



## **Impact Of Financial Reporting On Management Decision Making In Rivers State-Owned Universities**

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### **ABSTRACT**

The study examined the impact of financial reporting on management decision making in Rivers State owned universities. The study adopted the descriptive survey design and the population consisted of two hundred and twenty-eight (228) principal officers and other staff of the two (2) state-owned universities. Simple random sampling technique was adopted to arrive at a sample size of one hundred and thirty-eight (138) respondents. Two (2) research questions were answered and two (2) null hypotheses were formulated and tested at 0.05 level of significance. The questionnaire was used for data collection. The instrument was validated and a reliability index of 0.78 was obtained using test-retest method. Data were analysed using mean, standard deviation and frequency while t-test statistical tool was used to test the null hypotheses. One of the findings reveals that statement of financial position aids management decision making to a high extent. Also, there is a significance difference in the mean responses of management of Rivers State University and Ignatius Ajuru University of Education on extent statement of financial position aid management decision making in Rivers State-owned universities. It was therefore recommended amongst other things that qualified and capable professionals should be employed for financial report preparation and presentation.

**Keywords:** Financial, Management, Decision-making, Reporting and Universities.

### **INTRODUCTION**

The thrust of consolidated statements is to present, primarily for the benefit of stakeholders and any interested clients/publics about the progress or otherwise of the organisation, the outcomes of operations and the financial position of a parent organisation and its subsidiaries essentially as if the group were a single institution with one or more branches or division. There is a presumption that consolidated statements are more meaningful than separate statements.

Thomas (2008) elicits that financial reporting is the process of communicating economic information to the stakeholders – management, shareholders, the public and so on. To facilitate informed judgement and decision making, it deals with the presentation of financial and other relevant statements to show the extent to which the objectives of the organization have been achieved. It is a statement prepared by the directors of an organisation showing how well management have been able to manage the resources entrusted to them by the government and shareholders of the organisation (Benedict & Elliot, 2011). Financial reports are means through which the strengths and weaknesses of an organisation can be ascertained at a glance. Financial reporting are also instruments without which certain operational decisions cannot be made, especially those that deals with investment, expenditure and assets management (Better, Meigns & Whittington, 2009).

For Akintoye (2002), financial reports are used by investors and creditors in deciding where to invest their limited resources in a particular organisation or not. Financial reporting entails the preparation and

presentation of both financial and non-financial information by the organisation for effective, planning and reliable decisions. However, the ultimate aim of financial reporting is to provide information that may be useful enough for evaluating management effectiveness in utilising resources under its control to satisfy its user's needs.

Koko (2018) contended that financial management is one of the means to ascertain if an organization's goals for effective decision making are achievable. It is through adequate financial reports in form of financial statements that management can rely on the data for making organizational decisions.

### **Statement of the Problem**

In order to have an effective financial report for planning and decision making, financial managers must have an analytical knowledge of the instruments used for their decision making. The issues of fraud, cash mismanagement, insolvency and liquidity problems have been conflicting matters over the years in most universities in Nigeria, especially in universities in Rivers State despite the fact that most institutions present true and fair reports (Okoye & Alao, 2012).

These problems often result in cessation of operations and in most cases become very deceitful to the unsuspecting public whose resources are utilized by such organizations. Also, there have been lapses in some financial reporting regulations, some of which include weaknesses during the preparation of financial reports due to human errors. Therefore, using the above as a spring board, impact of financial reporting on management decision making in Rivers State universities becomes the focus of the study.

### **Purpose of the Study**

The main purpose of this study was to examine the impact of financial reporting on management decision making in Rivers State owned universities. The specific objectives therefore include the following:

1. To examine the extent to which statement of financial position aid management decision making in Rivers State owned universities.
2. To ascertain the extent to which cash flow statement enhance management decision making in Rivers State owned universities.

### **Research Questions**

The following research questions guided the study:

1. To what extent does statement of financial position aids management decision making in Rivers State owned universities?
2. To what extent does statement of cash flow enhance management decision making in Rivers State owned universities?

### **Null Hypotheses**

The study was further guided by the following null hypotheses.

1. There is no significant difference between the mean responses of management of Rivers State University and Ignatius Ajuru University of Education on extent statement of financial position aids management decisions making in the institutions.
2. There is no significant difference between the mean responses of management of Rivers State University and Ignatius Ajuru University of Education on extent statement of cash flow enhance management decision making in the institutions.

### **Concept of Financial Reporting**

A written message presented on sheets of paper is known as a report (Hall, 2004). Literally, financial report is a written financial information signed, sealed and delivered. According to Meigns, Williams and Haka (2007), financial reporting is the process of communicating financial information to decision makers. It provides information useful for making investment decisions. It's disclosure provides both qualitative and quantitative information for its user's effective use and reliable decisions. In order words, it presents information in a way that can be understood by users. Again, the view that is more likely of this opinion is that of Larson (2008), who viewed financial reporting as the communication of relevant financial information to decision makers.

Meanwhile, the American Financial Reporting Standards Board (AFRSB) defined financial reporting as "activities which are intended to serve the information needs of external users, who lack the authority to

prescribe the financial information they want from organisation and therefore must use information that the management communicates to them”, cited by Pendrill and Lewis (2010). Thus, the management prepares financial reports for the use of external users who cannot but use the information at their disposal to make various decisions concerning an organisation. Majority of the big organisations around us have become so large that they attract investing capital from a great number of investors. Hence, these organisations are required by law to prepare and present their financial reports covering a period of at least (12 months) to their shareholders at their Annual General Meeting (AGM). The small organisations are not left out also.

Meigns et al (2007) stated that financial statement simply means a declaration of what is believed to be true and which, communicated in terms of monetary unit. It describes certain attributes of an organisation that is considered to fairly represent its financial activities. It is also the means of communicating to interested parties, the relevant information on resources, obligation and performances of the reporting entity.

### **Financial Reports and Management Decision Making**

The broad objectives of financial reporting is to provide information about the financial position, performance and financial adaptability of an organisation that is useful to a wide range of users for assessing the stewardship of management and for making economic decision (Elekwachi, 2010). Management is a phenomenon of the 20<sup>th</sup> century, and there is almost no organisation that does not have its management and whether some organisations will succeed or not, primarily depends on the quality of management of an organisation. Decision making is one of the functions of management amongst many other functions that are undertaken by the management of an organization (Pandey, 2006).

Barkovic (2009) sees decision making as a chosen way of conducting business among several alternatives. In the view of Kurfi (2015), decision making is a process that allows decision-makers to select at least one opinion from a set of possible alternative decisions. Also, decision making is the key to financial managers' success and is very crucial for any business, hence, aid management to constantly take actions that affect the organisation. However, it is imperative to note that financial reporting is crucial to decision makers on investment, credit policy, marketing strategies, dividends policy, financial and similar decisions (Kaurdi, 2007).

One major variable to consider in financial reporting is the statement of financial position. Statement of financial position is a financial statement showing the assets, liabilities and not equity of an organisation at a given point in time, usually at the end of the year, which facts and figures shown must be true and fair (Helfert, 2010).

Akpan (2009) asserted that statement of financial position determines investment decision of management by aiding management to think better, the financing of their operations at more favourable costs and also permit management to reverse planned investment, should condition change. Similarly, Damodaran (2012) stressed that organisation needs the aid of statement of financial position to assess in which areas the business can improve and, it is important for management of an organisation to reports, so as to plan for future growth of their business.

For Thomas (2008), statement of financial position is seen as a vital tool for investment decision of management in an organization. This is because investment decision affects the organisation value in the sense that, the value increases if investments are profitable, and add to the shareholders wealth.

Statement of cash flow is another variable worthy of consideration in financial reporting. This is a statement prepared at the end of a fiscal period showing how cash was affected by the business operations, investing and financing activities during the accounting period. Statement of cash flow explains how a company's cash was generated during a given period and how the cash was used (John & Wokeh, 2017).

Glautier and Black (2016) opined that statement of cash flow acts as a constraint on the ability of management of an organization to pay dividends. The scholars are of the view that payment of dividend should be based on cash flow rather than accrual earning, because dividend decision on accrual income would result in divided payments that are not internally financed and thus would deteriorate the liquidity

and solvency position of the management since cash flow reveals the cash generation power of management.

Kurfi (2012) stressed that several studies linked cash flow information with dividends policies and assume that statement of cash flow have superiority over accrual incomes in explaining dividends policies. Hence, cash flow statement is a direct measure of liquidity since liquidity is considered an important determinant of management dividend policy.

### METHODOLOGY

The study adopted the descriptive survey design, and the population consisted of two hundred and twenty-eight (228) staff, comprising of one hundred and thirty-four (134) principal officers, bursary and audit staff, deans of faculties, heads of department, and directors of institutes/centres from Rivers State University and ninety-four (94) same officers/staff from Ignatius Ajuru University of Education respectively. The simple random sampling technique was adopted to arrive at the sample size of one hundred and thirty-eight (138) respondents comprising of eighty (80) respondents from RSU and fifty-eight (58) respondents from IAUE respectively. Data for the study were collected by means of questionnaire which adopted a five (5) point Likert scale. The said questionnaire was face and content, validated by 2 (two) experts in the field of Accounting. Tests – retest method was used to test the reliability of the items and a reliability co-efficient of 0.78 was obtained. Mean and standard deviation were used to analyse the research questions and t-test statistical tool was used to test the hypotheses. Thus, the hypotheses will be rejected if the calculated value is greater than the critical value, or otherwise accepted.

### RESULTS

The result obtained from the respondents is shown below:

**Research Question 1:** *To what extent does statement of financial position aid management decision making in Rivers State-owned universities?*

**Table 1: Mean and Standard Deviation of the Responses on Extent Statement of Financial Position Aids Management Decision Making**

| S/N                  | Items                                                           | RSU (N=80)  |             |           | IAUE (N=58) |             |           |
|----------------------|-----------------------------------------------------------------|-------------|-------------|-----------|-------------|-------------|-----------|
|                      |                                                                 | M           | SD          | Rmks      | M           | SD          | Rmks      |
| 1.                   | Help to assess management area of improvement                   | 3.70        | 0.16        | HE        | 3.71        | 0.23        | HE        |
| 2.                   | Permit management to reverse planned investment when necessary. | 3.13        | 0.13        | ME        | 3.64        | 0.22        | HE        |
| 3.                   | Serve as a veritable tool in management decision making.        | 3.94        | 0.18        | HE        | 4.20        | 0.31        | HE        |
| 4.                   | Use in evaluating management profitability.                     | 3.61        | 0.15        | HE        | 3.60        | 0.21        | HE        |
| 5.                   | Plan for future growth of business.                             | 3.97        | 0.19        | HE        | 3.91        | 0.26        | HE        |
| 6.                   | Help management think better in financing their operations      | 3.01        | 0.13        | ME        | 3.50        | 0.20        | HE        |
| <b>Grand Mean/SD</b> |                                                                 | <b>3.56</b> | <b>0.16</b> | <b>HE</b> | <b>3.76</b> | <b>0.24</b> | <b>HE</b> |

*Source: Survey Data, 2019*

The result on Table 1 shows that item 1, 3, 4 and 5 with a mean scores of 3.70/3.71, 3.94/4.20, 3.61/3.60 and 3.97/3.91 from RSU and IAUE respondents respectively, indicates that statement of financial position aids management decision making to a high extent. Also, item 2 and 6 with mean scores of 3.13 and 3.01 from RSU respondents indicates that to a moderate extent while same items with a mean scores of 3.64

and 3.50 from IAUE respondents indicates that to a high extent. The grand mean summary indicated a mean value of 3.56 and 3.76 respectively which proves that generally, statement of financial position aids management decision making in Rivers State-Owned Universities to a high extent, furthermore, the standard deviation which indicated a total of 0.16 and 0.24 respectively reveals closeness in the opinion of the respondents.

**Research Question 2:** *To what extent does statement of cash flow enhance management decision making in Rivers State-Owned Universities?*

**Table 2: Mean and Standard Deviation of the Responses on Extent Statement of Cash Flow Enhance Management Decision Making.**

| S/N                  | Items                                                  | RSU (N=80)  |             |           | IAUE (N=58) |             |           |
|----------------------|--------------------------------------------------------|-------------|-------------|-----------|-------------|-------------|-----------|
|                      |                                                        | M           | SD          | Rmks      | M           | SD          | Rmks      |
| 1.                   | Perform better in payment of dividends of shareholders | 3.53        | 0.14        | HE        | 3.62        | 0.22        | HE        |
| 2.                   | Serves a measure of liquidity                          | 3.32        | 0.13        | ME        | 3.40        | 0.20        | ME        |
| 3.                   | Reveals the cash power of management                   | 4.40        | 0.25        | HE        | 4.10        | 0.29        | HE        |
| 4.                   | Have superiority over accrual income                   | 3.75        | 0.16        | HE        | 3.55        | 0.21        | HE        |
| 5.                   | Reveals management weakness in payment of dividends.   | 3.60        | 0.15        | HE        | 3.50        | 0.20        | HE        |
| 6.                   | Act as a guide on ability to pay dividends.            | 3.09        | 0.13        | ME        | 3.41        | 0.20        | ME        |
| <b>Grand Mean/SD</b> |                                                        | <b>3.62</b> | <b>0.16</b> | <b>HE</b> | <b>3.60</b> | <b>0.22</b> | <b>HE</b> |

*Source: Survey Data, 2019*

The result on Table 2 shows that item 1, 3, 4 and 5 from both RSU and IAUE respondents with a mean score of 3.53/3.62, 4.40/4.10, 3.75/3.55 and 3.60/3.50 respectively, indicates that statement of cash flow enhance management decision making to a high extent while item 2 and 6 with mean scores of 3.32/3.40 and 3.09/3.41 from both RSU/IAUE respondents respectively, indicates that to a moderate extent. The grand mean summary indicated a mean value of 3.62 and 3.60 respectively, which also prove that statement of cash flow enhance management decision making in Rivers State-Owned Universities to a high extent, furthermore, the standard deviation which indicated a total 0.16 and 0.22 respectively reveals closeness in the opinion of respondents.

### Hypotheses Testing

**Hypothesis 1:** There is no significance difference between the mean responses of management of RSU and IAUE on extent statement of financial position aids management decision making in the institutions.

**Table 3: T-test of Mean Difference on Responses to Extent Statement of Financial Position Aids Management Decision Making**

| Groups | No. of Respondents | $\bar{x}$ | SD   | DF  | t-cal | t-crit | Decision |
|--------|--------------------|-----------|------|-----|-------|--------|----------|
| RSU    | 80                 | 3.56      | 0.16 |     |       |        |          |
| IAUE   | 58                 | 3.76      | 0.24 | 136 | 6.70  | 1.96   | Rejected |

The analysis in Table 3 reveals the t-test of the mean difference on responses of RSU and IAUE management staff on extent statement of financial position aid management decision making. The t-calculated value of 6.70 is greater than the t-critical value of 1.96. This is an indication that the null hypothesis is rejected. Therefore, there is a significant difference in the mean responses of management of RSU and IAUE on extent statement of financial position aids management decision making in the institutions.

**Hypothesis 2:** There is no significance difference between the mean responses of management of RSU and IAUE on extent statement of cash flow enhance management decision making in the institutions.

**Table 4: T-test of Mean Difference on Responses to Extent Statement of Cash Flow Enhance Management Decision Making**

| Groups | No. of Respondents | $\bar{x}$ | SD   | DF  | t-cal | t-crit | Decision |
|--------|--------------------|-----------|------|-----|-------|--------|----------|
| RSU    | 80                 | 3.62      | 0.16 |     |       |        |          |
| IAUE   | 58                 | 3.60      | 0.22 | 136 | 0.67  | 1.96   | Accepted |

The analysis in Table 4 reveal the t-test of the mean difference on responses of RSU and IAUE management staff, on extent statement of cash flow enhance decision making. The t-calculated value of 0.67 is less than the t-critical value of 1.96. This is an indication that the null hypothesis is accepted. Therefore, there is no significant difference in the mean responses of management of RSU and IAUE on extent statement of cash flow enhance management decision making in the institutions.

### DISCUSSION OF FINDINGS

Findings from Table 1 revealed that statement of financial position aids management decision making to a high extent. This result is in agreement with Damodaran (2012) that management of organizations need the aid of statement of financial position to evaluate areas in which their businesses can improve. The finding also lend credence with the view of Akpan (2009), that statement of financial position determines investment decision of management in order to think better of the future growth of their businesses, which in other word, is regarded as a veritable tool used to access management strengths and weaknesses.

Findings from Table 2 also revealed that statement of cash flow enhance management decision making to a high extent. This finding is in line with Glautier and Black (2016) that statement of cash flow reveals the cash power of management as well as management weaknesses in the payment of shareholders dividends. Also, the finding is in line with the view of Kurfi (2015) that statement of cash flow have superiority over accrual incomes in explaining dividends policies, hence statement of cash flow is a direct measure of liquidity. Furthermore, finding from the hypotheses proved that, in null hypothesis 1, the hypothesis is rejected which implies that there is a significance difference in the mean responses of management of Rivers State University and Ignatius Ajuru University of Education on extent statement of financial position aids management decision making in the Institutions. Also hypothesis 2 is accepted which implies that there is no significance difference in the mean responses of management of RSU and IAUE on extent statement of cash flow enhance management decision making in the Institutions.

### CONCLUSION

The study dealt with impact of financial reporting on management decision making in Rivers State owned universities. The study reveals that a sound effective and efficient financial reporting system tends to improve performance in management operations. For any management to maintain its reputation, respect and dignity, its financial reporting system has to be given proper attention, and as observed, financial reporting is very crucial for management decisions making in the day to day activities of an organisation.

### RECOMMENDATIONS

Based on the findings, the following recommendations were proffered.

1. Qualified and capable professionals should be employed for financial reports preparation and presentation.
2. Account department should maintain true and fair accounting records at all times.
3. Management should ensure that reporting regulations and standards in preparation of financial statement must be complied with.
4. Management should create conducive working environment and incentives that can encouragement workers to put in their best.

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