analysis, horizontal analysis, and vertical analysis are likely using this information to guide investment strategies, such as asset acquisition, expansion, capital allocation, share purchases and et cetera

ii. Strategic Importance for Financial Management. This significant positive influence highlights the importance of incorporating financial statement analysis as a key tool for strategic financial decision-making. It emphasizes that the analysis provides critical understanding of company's performance, risk, and potential growth areas, directly influencing investment decisions.

5.5 Policy Implications

For policymakers or financial consultants working with businesses, the strong positive correlation implies that training firms in financial statement analysis or improving access to financial analysis tools could enhance the decision-making quality of businesses.

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Questionnaire

Tick the appropriate box on each of the questions

Very Large Extent (VLE) ☐ Large Extent (LarE) ☐ Moderate Extent (ME) ☐

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Low Extent (LowE)☐ No or Very Low Extent (N/VLE)

Ratio Analysis

1. To what extent do you rely on ratio analysis to inform strategic decision-making within your company?
2. To what extent do you rely on the ratio analysis to assess the profitability of a company?
3. To what extent do you believe that using multiple ratios simultaneously provides a more accurate financial evaluation?
4. To what extent, in your opinion, does ratio analysis provide adequate insights for long-term investment decisions?

Trend Analysis

5. Investors use trend analysis to identify financial patterns of a firm in respect of their investment decision?
6. How significant is the role of historical financial data in predicting future performance through trend analysis?
7. To what extent does trend analysis help you identify potential risks or opportunities in financial performance?
8. Do you find trend analysis useful in short-term and long-term financial decision-making?

Horizontal Analysis

9. To what extent do you or your organization use horizontal analysis to compare the performance of financial statements over multiple periods?
10. To what extent do investors rely on horizontal analysis to detect changes in key financial elements such as expenses, revenue or net profit?
11. To what extent do you rely on horizontal analysis when evaluating year-to-year financial performance?
12. To what extent does horizontal analysis inform you or your company's decision-making on investments or resource allocation?

Vertical Analysis

13. To what extent do you use vertical analysis to analyze the proportion of individual items within financial statements?
14. To what extent do you rely on vertical analysis to support long-term strategic decision-making?
15. How significantly do you use vertical analysis to assess the company's profitability and sustainability?
16. In your opinion, how helpful is vertical analysis in assessing a company's operating efficiency?

Investment Decisions

17. To what extent do you rely on financial statement analysis to guide your investment decisions?
18. To what extent do ratio, trend, horizontal, and vertical analyses influence your investment decision-making process?
19. How important is the use of financial statement analysis in assessing the risks associated with potential investments?
20. How do changes in a company's financial ratios impact your decision to invest or not invest in that company?