THE EFFECT OF FINANCIAL REPORTING ON DECISION MAKING IN GOVERNMENT INSTITUTIONS IN UGANDA

CASE STUDY: NYENDO-SSENYANGE DIVISION MASAKA MUNICIPALITY

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UGANDA MARTYRS UNIVERSITY NKOZI

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A RESEARCH REPORT SUBMITTED TO THE FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE IN BUSINESS ADMINISTRATION AND MANAGEMENT OF UGANDA MARTYRS UNIVERSITY

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DEDICATION

To my Lord who enabled, guided, provided and kept me in good health for the entire period of my studies. To my beloved parents, brothers and sisters whose love, wisdom and encouragement were a source of my strength.

To my supervisor Sr. Amoding Jane Florence for the support and guidance throughout this study May God reward you abundantly.

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LIST OF ABREVIATIONS

IASB Framework	International Accounting Standards Board Framework
M.M.C	Masaka Municipal Council
NSD	Nyendo-Ssenyange Division
IFRS	International Financial Reporting Standards
UK	United Kingdom
SSAPs	Statements of Standard Accounting Practices
FRSs	Financial Reporting Standards
FRSSE	Financial Reporting Standard for Smaller Entities
ACCA	Association of Chartered Certified Accountants
N/S LGMSDP	Nyendo – Ssenyange Local Government Management & Service Delivery Programme

ABSTRACT

One of the important assumptions in decision making process and improvement of the economy is the existence of quality information which is used in decision making in an organisation. Significant number of this information comes from accounting information systems and from financial statements as they provide realistic and objective picture of the organisation. The need for effective decision making stems from the quality of financial reports produced by the organisation. While there are many organizations with good quality of financial reports, a sizeable number still seem to have inadequate and poor quality of financial reports which are used in decision making. However, quality and effectiveness of financial reports produced by the organization remains questionable. The study critically looked at the effect of financial reporting on decision making in an organization taking empirical case of Nyendo- Ssenyange Division.

The study used empirical data acquired through questionnaires, review of records, and interviews with top management, support staff, accountants, and members of the finance committee. The data was analyzed both qualitatively and quantitatively to examine the effect of financial reporting on decision making in an organization. The study showed that there is a strong relationship between the financial reporting and decision making and that the quality of decisions made in an organization is based on the nature and the quality of the four major sets of financial reports.

The key findings from the research show that the main financial reports used in decision making in the division are: statement of comprehensive income, financial position, changes in owner's equity and statement of cash flows. The following are the major constraints; inadequate and untimely information, bureaucracy, inflation, government policy, lack of skilled human resource and lack of adherence to the work-plan. The study therefore concludes and recommends that to ensure efficient and effective decision making in an organization, the management should; ensure timely production of the financial reports, use of skilled human resource, sensitize the staff on the value of financial reports, and reinforce the use of the four sets of financial reports as required by the International Accounting Standards (IAS 1 and IFRS 2013).

CHAPTER ONE

1.0 General Introduction

This study is an empirical inspiration that stands out to be a common trend with current financial reporting and decision making in Masaka Municipal Council in an attempt to make informed economical decisions for the municipality.

Financial reporting is based on the IASB Framework which states that the objective of financial statements is to provide information about the financial position, performance, and changes in financial position of a company that is useful to a wide range of users in making economic decisions. The Framework has two underlying assumptions; that a company is a going concern and uses accrual accounting. It identifies four qualitative characteristics of financial statements– understandability, relevance (including materiality), reliability (including faithful presentation, substance over form, neutrality, prudence, and completeness), and comparability. The Framework calls for financial statements that present a true and fair view of the company and a fair presentation of the company's activities. (IFRS 2006)

According to Underdown and Glautier (1997), Decision making has received increasing attention in recent years, and some authorities have argued that management and decision making are synonymous terms. Indeed, there is very little managerial activity which does not involve decision making in some form. Since the quality of information available is crucial to the quality of decision making, an efficient and adequate information system is a prerequisite in managerial success. The hall mark of efficient management may thus be seen in the ability to specify accurately the information needed, and this ability is in itself a function to clear definition of objectives, sound planning and control capability and satisfactory organizational arrangements.

Within this information network, decision points may be identified at three levels; Strategic planning, management control and operational control (Anthony, 1965) Strategic planning involves the determination of corporate objectives and goals as well as the development of broad policies and strategies by which they may be achieved. This activity relies heavily on information about the environment, and has an irregular pattern. Management control is a lower-level activity which is concerned with the implementation of the strategic plan; it assures that the necessary resources have been obtained, and are being used effectively and efficiently.

According to Elliot and Elliot (2008), financial reporting has been much discussion of the move to international standards in 2005 for many listed companies. However, we should not lose sight of the fact that there remain many UK- specific regulatory requirements. For example, there are UK SSAPs and FRSs for companies which choose not to apply international standards, the FRSSE for small companies, stock exchange listing requirements including compliance with the combined code, best practice statements such as the operating and Financial Review, and ASB statements of best practice such as that on interim reports. The Financial Reporting Council (FRC) was set up in 1990 as an independent regulator to set and enforce accounting standards. It operated through the Accounting Standards Board (ASB) and the financial reporting Review Panel (FRRP) to encourage high quality financial reporting.

1.1 **Background of the study**

Nyendo- Ssenyange Division is part of Masaka Municipal Council (M.M.C) which is among the oldest municipalities in Uganda. It came into existence when the decentralization policy (1995) was operationalize, which formalized the decentralization act CAP 243 laws of Uganda. The division name is an outcome of a combination of two parish names, Nyendo and Ssenyange thus the division has two administrative units; 11 units and 21 village units. It's predominately covered with natural savannah type and elephant grass with remnants of pre-Cambrian crystalline basement complex of geniuses and quartzite.

The division's administrative offices are in Nyendo along Masaka- Kampala High way. The main purpose of the division is to maintain equitable and sustainable development through provision of improved services as well as creating a conducive working-environment necessary for efficient and effective delivery of services to the community. Therefore, it plays a big role in economic development of the community and improvement of standards of living.

The division is also involved in many activities such as poverty eradication, assessment of graduated tax, Revenue collection, Control of development – enforcement of building rules, road sweeping, grass cutting and maintenance of parks, repair of murram and earth roads, environmental care and protection, agriculture and veterinary extension services, to mention but a few.

1.2. Statement of the problem

The main objective of financial reporting is to provide information about a company's cash flows; economic resources, obligations, and owners' equity and information about a company's comprehensive income and its components. This helps the users of this information in making their rational investment, credit and similar decisions.

The information in financial reports is judged relative to the information needs of financial statement users and alternative disclosures by managers. It is important to understand the factors that affect the nature and content of financial reports to appreciate the financial accounting information reported in them. Here the question arises that what are the most important financial reports in decision making. The dilemma of why the reports are important in decision making illustrates the opportunities and risks of investment alternatives.

Some financial reports provide a picture of the company at a moment in time others describe changes that took place a period of time. Both provide a basis for evaluating what happened in the past and for projecting what might occur in the future for example what is the annual rate of sales growth? Are accounts receivables increasing at an even greater rate than sales? Are the expenses holding steady? What rates of growth can be expected next year? These trends and relationships provide insights into a company's economic opportunities and risks including growth and market acceptance, costs, productivity and liquidity.

Therefore the degree to which financial reports contribute to decision making in an organization is still questionable; as what could be the problem, because financial reports provide useful information to an organization which could be used in making informed decisions. The users themselves of these financial reports cannot easily determine its effects the performance and growth of an entity. It is upon such background that the researcher intended to carry out a study to investigate the effect of financial reporting on decision making in Nyendo- Ssenyange Division Masaka Municipality to clear ineffectiveness in decision making which affects the growth of the organization.

1.3 Objectives of the study

1.3.1 Major objective

The major objective of this study is to examine the effect of financial reporting on decision making in Government institutions. (Nyendo- Ssenyange Division Masaka Municipality).

1.3.2 Specific objectives

a) To find out how the statement of financial position affects decision making in Government institutions.

b) To establish the effect of Statement of Comprehensive Income on decision making in Government institutions.

c) To examine the effect of Cash Flow statements on decision making in Government institutions

d) To examine the effect of changes in owners' equity on decision making in Government institutions.

1.4 Research questions

a) How does the statement of financial Position affect decision making in Government institutions?

b) How does the Statement of Comprehensive income affect decision making in Government institutions?

c) What is the effect of cash flow statements on decision making in Government institutions?

d) What is the effect of changes in owners' equity on decision making in Government Institutions?

e) What are the challenges of financial reporting on decision making in Government institutions?

f) What is the relationship between financial reporting and decision making in an organization?

1.5 Hypotheses

The following hypotheses were used to test the effect of financial reporting on decision making.

- ✓ Financial Reporting has no effect on decision making in an organization.
- ✓ Financial Reporting has a positive effect on decision making in an organization.

1.6 Scope of the study

The study is based entirely on Nyendo-Ssenyange Division Masaka Municipality as a case. It was limited to establishing the effect of financial reporting on decision making. It also sought to find out how various financial statements provide information which can be used to assess the net cash inflows to the company. Provide information about the organizations' economic resources, obligations, and owners' equity, comprehensive income and its components and cash flows.

The study focused on the four most significant financial reporting components which are vital in decision making for the future as such: statement of comprehensive income, financial position, cash flows and changes in owners' equity in relation to decision making in the division. The four aspects were considered because they provide information about which is vital for the company in making informed decisions regarding; economic utilization of resources, and meeting its obligations with set time frame. The study looked at how financial reporting provide information about how the management of a company has discharged its stewardship responsibilities and how useful this type of information is in meeting this specific objective like return on investment, risk, financial flexibility, liquidity and operating capability. This study was carried for the period of three financial years (2010-2012)

1.7 Significance of the study

The main objective of Financial Reporting is to provide information that satisfies the stakeholders on assessing the net cash inflows to the company and provide information on the cash flows. Consequently it is hoped that the following parties may profit from the conclusion and recommendation of this study:

- The top management of the division to be aware of the challenges encountered in the financial reporting process. It will act as baseline information to guide and direct the management team on how to plan and manage their resources and making economic decisions towards attainment of the division's objectives.
- The information got from this study will also help the various persons such as staff and immediate management team in the division to benefit on the decisions made basing on the various financial reports.
- To the researcher, the study will provide detailed information on financial reporting and decision making which will broaden the knowledge and ability in research work which could be applied elsewhere.
- It is hoped that this study will 'help to enhance other readers' understanding of the effect of financial reporting on decision making in governmental and non -governmental organizations and also to provide literature and basis for further research.
- Finally, this study will help the public in providing information about the trends and recent developments in the prosperity of the organization and the range of its activities.

1.8 Justification of the study

The research is of paramount importance to both government and Non Governmental Organizations on how to handle financial reporting on decision making with integrity. The study also aids the Governmental organizations to understand the effect of financial reporting on decision making in an organization as a means to achieve its set objectives at different levels.

Decision makers are able to evaluate the ability of decision making basing on information that focuses on the financial positions of the organization hence leading to high performance if the decisions are done timely and rightly.

Therefore, it is worth noting that financial reporting assists users in evaluating the operating results of the governmental entity for the year and in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.

This financial information can be very useful in estimating the current organizational quality and creating assumption for more successful utilization as well as planning for the organization in the future.

1.9 Definition of the key terms

Financial reporting: is the way of recording, analyzing, and summarizing financial data. (ACCA, 2009).

Decision making: refers to the choice between two or more alternatives (king et al 2001). It is the process of identifying and choosing alternative courses of action in a manner appropriate to the demands of the situation.

Statement of financial position (balance sheet): is a financial statement that reports the financial poison of an entity at a point of time. It reports the assets, liabilities, and owner's equity for the company at the end of the fiscal period (Ingram and Baldwin, 2001)

Statement of comprehensive income (Income statement) is a record of revenue and expenditure incurred over a given period (ACCA, 2011)

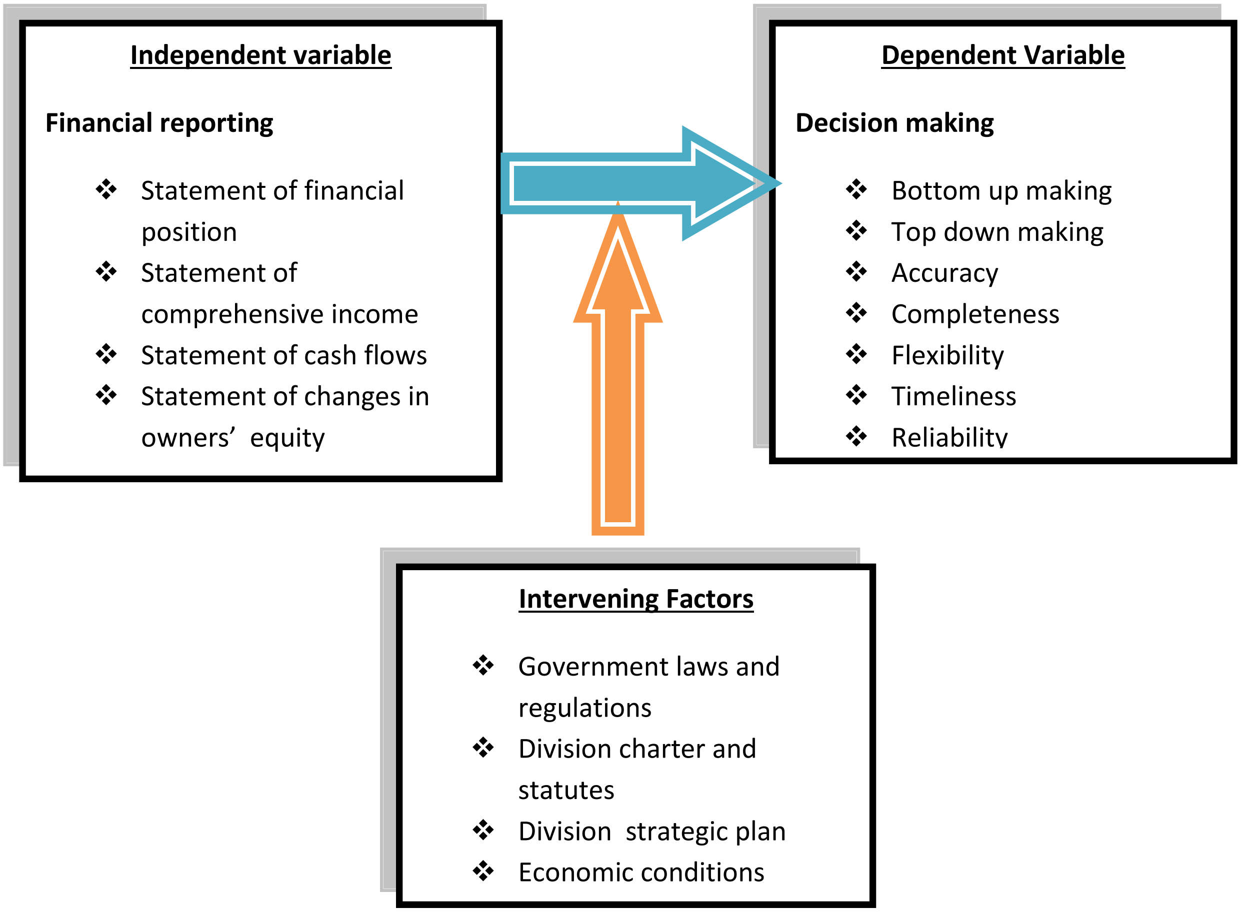
Cash flow statement: Is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating investing, and financial activities. (Frances and Thomas, 1996)

Statement of changes in owners' equity is a financial statement which describes the changes during the period in the specific elements making up the owners' interest in the business enterprise. (King. et al., 2001)

1.10 Conceptual model

The conceptual framework is a diagrammatical model that helped the research to hypothesize and make rational sense of the relationship between two variables under study. This study hypothesizes financial reporting as an independent variable and decision making as a dependent variable.

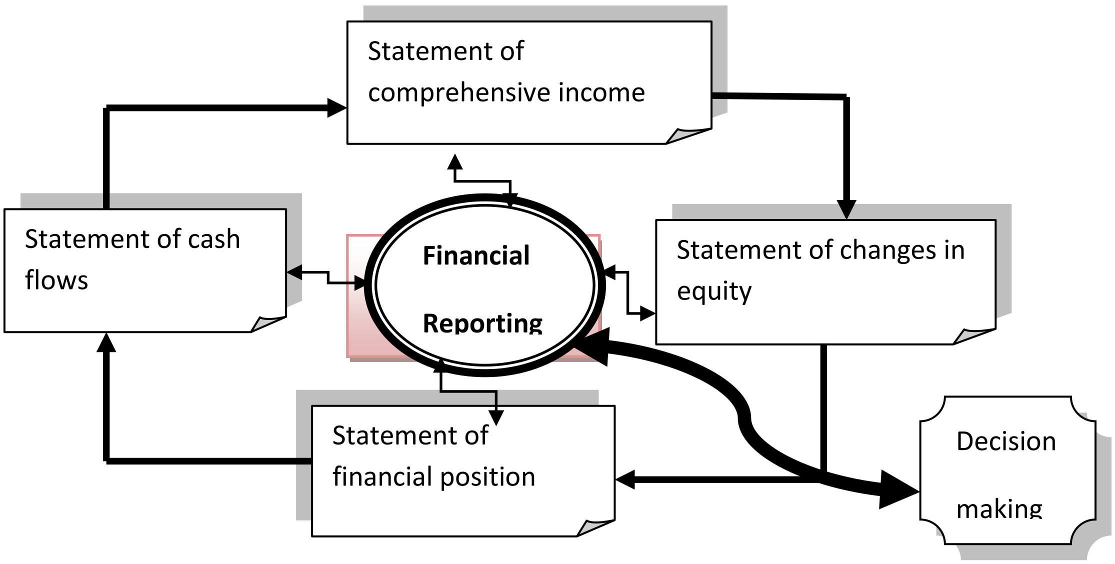
Figure 1: Conceptual Framework



Source: Research data 2014

The conceptual framework shows the relationship between two variables: financial reporting (independent) and decision making (dependent). In addition, attributes to the variables mentioned were used by the researcher to form objectives that correlate the variables. The conceptual framework also shows the intervening variables that have an impact on the dependent variable in that if financial reports are prepared and presented to decision makers that is management, before making economic decisions they have to put into account the intervening factors such as the Government laws and regulations, economic conditions to see how these can affect the organizational decisions to be made. Once these are not put into consideration, then the decisions of the organization can easily be affected hence the organization not achieving its goal.

Figure 2: Research model



Source: Research data 2014

The above research model spells out the major areas and specifying concepts- phenomena of interest as defined in model, and statements- propositions involving concepts. The researcher based on the above model variables to carry out the study and to come up with the findings responding to the objectives of the study.

1.11 Conclusion

Financial Reporting is of great significance in decision making to both government and non-government organizations and do influence its performance as illustrated in the conceptual framework. Therefore this chapter has given an overview of the study whose details can be cited in the following chapters.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examines the relevant literature related to the main variable of financial reporting and decision making from various authors and scholars. A profound understanding of these hypothesis and procedures will clearly and precisely bring out the importance of financial reporting and quality of decision making in the local government. It looks at the various financial statements such as statement of comprehensive income, statement of financial position, changes in equity and statement of cash flow.

2.2 Overview of Financial reporting and Decision making

The purpose of financial reporting is to help users of financial statements to understand the performance achieved by the company or group and to assist them in forming an opinion of its future results and cash flows. The financial reporting modifies the formats for the profit and loss account given in the Companies Act 1985; they should be changed when necessary to meet the necessary requirements for example, the analysis between continuing operations, acquisitions and discontinued operations should be disclosed to the level of operating profit. This analysis of turnover and operating profit is the minimum disclosure required in this respect on the face of the profit and loss account.

Financial accounting information is designed primarily to assist investors and creditors in deciding where to place their scarce investment resources. Such decisions are important to society, as they determine which companies and industries will receive the financial resources necessary for growth, and which will not. It is also used in income tax returns, in fact, financial accounting information is used for so many different purposes that it often is called general-purpose. Managers use the information in setting the company's overall goals, evaluating the performance of departments and individuals, deciding whether to introduce a new line of products, and in making virtually all types of managerial decisions. A company's manager and employees need such reports in order to run and control daily business operations. For example they need to know the amount of money in the company's bank accounts, the types and qualities of merchandise in the company's warehouse, and the amounts owed to specific creditors. (Meigs et al., 1999)

According to Wood and Sangster (1996), Accounts have traditionally been prepared for two main purposes, stewardship and decision making. The Accounting Standards Board's Exposure Draft: Statement of Principles, published in 1991, outlined several user groups with varying needs, all of whom are interested in financial information. Shareholders are interested in different information than trade creditors. This information has traditionally been provided by financial statements prepared under the historical cost convention. However, there are circumstances when financial statements prepared under this traditional approach can present financial information in a misleading way.

They continue and argue that, when shareholders receive the annual financial statements of a business, many simply look to see whether it has made a profit, and then put the document away. They are aware of only one thing that the company made a profit of shs x. they do not know if it was a good profit. Nor do they know whether there was any difference from the profit earned in previous years. In addition, they would have no perception of how the performance compared to those of other companies operating in the same sector.

According to International Financial Reporting Standards Board (2003), financial reports are prepared and presented for external users by many enterprises and the world. Although such financial statements may appear similar from country to city, there are differences which have probably been caused by variety of social, economic and legal circumstances and by different countries having in mind the needs of different users of financial statements when setting national requirements. These different circumstances have led to use of a variety of definitions of the elements of financial statements for example assets, liabilities, equity, income and expenses. The International Accounting Standards Committee (IASC) is committed to narrowing these differences by seeking to harmonize regulations, accounting standards and procedures relating to the preparation and presentation of financial statements. It believes that further harmonization can best be pursued by focusing on financial statements that are prepared for the purpose of providing information that is useful in making economic decisions. The Board of IASC believes that financial statements prepared for this purpose meet the common needs of most users. This is because nearly all users are making economic decisions for example assess the stewardship and accountability of management.

According to Porter and Norton (1995), financial reports provide information that will allow users to make decisions about the cash flows of a company. This does not mean however, that a company should use a cash basis of accounting to attain this. Certainly the cash flow statement provides useful information in making decisions about the cash flows of the company in the future. However, income statements and balance sheets prepared using the accrual basis of accounting are better indicators of the ability to generate favorable cash flows than statements limited to the effect of cash inflows and out flows.

They continue to say that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owner's equity) and the effects to transactions, events, and circumstances that change resources and claims to those resources. Therefore, financial reporting helps users reach their decisions in an informed manner.

According to Gray et al (2002), with regard to the decision- makers emphasize that the only way to discover information wants is to go and ask the recipient organizations and draw from those observations insights which will provide the basis for the contents of the financial accounting reports. In the connection there have been two basic approaches to this discovery which are referred to as Behavioral Accounting Research (BAR) and Security Price Research (SPR). Both of these research endeavors are connected for BAR explores the relationship between present or proposed accounting information in the context of the information and the wants of users either as individuals or groups. SPR, on the other hand, explores the relationship between accounting information and wants of the stock market which sets the share prices for those companies whose capital is traded in this market.

The role of financial accounting is to communicate information that supports business decision making. Without understanding how decision makers use accounting information. It is difficult for accounting students to fully understand financial accounting issues or more important, to critically evaluate accounting method alternatives. (Spiceland et al, 2001)

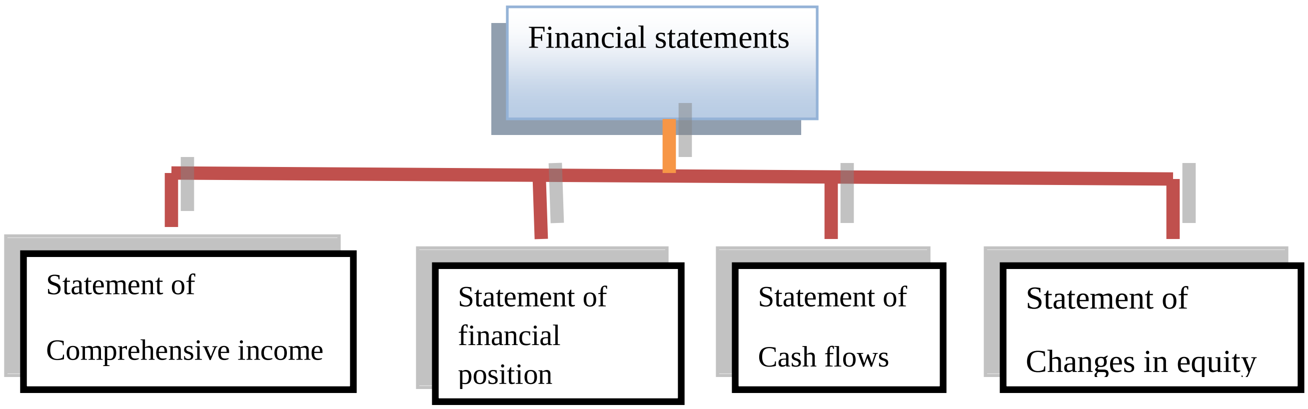
According to IFRS (2003), the economic decisions that are taken by users of financial statements require an evaluation of the ability of an enterprise to generate cash and cash equivalents and of the timing and certainty of their generation. This ability ultimately determines for example, the capacity of an enterprise to pay its employees and suppliers, meet interest payments, repay loans and make distributions to its owners. Users are better able to evaluate this ability to generate cash and cash equivalents if they are provided with information that focuses on the financial position, performance and changes in financial position of an enterprise.

According to King et al (2001), investors, creditors, and other making financial decisions often rely on financial statements that contain information about the operations cash flows and financial position of an organization. Understanding why financial statements are provided and the information that can be found in each statement helps a potential investor, creditor, or other decision makers answer questions such as; do I want to invest in or provide money to this company? Has the company been profitable over a period of time? What items of value does the company own and what claims are there against those items? Does the company generate enough cash to meet its obligations? Therefore, organizations should design their accounting information systems to prepare financial statements and to ensure the reliability of information.

In summary, managers need financial reporting (accounting information) to help them make right decisions to achieve their desired goals in organizations for better performance.

The most significant financial statements that are take into account when examining the entire business quality and make decision for the future are as shown in the figure below: statement of financial position, income statement or profit and loss account cash flow statement changes in owner's equity

Figure 3: Showing Financial statements used in decision making



Source: Fudeya, I. [2003]

The statement of financial position is the fundamental financial statement that represents organization's financial position and is the basis for estimating the security of organization. Basic elements of balance sheet are assets, liabilities and owners equity**.**

Decision making on the basis of financial information

In order to improve the usage of financial information in the context of the decision making process, we need to analyze financial statements. In that context, we can describe financial statement analysis as the process where we convert data from financial statements into usable information for business quality measurement by different analytical techniques, which is very important in the process of rational management. Therefore, to know the current level of business quality is very significant in the context of future business management, since we try to ensure company's development and existence on the market. Financial statement analysis comes before the management process that is before the process of planning which is the component of the management process. Planning is very important for good management. Good financial plan has to consider all organization's strength and weaknesses.

2.3 Financial Statements

2.3.1 Statement of Comprehensive Income and decision making

Comprehensive income is the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The statement of comprehensive income illustrates the financial performance and results of operations of a particular company or entity for a period of time. (King. et al., 2001)

According to ACCA (2009) the Statement of Comprehensive Income measures the financial performance of the organization. Information, particularly profitability, is used to assess potential changes in the economic resources the entity is likely to control in future.

According to Underdown and Glautier (1997), the Statement of Comprehensive Income (Income Statement), the measurement of profit is probably the most important function of financial accounting. Investors, managers, bankers and others are interested in knowing how well a business is doing. The Income Statement shows the results of the flow of activity and transactions and is designed to report the profit performance of a business for a specific period of time, such as a year, quarter or month. Profit represents the difference between revenues and expenses. The Income Statement reports for a specific period of time the items that comprise the total revenue and total expenses and the resulting net profit. The Income Statement heading specifically identifies the name of the business, the title of the report and the period of time over which the reported net profit was earned.

Sundem et al (1996), explains that in the Statement of Comprehensive income, there is record of sales and purchases as well as the expenses incurred during the transactions. The Income Statement also shows if there was any appropriate such as dividends payments made. This method of financial reporting has a disadvantage of failure to forecast the future events and operations although it shows the profit before and after tax and enables management calculate its tax liability. He continues to say that, in the Statement of Comprehensive Income (Income Statement), revenues and expenses are reported. These accounts measure the results of operating activities for particular fiscal period on an accrual basis. Revenues indicate the amount of increase in resources during a period from the sales of goods and services.

Expenses show the amount of resources consumed during a period from those activities associated with producing the goods and services available to customers during a period. The Income Statement does not provide information about when cash was or will be received or paid. (Ingram & Baldwin, 2001)

The IFRSs (2003) argue that, statements of comprehensive income provide information about the performance of an enterprise; in particular its profitability is required in order to assess potential changes in the economic resources that it is likely to control in the future. Information about variability of performance is important in this respect. Information about performance is useful in predicting the capacity of the enterprise to generate cash flows from its existing resource base. It is also useful in forming judgments about the effectiveness with which the enterprise might employ additional resource.

To manage an organization, owners and managers focus their energies on the best way to sell the inventory. They use several ratios to evaluate operations. A key decision tool relates to gross margin, which are net sales minus cost of sales sold. The gross margin (gross profit) percentage is one of the most carefully watched measures of profitability because it is fundamental. For most organizations the gross margin percentage changes little from year to year, and a small down turn may signal an important drop in income. A small increase in the gross margin percentage usually indicates an increase in profitability. Owners and managers strive to sell inventory as quickly as possible because unsold merchandise drains profits. The faster the sales occur, the higher the income. The slower the sales, the lower the income. Ideally a business could operate with zero inventory. Most businesses, however including retailers such as Austin Sound, must keep goods on hand for customers. Successful merchandisers purchase carefully to keep the goods moving through the business at a rapid pace. Inventory turnover, the ratio of cost of goods sold to average inventory, indicates how rapidly inventory is sold. The two ratios do not provide enough information to yield an overall conclusion about an organization, but shows how owners and managers may apply ratios to evaluate a company. (Harrison and Horngren, 1992)

Spiceland et al., 2001 states that the statement of comprehensive income summarizes the profit-generating activities that occurred during a particular reporting period. Many investors and creditors perceive it as the statement most useful for predicting future profitability (future cash generating ability). It reports the changes in shareholders' equity (retained earnings) that occurred during the reporting period as a result of operating transactions (revenues, expenses, gains, and losses). They continue to say that financial analysts are concerned with more than just the bottom line of the income statement – net income. The specific components of net income also can be helpful in an assessment of future cash flows. Relatedly the format used to report these components can convey information to users about their relative size and the relationship among them.

In summary, as well as wishing to forecast the cash position, a manager might want to estimate the profitability and the financial position for a coming period of the business. This would involve the preparation of a forecast income statement and balance sheet for easy decision making.

2.3.2 Statement of Financial Position (Balance Sheet) and decision making

Solomon (2004) defines the Statement of Financial Position as financial statement that reports the financial position of an entity at a point of time. Statement of Financial Position (Balance Sheet) provides decision makers information about what assets are held by the business and how the business obtained those assets. It can also help make better decision by telling you which liabilities should be paid first. The Statement of Financial Position does this by classifying liabilities as current and non-current. This classification is helpful to decision makers because it identifies the accounts with what should be paid promptly (Solomon, 2004).

However, according to Weygand and Kieso (1995) the Statement of Financial Position is composed of three major elements; assets, liabilities and stockholders' equity.

Underdown and Glautier (1997) continue and agree that, the Statement of Financial Position lists the assets owned by a business, the liabilities owed to others and the accumulated investment of its owners. The Balance Sheet shows the balances at a specific date as Meigs et al. (2002) agree. Even though the business is as a result of trading over time, the Balance Sheet is only a snapshot of what the business resources and obligations are at a stated time. The Balance Sheet may provide helpful information in determining the degree of financial risk. For example, a bank considering a short- term loan to a business would want to know the financial position of the business at the time of the loan. The statement of financial position involves assets both non-current and current, current liabilities, working capital (current assets – current liabilities = Working capital), and Owner's equity.

Statement of Financial Position (the Balance Sheet)

- Assets = Liabilities + Owners' equity
- Assets − Liabilities = Owners' equity

The assets measure resources available to an organization to be consumed in the future and the amount of cash expected in future from revenues earned and other transactions in the current or prior periods.

Liabilities measure the amount of the obligations owed by the organization that will require future cash outflows or provision of goods and services in future.

Owners' equity measure the amount invested by owners in an organization either as direct investment or as retained earnings.

According to Harrison and Horngren (1992), the purpose of accounting is to provide information for decision making. Chief users of accounting information include managers, investors, and creditors. A creditor considering lending money must predict whether the borrower can repay the loan. If the borrower has a small amount of liabilities, to assess financial position, decision makers use ratios on various items drawn from a company's financial statements. One of the most common financial ratios is the current ratio which is the ratio of an entity's current assets to its current liabilities. The current ratio measures the ability to pay current liabilities with current assets. It is computed as current ratio = Total current assets

Total current liabilities

A company prefers a high current ratio which means that the business has plenty of current assets to pay current liabilities. An increasing current ratio from period to period indicates improvement in financial position. Financial ratios are an important aid to decision making. However, it is unwise to place too much confidence in a single ratio or any group of ratios for example a company may have a high current ratio which indicates financial strength. It may also have a high debt ratio, which suggests weakness. Which ratio gives the more reliable signal about the company? Experienced managers, lenders, and investors evaluate a company by examining a large number of ratios over several years to spot trends and turning points. These people also consider other facts, such that the company's cash position and its trend of net income. No single ratio gives the whole picture about a company.

The financial position of an enterprise is affected by the economic resources it controls, its financial structure, its liquidity and solvency, and its capacity to adapt to changes in the environment in which it operates. Information about the economic resources is useful in predicting future borrowing needs and how future profits and cash flows will be distributed among those with an interest in the enterprise; it is also useful in predicting how successful the enterprise is likely to be in raising further finance. Information about liquidity and solvency is useful in predicting the ability of the enterprise to meet its financial commitments as they fall due. (IFRS, 2003)

According to Spiceland et al (2001), the balance sheet which is the statement of financial position has a purpose of reporting a company's financial position as of a particular date. Unlike the income statement which is a change statement reporting events that occurred during a period of time, the balance sheet presents an organized array of assets, liabilities, and shareholders' equity at a point in time. It is a freeze frame or snapshot of financial position at the end of a particular day marking the end of an accounting period. Creditors and other users of financial statements depend on meaningful accounting disclosures to make good decisions. Lenders and others rely on the Statement of Financial Position for clarifications, ratios and other disclosures in making decisions.

In summary, the Statement of Financial Position shows the organization's financial position at an instant of time, therefore it describes where the organization stands at a specific date and it provides information about resources and claims to those resources (liabilities and owners' equity) at a particular time.

2.3.3 Cash Flow Statement and decision making

A statement of cash flows is required by generally accepted accounting principles to be included in a complete set of financial statements. A cash flow statement must be included for each year for which an income or operating statement is included. Thus, the annual reports of most organizations include cash flow statements for either two or three years for comparative purposes

The purpose of the cash flow statement is to report how an organization generated and used its cash. Knowing where the cash comes from is important in projecting whether cash will be generated from those sources in the future. Knowing where the cash goes is important in assessing the organization's future cash needs. When presenting cash flow statements, most organizations combine cash and cash equivalents because short-term investments classified as cash equivalents are used primarily as a substitute for cash

Cash Flow Statement, presents the movement in cash and bank balances over a period. The movement in cash flows is classified into the following segments: (Gray et al, 2002)

Operating Activities:

Cash flows from operations are generated from the organization's normal activities. These cash flows are generally routine and recurring. They are particularly important because most organizations must be capable of generating positive cash flows from operations over the long run to remain viable.

Investing Activities:

Represents cash flow from the purchase and sale of assets other than inventories (e.g. purchase of a factory plant) Cash flows related to investing reflect how an organization's cash is used to provide future benefits, such as through the purchase of new plant and equipment, and investing in securities. For example, to what extent may organisation been making capital expenditures to acquire property and equipment and to expand?

Financing Activities:

Represents cash flow generated or spent on raising and repaying share capital and debt together with the payments of interest and dividends. Cash flows related to financing reflect amounts received by borrowing or from issuing stock, as well as payments made to retire debt, repurchase stock, and provide dividends to owners. For example, did the organisation increase its financing through debt and equity?

Parkinson (1997) argues that a Cash flow Statement reflects an entity's cash inflow and out flows during a period, distinguishing those that are a result of operation and those that are a result of other activities. This helps users to assess factors such as risk, the entity's liquidity, solvency, financial adaptability and the relationship between profits and cash flow. The organization needs the management team to plan for and manage cash effectively internally; that is why funders and other interested parties are interested in the Cash flow Statement accompanying the published Profit Statement and Balance Sheet. Such a statement will normally show the cash flows in broad terms, divided into operating (day-to-day) flows and more major and longer term cash flows.

Elliott and Elliott (2008) say that, investors need information to form their view on future cash flows which will be the basis for dividend payouts and capital gains. Directors provide selective information which they see as significant and relevant on items such as; capital investment program, changes in production capacity for example new facilities coming on stream, relocating to lower cost areas, research and development plans for example new development agreements and alliances.

IFRSs (2006) agree that, Cash flow Statement when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop modes to assess and compare the present value of the future cash flows of different entities. It also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events. Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows.

It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flows and the impact of changing prices.

Underdown and Glautier (1997) argue that cash is the life blood of the business. A healthy cash flow (measured as cash inflows minus cash outflows) is fundamental to a business's ability to survive and prosper. Users of financial statements who look merely at the profit and loss account (Income statement) for a measure of financial health can be deceived. Indeed, many businesses with apparently strong profits have foundered through poor control over their cash flow. The cash flow statement can be used by management to avoid such liquidity problems. Its purpose is to show what cash has been generated by a business's operations and where the cash has gone. The importance of cash flow was recognized by the Accounting Standards Board's first standard which came into effect in 1992, and which was revised in 1996. A cash flow statement classifies the sources and uses of cash flow from several types of business activities for example operating activities like profit before interest and tax, Returns on investments and services of finance like interest received and interest paid.

According to Harrison and Horngren (1992), cash flow statements evaluate management decisions, if managers make wise investment decisions, their businesses prosper. If they make un wise decisions, the businesses suffer. The statement of cash flows reports the company's investment in plant and equipment and thus gives investors and creditors cash flow information for evaluating managers' decisions. A classic example is Montgomery Ward's decision shortly after World War II not to expand the business. Ward's top management expected a recession and decided to play it safe until the United States economy settled down after the war. Sears, Roebuck, on the other hand, predicted a strong economy and went full speed ahead. Sear's decision proved better, and Montgomery Ward fell significantly behind Sears.

Spiceland et al., 2001 argue that cash flows statements provide information about the cash receipts and cash disbursements of an enterprise that occurred during a period. In describing cash flows, the statement provides valuable information about the operating, investing and financing activities that occurred during the period. It is a change statement which discloses the events that caused cash to change during the period.

In summary, cash flows are so important to those analyzing business, the Cash flow Statement is required by IFRS. It is therefore, important to note that cash flow helps to offset the non cash activities such as provisions for doubtful debts and depreciation. This means that the cash flow will at any one time represent the true cash status of the organization.

2.3.4 Statement of Changes on owners' equity and decision making.

Statement of Changes in Equity, also known as the Statement of Retained Earnings, details the movement in owners' equity over a period (Elliot and Elliot, 2008). The movement in owners' equity is derived from the following components:

- Net Profit or loss during the period as reported in the income statement
- Share capital issued or repaid during the period
- Dividend payments
- Gains or losses recognized directly in equity (e.g. revaluation surpluses)
- Effects of a change in accounting policy or correction of accounting error

According to King et al (2001), owners' equity represents the dollar/shilling value of the owners' investment in company assets. It is the amount invested by owners plus their share of company earnings not distributed to them. This amount can also be viewed as the owners' claim against the assets. The owners' equity of corporations is referred to as stockholders' equity. Owners' equity reflects the residual interest in company assets. This means that whatever assets are left paying creditors go to the owners. The amount of owners' equity may be particularly important for analyzing a company's financial statements because it provides one indication of the owners' commitment to the enterprise. It also reflects the margin of safety for creditors because assets must be used to meet creditors' claim before they can be distributed to owners.

Under generally accepted accounting principles, all companies are required to report changes in owners' equity for the period. Although a few companies present a statement of changes in retained earnings in their annual reports, with other changes in stockholders' equity that details changes in all equity elements, including retained earnings, corporate stockholders' equity includes the major categories, contributed capital and retained earnings. Owners' equity is the residual amount of an entity's assets after the claims of the creditors are satisfied. Investors and creditors need to know about owners' equity to be able to know whether the owners are financially committed to the company in that they have significant investment in it and to know how much to be shared in terms of profits and to be able to influence management.

2.4 Importance of financial reporting on decision making in an organization

In every organization, every fiber of decision is important. However, before creating such valuable decisions in terms of performance in an organization and creating new business ventures, it is emphasized that the use of financial statements or financial reports can be a great source of crafting decision. Through the Statement of Comprehensive income, Statement of Financial Position, statement of Cash Flows and the Statement of Changes Owner's Equity, management can analyze the figures in a more convenient way, in which the entire organization can understand. Through examining the possible reason for changes, management can definitely come up with another bright kind of idea. (Gray et al 2002). The importance of financial reporting on decision making is therefore discussed as below;

Financial reporting is used in making budgets since budgets are plans for the future. Managers are able to monitor budgets in order to spot variances and make ongoing adjustments to plans. Financial statements such as the Statement of Comprehensive Income and the Statement of Financial Position provide information about past performance. These statements can be compared with the results achieved by similar companies or in previous time periods to identify areas for improvement. For example, if an organisation spots that its cost of sales is higher than those of a rival it may seek to switch to an alternative supplier, or take other actions such as reducing direct costs. (Berry, 2006)

IFRS (2006) argue that financial reports provide information about the financial position, performance and changes in financial position of an organization that is useful to a wide range of users in making economic decisions.

They continue to present the financial statements show the stewardship of management or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions; these decisions may include, for example whether to hold or sell their investment in the entity or whether to reappoint or replace the management.

Information about the performance of an entity, in particular its profitability, is required in order to assess potential changes in the economic resources that it is likely to control in the future. Information about variability of performance is important in this respect. Information about performance is useful in predicting the capacity of the entity to generate cash flows from its existing resource base. It is also useful in forming judgment about the effectiveness with which the entity might employ additional resources. (IFRS, 2006)

Information concerning the financial position of an entity is useful in order to assess its investing, financing and operating activities during the reporting period. This information is useful in providing the user with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows.

According to Harrison and Horngren (1992), financial reporting helps managers to set goals for their organizations using the information provided in the financial statements, evaluate their progress toward those goals, and to take corrective action if necessary. Decisions based on accounting information may include which building and equipment to purchase, how much merchandise inventory to keep on hand for sale to customers, and how much cash to borrow.

Through financial reporting, investors provide the money that organizations need to begin operations. To decide whether to help start a new venture, potential investors evaluate what income they can reasonably expect on their investment. This means analyzing the financial statements of the new business. (Harrison and Horngren, 1992)

The above authors also argue that people use accounting information in day-to-day affairs to manage their bank accounts, to evaluate job prospects, to make investments, and to decide whether to rent or to buy a house.

They also present that employees and labour unions may make wage demands based on the accounting information that shows their employer's reported income. Consumers groups and the general public are also interested in the amount of income that businesses earn.

The statement of shareholders' equity is especially important to equity investors because it shows the changes in various equity components, including retained earnings, during a period. According to Randall (1993), the amount of shareholders' equity is a company's total assets minus its total liabilities, representing the company's net worth. A steady growth in a company's shareholders' equity by way of increasing retained earnings, as opposed to expanding shareholder base, means the accumulation of investment returns for current equity shareholders. [http://smallbusiness.chron.com/importance-companys-financial-statements-21332.html]
(Accessed on 12/3/2014)

2.5 The relationship between financial reporting and decision making in an organization

The management of an entity has the primary responsibility for the preparation of the financial statements of the entity. Management is also interested in the information contained in the financial statements even though it has access to additional management and financial information that helps it carry out its planning, decision making and control responsibilities. Management has the ability to determine the form and content of such additional information in order to meet its own needs. Published financial statements are based on the information use by management about the financial position, performance and changes in financial position of the entity. (IFRS, 2006).

Investors, creditors, and others are making financial decisions often rely on financial statements that contain information about the operations cash flows and financial position of an organization. Understanding why financial statements are provided and the information that can be found in each statement helps a potential investor, creditor, or other decision makers answer questions such as; do I want to invest in or provide money to this company? Has the company been profitable over a period of time? What items of value does the company own and what claims are there against those items? Does the company generate enough cash to meet its obligations? Therefore, organizations should design their accounting information systems to prepare financial statements and to ensure the reliability of information for decision making. (King et al 2001).

2.6 Challenges of financial reporting on decision making in an organization

Though financial reporting is a good tool in decision making, there are challenges in financial reporting which can affect the decisions made by management as discussed below:

According to Mancino (2007) fraud is one of the challenges in financial reporting where by accounting history is littered with examples of financial information used as a means of deception. Vanasco (1998) adds on this by saying that fraudulent financial statements are of great concern not only to the corporate world, but also to the accounting profession. Every year the public has witnessed spectacular business failures reported by the media. These catastrophic events have shocked the public, undermined auditors' credibility in their function and eroded public confidence in the accounting and auditing profession.

Vanasco, 1998 states that focusing on the accounting users, concentration on decision usefulness of financial statements, auditors do not support this that financial statements are useful in decision making and also the Company law review rejects this. This therefore may lead to unrealistic views about or of what accounting can provide. [www.slideshare.net/M.Ricky/issues-in-financial-reporting.] (Accessed on 15th April, 2014)

There is also a challenge of lack of support from the preparers of financial statements for changing the basis of valuation in accounting (from historic cost to current cost). However, current cost is beginning to creep into financial statements. (Vanasco, 1998)

The above author also addresses that most users of financial statements are divorced from the running of businesses so they may not have the appropriate level of knowledge to assess their management's stewardship of their assets.

There is a challenge of keeping up to date on day-to-day changes in accounting and auditing standards which many people cannot meet (IFRSs and IASs). This leads to preparing reports which are not up to the standards and cannot be used for economic decisions thereby becoming a challenge to management in decision making since the reports to be used in making decisions are not corresponding with the standards. [www.slideshare.net/M.Ricky/issues-in-financial-reporting.] (Accessed on 30th March, 2014)

According to Nkundabanyaga (2004), the lack of Standardized Processes is also a challenge in financial reporting. Multiple products in multiple lines of business have led to many differing financial reporting processes. A lack of process standardization and numerous process workarounds hinder end-to-end transparency of all business line data. This not only hinders the ability to close the financial books rapidly at month end, but also means the finance transformation journey does not have a consistent start point.

He continues to argue that there is also lack of a sound accounting system, this seems elementary, but many times businesses do not develop and implement an accounting system that fits the needs of the organization. An accounting system are processes that are used to properly and accurately record fiscal transactions. The goal of management is to create an accounting system either computerized or manual, that is straight-forward and provides the company the ability to review its financial status at a moment's notice.

Lack of qualified accountants and staff. Everyone believes accounting is all about math and adding numbers, but more important than calculations is the knowledge and understanding of how transactions are recorded. Most people can use a calculator, but in accounting, the primary question is what are the debits and credits of the transaction and if your staff doesn't understand the debits and credits you set yourself up for failure. (Nkundabanyaga, 2004)

2.7 Conclusion

In this chapter, a lot of literature on financial reporting and decision making by various scholars has been reviewed. Most of the theories are relevant to this study and have been applied when analyzing the data collected. The chapter also examined the types and significance of financial reporting especially on the four major financial statements which are based on making vital economical decisions in an organization

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter examines a presentation of methodology used in the study to obtain data about the research problem which needs clarification and investigation. In this chapter therefore, the researcher explained the research design, target population, sample size, sampling techniques, data collection methods, data instruments, validity, reliability, research procedure, data analysis, and ethical considerations. It is concerned with the tools used to help the researcher to meet the study objectives.

3.2 Research design

According to Bryman and Bell (2007), research design is an arrangement of condition of collection and analysis of data in a manner that aims to combine relevance to the researcher is to do from writing the hypothesis and its operational implications to the final analysis of data.

Both qualitative and quantitative research designs were used, some quantification was necessary because of the need to tabulate data and use statistical techniques. The research was also descriptive in nature showing what is going on in Nyendo-Ssenyange Division . For the purpose of this research, a number of financial reports at different levels of operation were analyzed in relation to decision making of the Division as a whole. The researcher also used the case study and cross-sectional research design to arrive at dependable conclusion.

3.3 Study population

The population of the study includes the employees and employers of Masaka Municipality. The researcher focuses on Nyendo- Ssenyange Division.

The area: the researcher is more interested in the effect of financial reporting on decision making in Government institutions, how the use financial reports to make decisions, and how they use the reports to determine the performance of the Division and manage the Division as well. Here the researcher interviews the workers of Nyendo- Ssenyange Division and the potential respondents include the top management that is the Division Council, Executive committee, Chair person, and the Sectrol committees, the middle management which includes; the Division Town Clerk, Finance, production, Public Health, Lower management which includes; pool stenographer, Enforcement and the Office Attendant. The total population made up of the leadership committee, sectrol committees and the statutory bodies of the Division close to 60 people

3.4 Sampling procedure

A letter of introduction was obtained from the Dean Faculty of Business Administration and Management and presented to Nyendo- Ssenyange Division to assist in providing information. Data was collected, edited, summarized and tabulated, then finally analyzed using a qualitative method. The results were interpreted and discussed after which conclusions, recommendations and suggestions were made.

3.5 Sample size

The sample of the study consisted of the officers and individuals specified in the table below.

Sample of Respondents

Respondents	**Number of respondents**
Top management (Division Council, Executive committee, Chairperson and the sectrol committees)	20
Middle management (Division Town Clerk, Finance, Production and Public Health)	15
Lower management (Pool Stenographer, Enforcement and Office Attendant)	25
Total	**60**

3.6 Sampling techniques

The researcher used the purposive sampling method while selecting the respondents in the research. This helped in ensuring that the respondents give the accurate information which is relevant to the study. Convenience sampling was also used in which the researcher concentrated on the respondents who can be accessed to generate the relevant data for the research.

3.7 Data collection methods

The researcher used the qualitative and the quantitative methods of data collection.

3.7.1 Primary sources

The researcher used the information gathered from the study because by using primary sources, first hand information is got. These include questionnaires, interviewing, and observation.

3.7.1.1 Questionnaires

The questionnaires were designed with both open and close ended questions. Close ended questionnaires provide direct and straight forward answers while the open ended questionnaires provide more details and explanations from respondents. These questionnaires helped the researcher to get a better understanding of the respondents' opinions and so an appropriate analysis was got from the respondents. Questionnaires are convenient to respondents most especially due to their busy schedules and also easy to analyze.

3.7.1.2 Interviewing

With the interviewing method, the researcher used face to face discussions with the selected respondents. This was done with the use of an interview guide. This method was mainly used with the top management of the Division as a way of getting their overall view on the problem of the research. Through the interviews, the researcher interviewed respondents independently one after the other.

3.7.1.3 Observation

The observation of what is happening in the organization is important. Here the researcher saw and evaluated the behavior of Nyendo- Ssenyange Division employees and employers. Such a technique is reliable as it granted the researcher the opportunity to interpret different gestures and body language. It was an occasion for the researcher to see how management uses financial reports to make the right decisions. This is used in interpreting how pressing the problem in question is.

3.7.2 Secondary information

The researcher used secondary sources which include; books, websites, journals among others which the researcher generalizes as document review.

3.7.2.1 Document /record Review

The organization's mission and vision was reviewed by use of the available organizational documents and reports. The researcher also consulted and examined other documents like the four sets of financial statements which are based on decision making, financial guide and procurement policy. This helped to clarify and verify the information obtained from interview and questionnaires.

The researcher also had reading materials which were made of various documents like reports, periodicals, journals and E-books. The researcher used documents review so as to depict the controversies between the different authors. This enabled the researcher to come up with clear image of the data that is provided in the different documents.

3.8 Reliability and validity

Gadsby (2003) explained reliability as someone or something that can be depended on or trusted.

Validity refers to the extent to which the data collection tools employed (to measure variables) in a study actually measures what they are intended to measure (Siegel, 2004). In this regard, attention was put on the content validity of the data collection tools which deal with the degree to which the tools relevantly and sufficiently looked at the variables under study and how well the component elements of the tools are prearranged for the purpose of exactly extract the data essential for the study correspondingly.

Reliability is the description of precision, consistency and dependability with which the tools extracted the data that was required for the study. An instrument is reliable if it produces the same results whenever it is repeatedly used to measure attribute or a notion for the same respondents even by other researchers. (Amin, 2005). The reliability was established through test-retest of the questionnaire and interview guide (Amin, 2005).

3.9 Data Analysis and Management

The data from the filled questionnaires was compiled, sorted, classified and then entered into the computer for analysis. This involved the use of statistical package for social scientists (SPSS) as a tool of analysis since it provides a relatively simple readily applicable method of analysis appropriate to the nature and the objectives of the study.

The researcher also used qualitative and quantitative techniques in analyzing data procured to derive meaningful information and make it more valid to management in decision making process. Data was then analyzed using the statistical package in Microsoft Excel software to summarize data into meaningful patterns for analysis. This involved the use of frequency distribution tables, pie charts and bar charts to present the data into meaningful information. This helped to give accuracy to the research, add objectivity, facilitate identification of patterns and relationships, and enable precise policy response development on financial reporting and decision making thus supporting the hypothesis.

3.10 Ethical consideration

As this study required the involvement of the respondents, which involves specifically human resource professionals and non professionals, certain ethical issues were addressed. The consideration of these ethical issues was necessary for the purpose of ensuring the privacy as well as the safety of the respondents. Among the significant ethical issues that were considered in the study process include the consent and confidentiality. In order to secure the assent of the selected respondents, the researcher based on all important details of the study, including its goals and objectives, by explaining these important details, the respondents were able to understand the significance of their role in the achievement of the study. The confidentiality of the respondents was also ensured by optional disclosure of their names or detailed information in the study. Only pertinent details that helped in answering the research questions were included.

3.11 Limitations

There are many components of financial reporting and decision making in an organization. This study only limited itself to aspect of four major financial statements that is statement of comprehensive income, financial position, cash flows and changes in equity. The importance and the challenges experienced by management in decision making

However during the course of this study, the following problems were encountered:

The time allocated for the research was not enough to meet all the intended respondents and to get all the required information, according to the sample size selected. This in one way affected the quality and quantity of the data attained.

Non response and resistance by the respondents due to the unwarranted fear made some respondents especially by the support staff not to be ready to give information because of its sensitivity. However, this was countered by re-assurance and also by interviewing some few members of the finance and top management and the key informants around to minimize the biases, which could arise.

There was up and down movement to various departments, offices and following appointments which were so tiring and stressing. Nevertheless this did not affect the value and the quality of data obtained.

3.12 Conclusion

This chapter presents the methodology required to carry out a sound, meaningful study. It has thus, employed the various quantitative and qualitative techniques needed for the study. It laid down a research strategy and design that ensures collection of representative data; highlights the data collection and analysis techniques employed and the criteria for interpretation of the study results. Even though there are limitations, the methods of data collection, analysis, and interpretation, generally resulted in reliable conclusion. The researcher believes that, the study methodology used was quite comprehensive and the results obtained are adequate to help the researcher come up with conclusive objectives. Therefore, in the next chapter, the findings from the field, and records based on objectives and questions are presented and analyzed.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents and discusses the findings that were deduced from the data collected from the selected key informants and other respondents of Nyendo-Ssenyange Division Masaka Municipality. It is in this chapter that the findings are presented analyzed and interpreted in line with the research objective and in conformity with theoretical frame work of the study.

The study questions to be answered include:

a) How does the statement of financial Position affect decision making in Government institutions?

b) How does the Statement of Comprehensive income affect decision making in Government institutions?

c) What is the effect of cash flow statements on decision making in Government institutions?

d) What is the effect of changes in owners' equity on decision making in Government Institutions?

e) What are the challenges of financial reporting on decision making in Government institutions?

f) What is the relationship between financial reporting and decision making in an organization?

Questionnaires and interviews were used in gathering information to highlight the general understanding of financial reporting, its significance, and the challenges that are encountered in the financial reporting process and how these challenges are managed to attain better economic decisions. In relation to the above questions there were several factors that contributed to decision making in government institutions.

4.2 Respondents Bio Data

4.1 Gender of the respondents

The study administered the questionnaire to 50 respondents to ascertain the gender and the results are as shown on the 1 below:

Table 1: Showing the gender of the respondents in Nyendo-Ssenyange Division

Gender	Frequency	Percentage
Male	15	30
Female	35	70
Total	50	100

Source: Research data, 2014

The table above shows clearly the gender of the employees of Nyendo-Ssenyange Division Masaka Municipality. Out of 50 respondents who participated in the study, 15 (30%) of the respondents were males and 35 (70%) respondents were females. This therefore indicates that Nyendo-Ssenyange Division's has a high number of its employees being females.

4.2 The age of the respondents (NSD)

This was assessed by use of the questionnaires administered to 50 respondents on their age brackets and the findings are as indicated in the table 2 below:

Table 2: Showing the age of the respondents Nyendo-Ssenyange Division

Age	Frequency	Percentage
20-29	20	40
30-39	21	42
40-49	6	12
50-59	2	4
Above 60	1	2
Total	50	100

Source: Research data 2014

From the 2 above (40%) of respondents are in the age bracket of 20-29 years, 21(42%) belong to the age bracket of 30-39 years, while 6 (12%) lay in the age bracket of 40-49 years, 2 (4%) in the age bracket of 50-59 years and 1(2%) respondent was above 60. This therefore indicates that Nyendo-Ssenyange Division has a great number of its employees in the age brackets of 20-39 and this is youthful and energetic age and the input is great which helps the division in the implementation of the economic decisions set by management hence leading to the achievement of organizational goals and objectives and making of informed decisions.

4.3 The educational levels of the respondents (NSD)

The study was conducted in Nyendo-Ssenyange Division on a sample size of 50 respondents made up of the top management, middle management and the lower management. The findings from the study were as show table 3 below:

Table 3: Showing the educational level of the respondents (NSD)

Educational levels	Frequency	Percentage
Certificate	1	2
Diploma	6	12
Degree	29	58
Masters	12	24
PHD	2	4
Total	50	100

Source: Research data, 2014

The table above shows clearly that most the respondents in the division are degree holders that is 29 (58%) who are middle managers and some lower managers and these help in implementing the decisions set by management because of their skills and expertise at work and those at Masters level were 12(24%) who are on top management and they play a big role in making economic decisions for the division and directed by the PHD holders.

4.4 Presentation and data discussion

4.4.1 The effect of financial reporting on decision making

Financial reporting is the way of recording, analyzing, and summarizing financial data. (ACCA, 2013). Decision making refers to the choice between two or more alternatives (king et al 2001). It is the process of identifying and choosing alternative courses of action in a manner appropriate to the demands of the situation. Financial reporting plays a very important role in decision making in all levels in an organisation. Nyendo-Ssenyange Division Masaka Municipality uses financial statements like the Statement of comprehensive income, Statement of Financial position, the cash flow statements and the statement of Changes in owner's equity in making its economical decisions. Therefore, the Division uses some of the financial statements as a guiding in decision making and monitoring the financial performance of the division. As a legal requirement, the management of the division is tasked to ensure all the four financial reports are produced.

4.5 The Statement of financial position on decision making

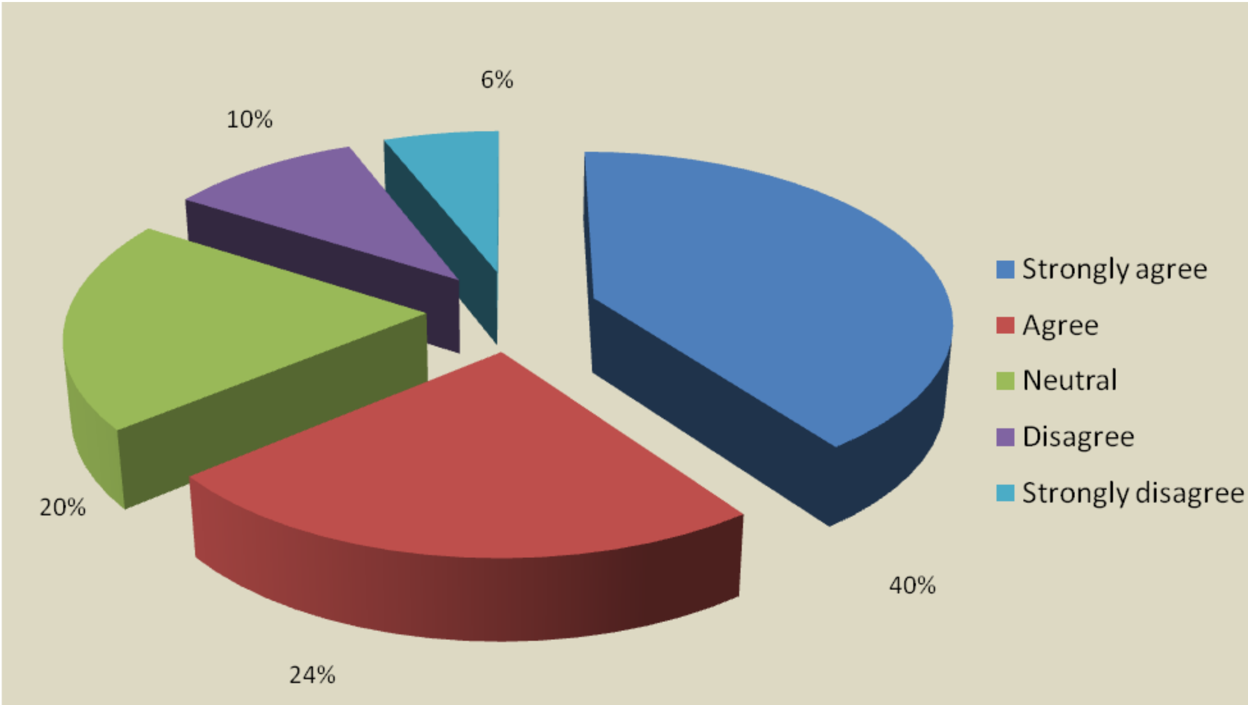
This was assessed by interviewing the fifty respondents on the importance of financial position on decision making and findings are as shown in the table 4 below:

Table 4: Showing the respondents views on importance of statement of financial position

	Frequency	Percentage %
Strongly agree	20	40
Agree	12	24
Neutral	10	20
Disagree	6	10
Strongly disagree	3	6
Total	50	100

Source: Research data 2014

Figure 4: Showing the respondents views on importance of the statement of financial position on decision making



Source: Research data, 2014

The table and the figures 4 above shows that the statement of financial position as one the key element in decision making and in the performance of an organsiation as it provides decision makers with information on organizational total assets and owner's equity and liabilities for the period which can be used in decision making. The findings clearly show the respondents views on the importance of financial position, 27 (54%) respondents strongly agreed that the statement of financial position helps managers in making vital decisions, the 24% agree that statement of financial position plays a big role in decision making, while 20% are neutral belonging nowhere but with degree of consent that this statements is very importance

However, 10% and 6% disagree and strongly disagree that statement of financial position is not a vital tool in decision making, they did not clearly state why they disagree, therefore, the management of the division needs to look at this percentages and ascertain why they disagree, there could be a reason may be they lack knowledge on accounting.

During the interviews, the same question was asked to the respondents and still the highest number of the respondents strongly agreed that financial statement contribute greatly on decision making. Statement of Financial Position provides decision makers information on non-current and current assets and the organizational owner's equity and liabilities. It is imperative to believe that the statement of financial positions helps the organisation in decision making as stated by (Solomon, 2014) in chapter two.

4.5.1 Guides the organization in effective planning on complying with its obligations.

One area of interest in the questionnaire was to ascertain the respondents' views on the impact of financial position, the findings of the responses are as shown on the table 5 below:

Table 5: Shows the response on the importance of financial position in planning

	Frequency	Percentage
Strongly agree	25	50
Agree	20	40
Neutral	3	6
Disagree	1	2
Strongly disagree	1	2
Total	50	100

Source: Research data, 2014

The above table shows how the respondents responded to the above importance of the Statement of financial position 25(50%) of the strongly agreed that statement of financial position guides an organization on how to plan to pay off its liabilities. The 20 (40%) agreed that the management of the organsiation cannot make effective decisions without using the information from the statement of financial position, 6% of the respondents were neutral meaning they are not sure of their stand but certainly they agree on the significance of the SFP. The 2% totally disagree this could mean that some of the staff lack knowledge on the various financial reports prepared by the organisation. It therefore, findings clearly showed that the statement of financial position guide management of the division in making vital decisions basing on the information given on the total assets, owner's equity and liabilities. This statement gives a clear picture of the obligation the organsiation/division has and to what magnitude. This can help the organization in planning how to settle these obligations and also determine whether the organisation is still a going concern.

4.5.2 Making decisions on disposals and acquisition

An organisation which is a going concern certainly has to acquire new assets and dispose off the old ones. During the interviews with the number of the respondents, the following findings were obtained as clearly shown on the 6 below.

Table 6: Showing the importance of SFP on acquisitions and disposals.

	Frequency	**Percentage**
Strongly agree	26	52
Agree	12	24
Neutral	10	20
Disagree	2	2
Strongly disagree	2	2
Total	50	100

Source: Research data, 2014

The above table indicates that 26(52%) respondents strongly agreed with the above importance of the statement of financial position, 12(24%) respondents agreed, 10(20%) respondents were neutral and 2(4%) respondents disagree that the statement of financial position does not help an organization in deciding on the disposal of old assets and acquisition of new asset. The management of the division is challenged to play a keen interest in educating some of its staff on the value of the statement of financial position because it is one of the reports which management depends on when it comes to making economical decisions as to when to make acquisition or disposals.

4.5.3 Plan on the level of working capital in an organization

The fifty respondents were asked as to whether the statement of financial position helps the management in planning for the level of its working capital by looking at the assets and the liabilities, the findings from the assessment were as shown on table 7 below:

Table 7: Showing that the statement of financial position helps the (NSV) to plan for its working capital.

	Frequency	**Percentage**
Strongly agree	18	36
Agree	22	44
Neutral	8	16
Disagree	1	2
Strongly disagree	1	2
Total	50	100

Source: Research data, 2014

In the light of the findings in table 7 above, (36%) agreed that the current assets and liabilities information provided in the financial position helps in planning for the level of working capital in organization. The 44% agree on the value of the statement of financial position to an organsiation. This implies that the management recognizes the value of the financial statements in decision making. On the contrarily (16%) are neutral meaning they are neither nor but they do believe that this statement is very vital in decision making, while 2% strongly disagree and indicated ignorance of the importance of financial statements. This is explained by the fact that top management has not taken the initiative of ensuring that this reports are available to all members so that they are familiar with what is happening in the division. Spiceland et al (2001), in chapter two echo on the importance of statement of financial positions to an organsiation as it helps in ascertaining the liquidity of the organisation which facilitates in decision making.

4.5.4 Planning for organizations liquidity

From the interviews and questionnaires administered to 50 respondents, the findings showed that statement of financial position helps the organisation in planning for its liquidity as summarized in the table 8 below:

Table 8: Showing importance of the statement of financial position on liquidity planning

	Frequency	Percentage
Strongly agree	25	50
Agree	16	32
Neutral	4	8
Disagree	3	6
Strongly disagree	2	4
Total	50	100

Source: Research data, 2014

In the above illustration, 25(50%) respondents strongly agree, 16(32%) respondents agreed, 4(8%) respondents were neutral, however 3(6%) respondents disagreed and 2(4%) respondents disagreed that the information in the statement of financial position helps an organization in planning for its liquidity. Statement of financial position basically gives manager of the division an idea of the financing structure of the organisation.

The statement of financial position of an organisation is affected by the economic resources it controls, its financial structure, its liquidity and solvency, and its capacity to adapt to changes in the environment in which it operates. Information about the economic resources is useful in predicting future borrowing needs and how future profits and cash flows will be distributed among those with an interest in the enterprise; it is also useful in predicting how successful the enterprise is likely to be in raising further finance. Information about liquidity and solvency is useful in predicting the ability of the organisation to meet its financial commitments as they fall due. (IFRS, 2003). Therefore, the respondents agreed on the value of this statement although the management is charged with the responsibility of ensuring that all the staff of the organisation is familiar with this statement.

4.6 Statement of comprehensive income (SCI) and decision making

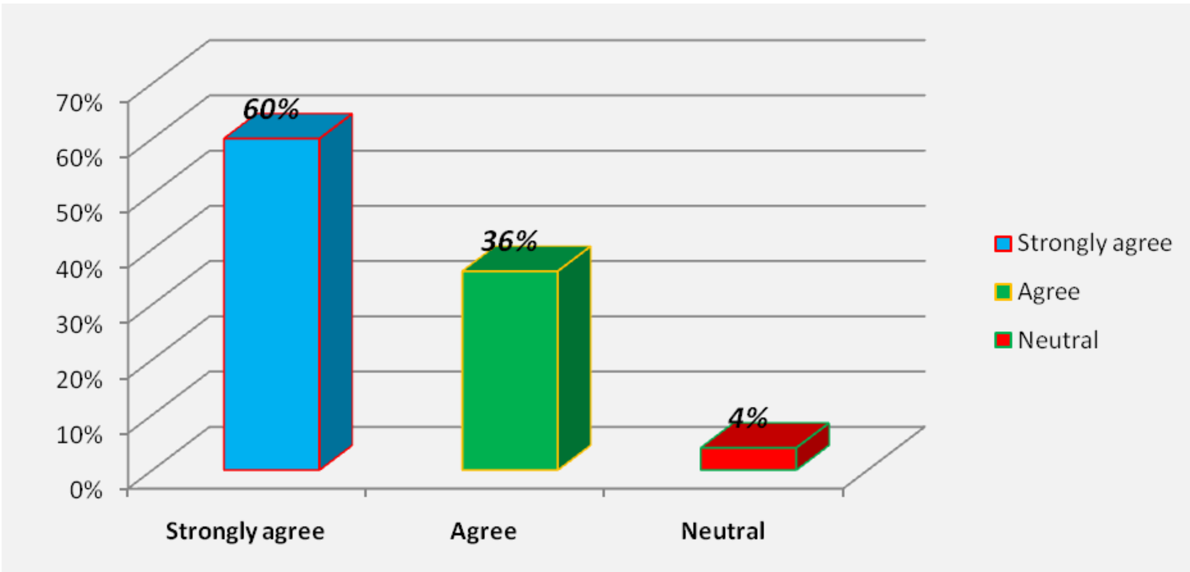
This was one the objective of the study and this statement is used in recognizing all the revenues and expenses during that period. The importance of this statement was examined using questionnaires and interviews and the findings from the respondents were as shown on table 9 below:

Table 9: Shows that (SCI) provides information which helps the organization in planning

	Frequency	Percentage
Strongly agree	30	60
Agree	18	36
Neutral	2	4
Disagree		
Strongly disagree		
Total	50	100

Source: Research data 2014

Figure 5: Bar graph showing the importance of the statement of comprehensive income in (NSD)



Source: Research data 2014

In the table above, the highest percentage of 60% of the respondents strongly agree that the statement of comprehensive income provides information which helps the organization to plan for its future performance and the utilization of its resources. The comprehensive income consists of expenses which help an organization monitor its expenditures against income especially on acquisitions and other capital development costs. Statement of comprehensive income presents all items of income and expense recognized in the period. The 36% of the respondents agreed that statement of comprehensive income is very vital in decision making and the 4% are neutral but with an element of consent that this statement is important to the managers of the organization regarding decision making. The 4% of the respondents disagree of the value of this statement on decision making but they were not clear with the reasons as why they disagree.

Spiceland et al., 2002 stated in the chapter two that that the income statement summarizes the profit- generating activities that occurred during a particular reporting period. Many investors and creditors perceive it as the statement most useful for predicting future profitability (future cash generating ability). It reports the changes in shareholders' equity (retained earnings) that occurred during the reporting period as a result of operating transactions (revenues, expenses, gains, and losses). They continue to say that financial analysts are concerned with more than just the bottom line of the income statement – net income. The specific components of net income are too helpful in an assessment of future cash flows.

4.7 The statement of Cash flows in decision making

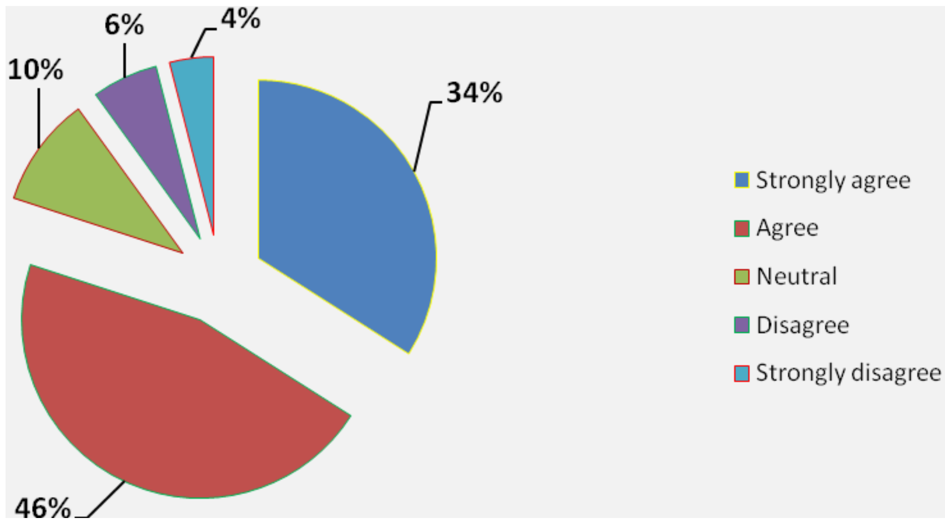
A cash flow statement is a financial report that describes the sources of a company's cash and how that cash was spent over a specified time period. It does not include non-cash items such as depreciation. This makes it useful for determining the short-term viability of a company, particularly its ability to pay bills. The respondents were interviewed on the value of the statement of cash flow on the entity's liquidity and the findings are as shown on 10 below:

Table 10: Shows the importance of cash flow statements on the entity's liquidity and solvency

	Frequency	Percentage
Strongly agree	17	34
Agree	23	46
Neutral	5	10
Disagree	3	6
Strongly disagree	2	4
Total	50	100

Source: Research data, 2014

Figure 6: Pie chart showing importance of Cash Flows Statements on entity's liquidity and Solvency (NSD)



Source: Research data 2014

According to the above figure, 34% respondents strongly agreed that cash flow statements plays a big role in decision making, because is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop modes to assess and compare the present value of the future cash flows of the organization. 46% agreed that decision making is based on the information from the cash flow statements because it enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events. The 10% are neural on the importance of statement of cash flows although they have not declared where they belong but they do agree that cash flow statements are vital in decision making because the historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flows and the impact of changing prices. On the contrarily the 4% and 6% disagreed with the cash flow statement but they did not say as to why the management of NSD should take caution on the minority who did not agree with the rest.

4.7.1 Organizational ability to meet its obligations when the fall due

The organizational ability to meet its obligation was assessed through interviews and questionnaires and the findings are as shown on the table 11 below:

Table 11: Showing the organizational ability of meet its obligations as they fall due

	Frequency	Percentage
Strongly agree	23	46
Agree	24	48
Neutral	1	2
Disagree		
Strongly disagree	2	4
Total	50	100

Source: Research data 2014

The table 11 above indicated clearly showed that 48% of the respondents agreed that the statement of cash flows help the organisation in monitoring its liquidity. The 46% strongly agree that the statements of cash flow are a tool in organsiation decision making as it looks at the various activities in the organisation. However, 1% were neutral and 2% disagreed on the value of statements of cash flow on liquidity therefore, the management needs to critically look at the views of this minority respondents.

Therefore, the findings of the study are in line with the Underdown and Glautier (1997) in chapter two strongly argued that cash is the life blood of the business. A healthy cash flow (measured as cash inflows minus cash outflows) is fundamental to a business's ability to survive and prosper. Users of financial statements who look merely at the profit and loss account (Income statement) for a measure of financial health can be deceived. Indeed, many businesses with apparently strong profits have foundered through poor control over their cash flow. The cash flow statement can be used by management to avoid such liquidity problems. Its purpose is to show what cash has been generated by a business's operations and where the cash has gone.

4.7.2 Cash flow statements on assessment of the entity's operating, investment and financing activities

The questionnaires were administered to 50 respondents on this advantage of statement of cash flows and the findings were as shown 12 below:

Table 12: Showing the respondents assessments on the entity's operating, investing and financing activities

	Frequency	Percentage
Strongly agree	20	40
Agree	24	48
Neutral	5	10
Disagree	1	2
Strongly disagree		
Total	50	100

Source: Research data, 2014

According to above analysis, 24 (48%), of the respondents strongly agreed that the cash flow statement give the highlight on the three major activities components in an organization such as: Operating, investment and financing activities in an organization. The 48% of the respondents agreed that this statement helps the management in knowing the changes in debts, loans or dividends. 5% are neutral meaning they agree but not sure of the actual value of the information got from this in decision making and while the 2% strongly disagree but with no reason given to support their disagreement with the rest. Therefore, findings from the study clearly showed that the division basis its decisions on the results of cash flow statements.

4.7.3. Statement of cash flows on expenditure decisions on different activities

The element was assessed using the questionnaires administered to 50 respondents ascertaining as whether this statement helps management in making decision on various expenditures and the findings were as indicated on table 13 below:

Table 13: Showing the importance of statement of cash flows on decision of on expenditures in different activities.

	Frequency	Percentage
Strongly agree	22	44
Agree	23	46
Neutral	3	6
Disagree		
Strongly disagree	2	4
Total	50	100

Source: Research data 2014

From the analysis above, it can be clearly seen that 22(44%) of the respondents strongly agreed that the statement is used in making decisions about the expenditures in different activities of the organization since the cash flows indicate the different activities carried out in an organization. The 46% agreed that this statement helps management it making priorities on various expenditures in a given period. However, 6% are neutral belonging to either to those who strongly agree or who disagree and 4% of the respondents strongly disagree, stating that expenditures can be made without necessarily basing on the statement. Therefore, although there are some respondents who disagreed, this statement still plays a big role in decision making in an organsiation and the management of the division needs to make the staff aware of the value of the information got from this statement.

4.8 The statement of changes in owner's equity and decision making

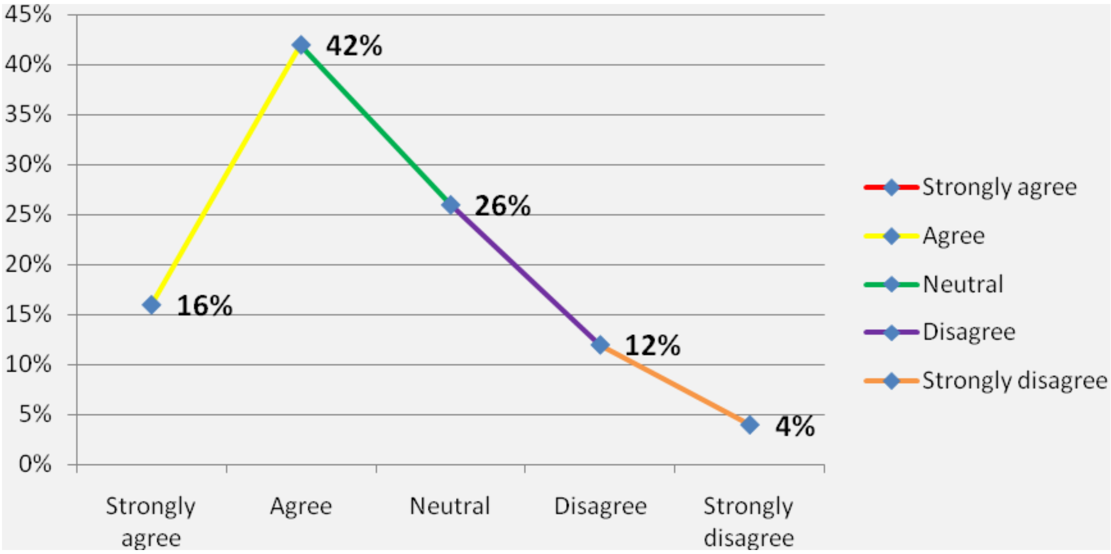
Statement of Changes in Equity, often referred to as Statement of Retained Earnings (IFRS 2013), details the change in owners' equity over an accounting period by presenting the movement in reserves comprised the shareholders' equity. The importance of this objective to decision making was examined using both questionnaires and interviews and the findings were as shown on table 14 below:

Table 14: Showing the importance of the statement of changes in owner's equity in decision making.

	Frequency	Percentage
Strongly agree	8	16
Agree	21	42
Neutral	13	26
Disagree	6	12
Strongly disagree	2	4
Total	50	100

Source: Research data 2014

Figure 7: Line Graph showing the importance of the statement of changes in owners' Equity in (NSD)



Source: Research data, 2014

According to the findings from the figure 7 above, 16% of the respondents were in favour that the statement of changes in owner's equity helps in decision making because it clearly shows capital invested in the organisation by the owners and the profit earned by and retained in the business /organisation. The 42% of the respondents agreed that indeed this statement helps in decision making because it clearly shows the revaluation gains and losses recognized during the period must be presented in the statement of changes in equity to the extent that they are recognized outside the income statement. The 26% of the respondents showed no side but they too agree that this statement helps know the dividends payments issued or announced during the period to the shareholders and while 4% and 12% disagree that this statement has no impact on decision making. However, according to the findings the majority of the respondents agreed that the statement is very important to organisation and especially when it comes to decision making as strongly emphasized by King et al (2001), generally accepted accounting principles, all companies are required to report changes in owners' equity for the period.

4.8.1 Changes in owner's equity and common stock and paid-in-capital

This was examined by use of questionnaires and interviews to fifty respondents and the results were as stated on table 15 below:

Table 15: Showing changes in equity and common stock and paid-in-capital

	Frequency	Percentage
Strongly agree	14	28
Agree	18	36
Neutral	14	28
Disagree	3	6
Strongly disagree	1	2
Total	50	100

Source: Research data 2014

From the above analysis it can be clearly seen that (28%) of the respondents agreed that this statement helps the entity to know the common stock and additional paid-up-capital (direct investment by owners) and the earnings of the entity reinvested in the business (retained earnings).the 36% of the respondents totally agree that this statement enables the management of the organisation to be aware of the value of the investments. 28% are neutral belonging nowhere but indirectly they too do agree with the above and while the 6% and 2% disagree with this concept.

4.8.2 The statement of changes in owner's equity and share capital and reserves

Share capital during the period must be added in the statement of changes in equity whereas redemption of shares must be deducted there from. The effects of issue and redemption of shares must be presented separately for share capital reserve and share premium reserve. This was assessed using both interviews and questionnaires and the findings were as clearly indicated on table 16 below:

Table 16: Showing changes in owner's equity and decision making concerning share capital, and reserves

	Frequency	Percentage
Strongly agree	9	18
Agree	21	42
Neutral	14	28
Disagree	4	8
Strongly disagree	2	4
Total	50	100

Source: Research data, 2014

With the above analysis, it is clear that 18% of the respondents do agree that statement of changes in equity is vital and 42% agree that this statement helps the management in making decision concerning share capital, reserves and long term payables. The 28% are neutral meaning they do agree although they have not declare their position and while 8% and 4% totally disagree that this statement does not help in decision making and in the analysis of share capital and reserves. However, the findings stress that this statement is vital and the management of the organizations' should emphasis its usage in decision making and the minority ideas should also be considered.

4.9 Advantages of financial reporting on decision making in an organization

Financial analysis determines a company's health and stability. The data gives an intuitive understanding of how the company conducts business. Stockholders can find out how management employs resources and whether they use them properly. Therefore, these statement help in planning for the financial resources both revenues and expenditures, ascertaining profitability, liquidity efficiency, decision, on dividends monitoring and evaluation. These attributes were examined and the findings were as shown in table 17 blow:

Table 17: Showing the advantages of financial reporting on decision making

	Frequency	Percentage
Strongly agree	21	42
Agree	24	48
Neutral	4	8
Disagree		
Strongly disagree	1	2
Total	50	100

Source: Research data 2014

From the analysis, the findings show that 42% of the respondents strongly agree that financial reporting play a big role in decision making because the information from these statements gives clear view of the profitability of the organization as regards to dividends or net profits for the year which information is understandable and reliable. The 48% of the respondents do agree that indeed financial reporting is vital in decision making on efficiency ratios that is to measure how efficiently the company turns inventory into revenue. The 8% are neutral on the falling in either side but still agree on the above advantages and while 2% disagree but the reasons so to why they do disagree were not clear but this still calls for the attention of the management to look at the views of the minority.

4.10 The processes in decision making in an organisation

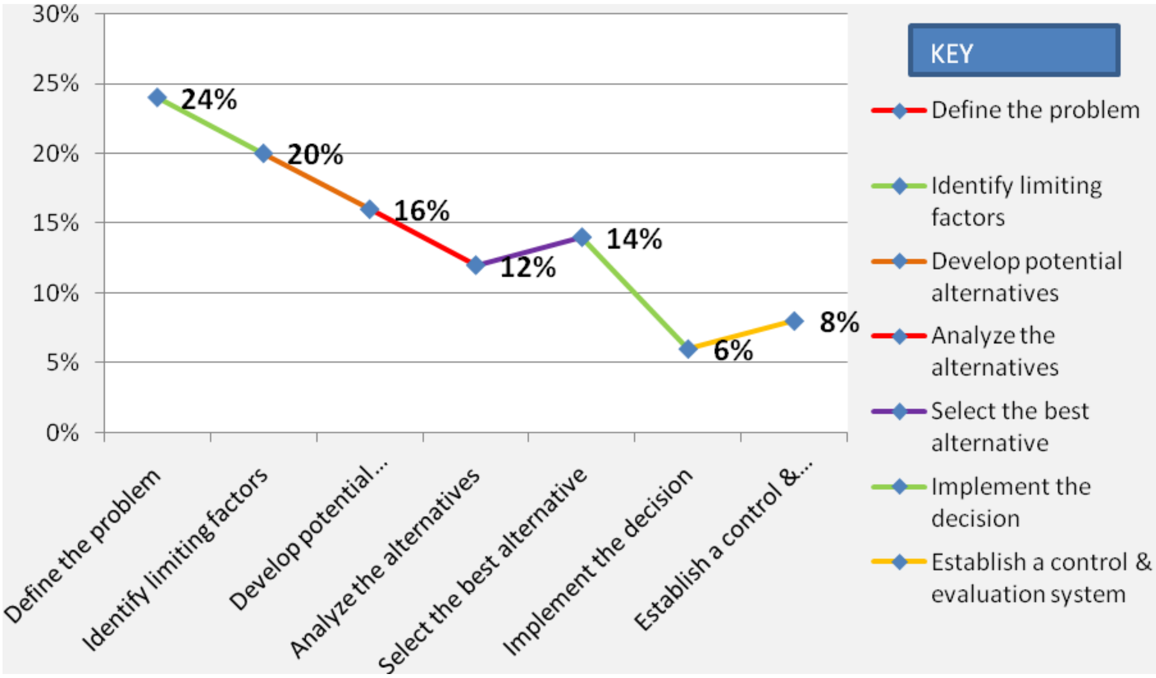
Decision making is a process in an organisation, this was assessed using the questionnaires and the interviews and findings were as shown on table 18 below:

Table 18: Showing the processes of decision making in an organisation

	Frequency	Percentage
Define the problem	12	24
Identify limiting factors	10	20
Develop potential alternatives	8	16
Analyze the alternatives	6	12
Select the best alternative	7	14
Implement the decision	3	6
Establish a control and evaluation system	4	8

Source: Research data 2014

Figure 8: Line graph showing the processes in decision making in an organisation



Source: Research data 2014

From the above analysis, 24% do agree that definition of the problem is very vital,20% of the respondents support the identification of limiting factors to problem,16% agreed on the development of alternative course of action the identified problem, 12% state that analysis of the alternative course of action is very vital process in decision making because an element of comparison can be applied, 14% agree that selection of the best alternative among the above is vital because not all the alternatives can be take, and 6% believe that after selecting the best alternative implementation of the decision can be effected and lastly 8% agree that having done all the above the best is to take control and evaluate the system. However, the majority of the respondents agreed on the above processes although during the interviews, some respondents showed the organization does not follow all the above steps fully and this affects decision making.

4.11 How often decision making is carried out in the Division and why it is done on that time.

During the interview, the above question was asked and all the respondents in the division and they strongly agreed that decisions are made every month. The following reasons were given as to why the division carries out decision making every month;

- ❖ To ascertain the outcomes of the decisions made in the previous month.
- ❖ Because at the end of every month there are pressing needs which have got to be met.
- ❖ Because every end of the month financial reports are prepared to determine how much they have collected in terms of revenue and how that revenue has been utilized as regards to service delivery.
- ❖ Because committees like executive members, social service, finance and full council sit every month to discuss the cash flow statements thus making decisions.
- ❖ Because even reporting is done on a monthly basis in order to be able to plan for the following month.
- ❖ To identify areas of weakness and look for the possible way out.

4.12 Advantages of carrying out decision making using financial reports.

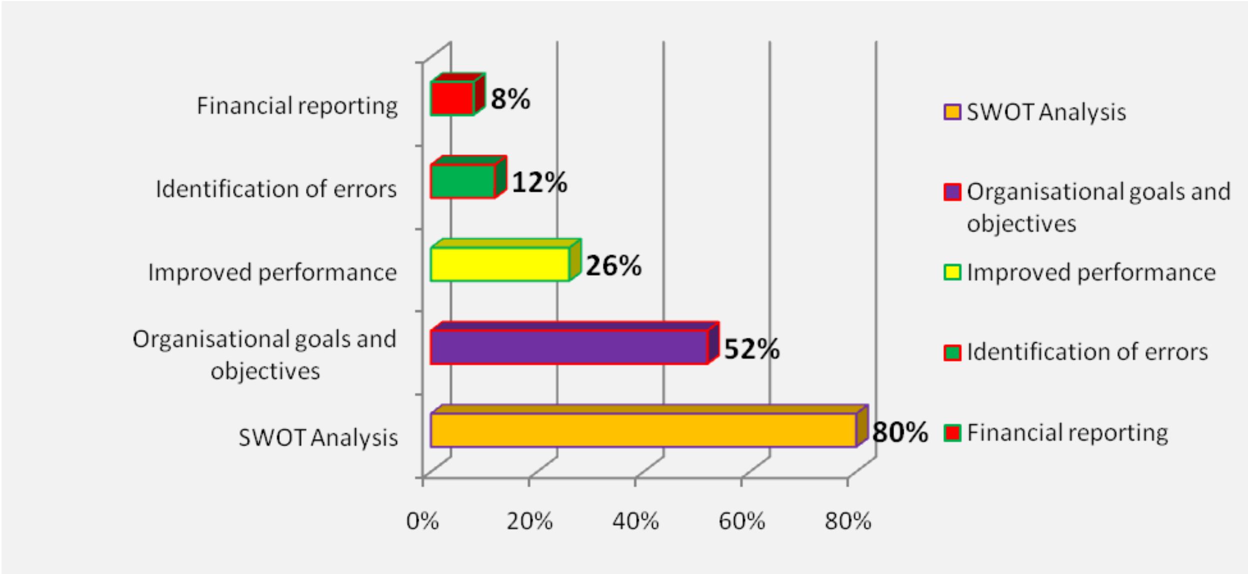
The advantages of carrying out decision making were assessed through questionnaires administered to 50 respondents and the results were as shown on the table19 below:

Table 19: Showing the advantages of decision making in an organization

Factors	Frequency	Percentage
Achievement of organizational goals and objectives	26	52
Improvement in organization’s performance	13	26
Financial reporting	4	8
SWOT Analysis	40	80
Identifying errors in the financial statements	6	12
	50	100

Source: Research data 2014

Figure 9: Showing the advantages of decision making to an organisation (NSD)



Source: Research data 2014

In the above figure above, 80% respondents supported the view that decision making helps an in carrying out the SWOT analysis whereby the management use this tool to determine the organizational strength, weakness, opportunities and treats, 52% agree realizing its goals and objectives because unless a decision is made then nothing can be achieved, 26% totally agree that decision making is of great advantage to organization because it helps in improving performance and 15% believe that decision making helps management in identifying errors previously made and learn from the past mistakes.. Since financial reports are the major tools used in decision making, the errors are easily identified when analyzing or revising the financial reports.

4.13 Challenges faced in decision making in an organization

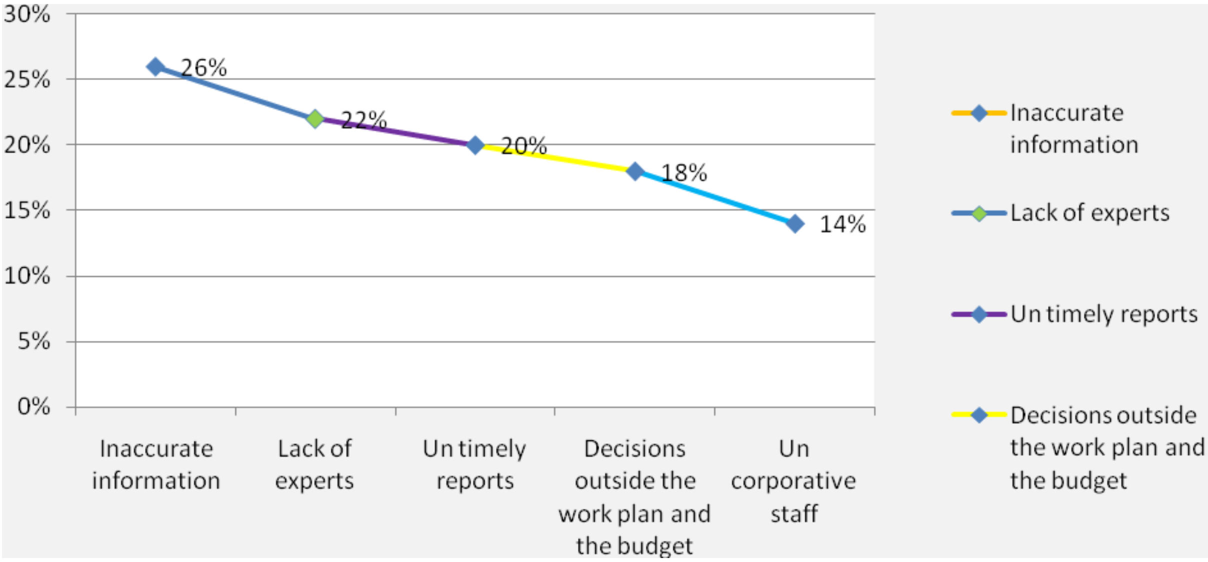
This factor was assessed through interviews and questionnaires and the following were the findings as shown on table 20 below:

Table 20: Showing the challenges faced by NSD in decision making

Challenges	Frequency	Percentage
Inaccurate information/ wrong estimated figures	13	26
Lack of experts	11	22
Un timely reports	10	20
Decisions outside the work plan and the budget	9	18
Un corporative staff	7	14
	50	100

Source: Research data 2014

Figure 10: Line graph showing the challenges faced by NSD in decision making



Source: Research data2014

The above findings indicates that 25% of the respondents agreed that the organization in making its decisions are faced by the challenge of inaccurate information which put the decision maker into a big risk because the decision is not reliable and this affects the quality of decision made. The 22% of the respondents too agree that the quality of decision made in the division is affected by lack of expert personnel to critically look at the statements to ascertain whether the make sense before making any decision based on the information provided.

Un-timely reports (20%) the findings showed that untimely reports from the accountants in division affect the quality of decision make. The element of time is very important to the top management especially when it comes to acquisition or disposals.Un-timely reporting leads to un attainment of the organizational goals and objectives. The 18% agreed that decisions made outside the work plan and the budget greatly affects the decisions by the managements and the management should try to relate their decisions in accordance with the work plan and the budgets.

Another challenge was cooperating staff in the division has affected the decision making process and the division has not been able to achieve its objectives and goals because of this factor which is contributed by 14%. The management has a task of ensuring that the all the staff are brought on board so that they feel the belonging in the division.

Apart from the above another challenge to decision making in the decision is the government laws and regulations .Most of the respondents strongly agreed that the government laws and regulations affect decision making in that some projects/ programmes are being managed by government and hence funds are released when funds and decisions are made. This at times hinders or delays decision making, prolonged hierarchy of government procedure before a decision is made affecting the implementation of the programs. The government also affects decisions because they are normally not pre-tested before they are formulated. It also affects in that most of the grants from the central government are targeting specific offices like LGMSDP funds and local revenue from property rates is mainly for garbage collections.

The government laws and regulations strongly affect because every decisions made should not conflict with the government laws and regulations and therefore each and every activity financed using government funds has to be supported by laws and regulations or else one has to pay for deciding to diverge. They really do affect decision making because most of the activities carried out are done following the approved budgets that were passed by council and this greatly affects decision making because everything has to be done as planned using budget estimates.

4.14 Economic conditions affecting decision making in Nyendo-Ssenyange Division

The factor was examined using the questionnaires and interviews and findings were as shown on table 21 below:

Table 21: Showing the economic conditions affecting decision making in an organisation

Factors	Frequency	Percentage
Bureaucracy	10	20
Inflation	15	30
Government policy	8	16
Political interference	10	20
Late release and limited funds from local government	7	14
Total	50	100

Source: Research data 2014

The above table 21 indicates that 10 (20%) respondents said that bureaucracy affects the decisions made in that there are many levels that are gone through before the decision is approved and implemented. This also includes the many people that have to be consulted before the decision is made therefore, time wastages is experienced by the management.

15(30%) respondents responded that inflation also affects the decision making due to the increasing costs in the economy on goods and services produced hence affecting the demand there by leading to decline in performance.

Government policy (16%) is another factor that influences decision making for example the statutory instrument of 2011 on trading licenses affected the division especially in the course of taxing tax payers. The decisions made by the division become un reliable hence affecting the performance of the division.

The 20% of the respondents agreed that political interference affects the decision making by the division where by the political bodies decisions are not in line with the one of the decision and the division in a long run may be forced implement some of their objectives in accordance with the one of the government.

Late release and limited funds from local government is one of the factors which affect decision making in the division (14%) of the respondents strongly stated that is has affected they decisions make by the managers of the division. The manager can plan well because they have limited resources which again are released later.

Besides the above given factors, there are other factors that affect decision making in the organization that were reported by the respondents during the interview as given below:

Making un-realistic budgets which in most cases are not easily attainable due to little funds got therefore the decisions made should much the funds provided which is very tricky.

Declining local revenue from taxes. This normally happens when some tax payers do not pay the taxes assigned to them there by leading to reduced revenue. This can also be termed as tax evasion and avoidance. Lack of seriousness by the council when it comes to decision making, due to the element of self interest.

Poor yielding activities carried out by the community of which these affect the tax revenue and decision making since they are not taxed. This also brings in the high level of low income earners who are also not taxed as such. Corruption also arises due to embezzlement of available funds to be used in decision making

4.15 Relationship between financial reporting and decision making

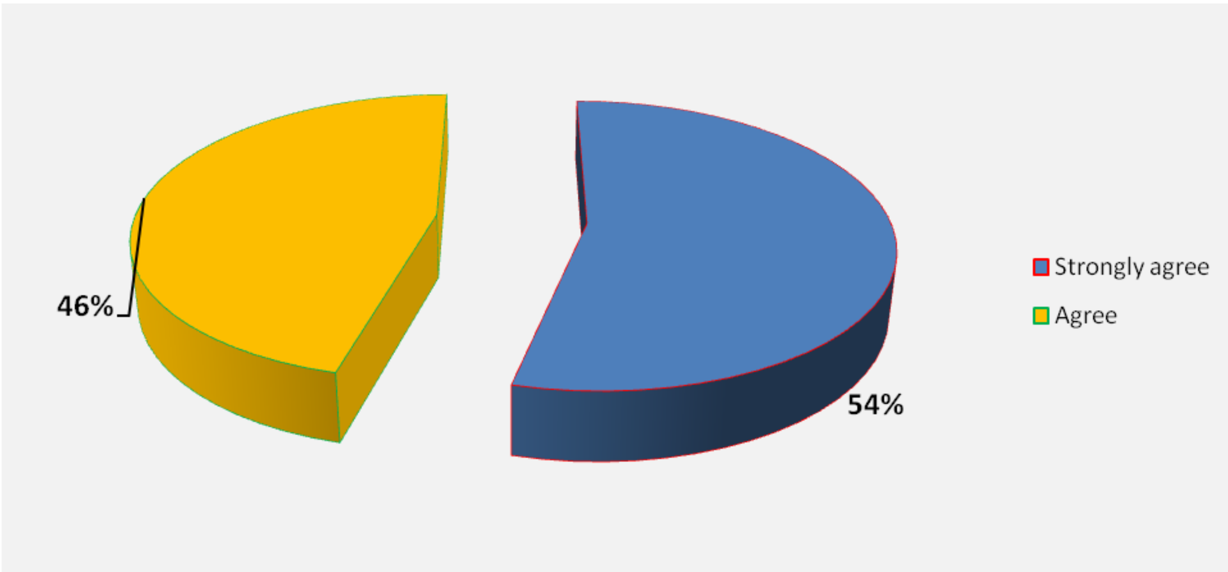
In order to improve the usage of financial information in the context of the decision making process, there is need to analyze financial statements. The 50 respondents administered the questionnaire and the responses are as indicated below:

Table 22: Showing the relationship between financial reporting and decision making

	Frequency	Percentage
Strongly agree	27	54
Agree	23	46
Neutral		
Disagree		
Strongly disagree		
Total	50	100

Source: Research data 2014

Figure 11: Pie chart showing the relationship between financial reporting and decision making (NSD)



Source: Research data 2014

The table and the figure above indicates that (54%) strongly agreed that there is a strong relationship between financial reporting and decision making and 23(46%) respondents also agreed that the above are related and management cannot make decision without basing on the financial reports. An organisation bases its decisions from the outcome of the financial reports. The respondents clearly agreed that financial accounting information is designed primarily to assist investors and creditors in deciding where to place their scarce investment resources. This was supported by (Meigs et al., 1999) in chapter where emphasis was put on the quality of financial reports. Therefore, the quality of decisions is based on the nature financial reports. Although all the respondents believed that there is a relationship between the two variables under study, the management still needs to monitor the quality of the reports to ensure that they are timely, understandable and reliable.

4.15 The importance of financial statements in decision making

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions (IASB Framework 2013). This was assessed through both interviews and questionnaires and the findings are as indicated below:

Table 23: Showing the role played by financial statements in decision making

	Frequency	Percentage
Strongly agree	28	56
Agree	10	20
Neutral	4	8
Disagree	6	12
Strongly disagree	2	4
Total	50	100

Source: Research data 2014

From the finding on table 23 above, (56%) respondents strongly agreed that there is a big role played by financial statements in decision making in an organization, the (20%) respondents also agree that financial statements help in decisions because the information from financial statements especially if the information are timely and understandable. However, 8% are neutral but still believe that financial statement play a big role in decision making because the information from these statements are reliable. On the contrary 12% and 4% disagree that these statement have no effect on decision making, the management needs to find more as to why they disagree.

According to the findings the respondents strongly agreed financial statement in an organization play a vital role in helping the manager to assess the risk and return of their investment in the company and take investment decisions based on their analysis.

To assess the viability of investing in a company, investors may predict future dividends based on the profits disclosed in the Financial Statements. Furthermore, risks associated with the investment may be gauged from the Financial Statements among others

14.6 Conclusion

From the findings above, it has been established that the financial statements as the major tools in decision making in an organization. The staff of NSV should consider these tools as one of their pre-requisites to proper decision making. These four major statements gears towards making economical informed decisions before making any step as regards to acquisitions or disposal and any other decision which affects the division either positively or negatively.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

In this chapter, the summary of the findings, conclusions arrived at as the result of this study and the possible recommendations that will help government institutions achieve their set goals and objectives in a most effective and efficient way and suggestions for further research.

5.1 Summary and conclusion of findings

From the findings of the research, it is obvious that financial reports are very vital in decision making in government institutions as they help management in making decisions that are in line with the objectives of the organization. The study still shows that though there are some challenges faced in decision making, such as the errors and wrong estimated figure in financial reports, the fact still remains that decisions cannot be made in absence of financial reports because they are the very important tools in decision making if properly prepared and used.

Basing on the findings, there are four financial reports that are used in decision making in Nyendo-Ssenyange Division that is the statement of comprehensive income, the statement of financial position, the statement of cash flows and the statement of changes in owners' equity however still basing on the findings, few respondents supported the use of the statement of changes in owners' equity which is rarely used in decision making or the accounts preparers and management do not believe that it can help in decision making or even they do not it is not prepared at all.

5.2 Conclusions

The first objective was to find out how the Statement of Financial Position affects decision making. The researcher found out that most of the respondents strongly agreed that the statement is very useful in decision making in the Division. The statement of financial position affects decision making in that it provides decision makers with information about what assets are held by the organization and how the organization obtained those assets. It also helps in making better decisions by informing management which liabilities should be paid first. The statement of financial position does this by classifying liabilities as current and non-current assets. This classification is helpful to decision makers because it identifies the accounts with what should be paid promptly.

The second objective was to investigate how the Statement of Comprehensive income affects decision making in Nyendo-Ssenyange Division. As well as wishing to forecast the cash position, management might want to estimate the profitability and the financial position for a coming period of the organization. This would involve the preparation of a forecast Statement of Comprehensive Income and Statement of Financial Position for easy decision making.

The next objective was to find out the effect of the Statement of Cash Flows on decision making in government institutions. The study found out that 48% respondents agreed that the Statement of Cash Flows is very important in decision making since it helps in assessing the organization's ability to meet its obligations when they are due. However that is not the only advantage of the statement there are other advantages as identified in the findings though most of the respondents supported that.

The argument is that cash flows are very important to in decision making. The cash flow statement is required by Generally Accepted Accounting Principle (GAAP). This statement provides a summary of all entity's cash inflows during the period and it classifies cash along the lines of an organization's major activities for example operating, investing and financing. Therefore the statement is very important in decision making.

In investigating the effect of the Statement of Changes in Owners' Equity on decision making in Government Institutions, though some respondents strongly agreed and some agreed. There those who strongly disagreed and others disagreed however some were neutral and this happened may be because they were not sure that the statement is useful as the case that some organizations do not use it or even may be the statement is not at all prepared in the Division. However alongside all that, the Statement is very important in that investors and creditors need to know about owners' equity to be able to know whether the owners are financially committed to the company in that they have significant investment in it and to know how much to be shared in terms of profits and to be able to influence management. For all that to be fulfilled therefore, the Statement of changes in Owners' Equity has to be prepared.

Decision making in Nyendo-Ssenyange Division is done every month since every end of the month financial reports are prepared to determine how much they have collected in terms of revenue and how that revenue has been utilized as regards to service delivery. That is a good idea because they also get to know their areas of weakness as well as the cash flows within the organization which helps them monitor their performance and how plans are applied t achieve the desired goals and objectives.

Regarding the advantages of using financial reports in decision making, five advantages were given by respondents that is achievement of organizational goals and objectives, improvement in organization's performance, approves whether financial reports are good tools in decision making, identifying areas of weakness and identifying errors in financial statements. However there are other advantages apart from those for example decision making reduces uncertainty and doubt about alternatives to allow a reasonable choice to be made from among other.

Many challenges were identified by the respondents including the lack of experts and poor management, inaccurate or wrong estimated figures in the financial reports leading to poor decision making and many other challenges though such challenges cannot be avoided, they can be controlled by doing the need full for example employing experts that are needed to make financial statements appear accurate for example external auditors to help in identifying errors and to advise through making opinions. The findings indicated that the government affects decision making in the division since some projects are managed by the central government and hence funds are released when decisions are made. This affects the division since it hinders decision making due to prolonged hierarchy of government procedures before a decision is made hence affecting the implementation of the programs.

During the findings many economic conditions affecting decision making in the Division were given including those caused by government like the government policy, late release of funds hence delay in decision making and many other factors caused by un avoidable circumstances as given in chapter four hence affecting decision making.

In conclusion, 54% of the respondents strongly agreed and 46% agreed that there is a relationship between financial reporting and decision making and 72% strongly agreed that the financial statements play a big role in decision making. The researcher strongly agrees with both statements because financial statements work hand in hand with decision making since they are used by management in decision making. The financial reports techniques used for analyzing the financial statements are prepared by professional accountants and auditors of an organization in the accounts and finance department of an organization and so these reports provide useful information to organizations since they are based on by managers in making timely and right decisions which decisions are carried out by employees thus improving on the organization's performance once the decisions are carried out effectively and efficiently. Therefore all organizations need to prepare financial reports in order to make right decisions.

5.3 Recommendations

The Division uses four financial statements that is the statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash flows and the Statement of Changes in Owners' Equity. Though those are the main statements, it is recommended the Division to also prepare other statements as stated by the International Public Accounting Standards (IPSAS) that is notes comprising a summary of significant accounting policies and other explanatory notes like the judgment that management has made in the process of applying the entity's accounting policies which have the significant effect on the amounts recognized in the financial statements.

The findings revealed that the Division rarely uses the Statement of Changes in Owners' Equity. The statement is useful since it helps the equity investors to know more about their powers to appoint and remove directors and their entitlement to share in residual income and net assets and also decisions concerning share capital, reserves and long term creditors can be made. Therefore if it is possible Nyendo-Ssenyange Division should use the statement to meet those objectives.

Many advantages were given by the respondents regarding the use of financial reports in decision making and therefore basing on what was given above, Nyendo-Ssenyange Division should continue using the financial reports in decision making because they are very important tools regarding decision making since they give the position of the organization and so managers base on that to either improve or maintain the organization's position.

The study reveals a lot of challenges faced in decision making that were given by the respondents and among them there is a challenge of lack of experts to help in approving the financial reports for example auditors and poor management as the second biggest challenge. Recruitment of well trained employees and managers for example employing of auditors who are professional in the field of accounts should be employed to minimize such challenges since such people can be knowledgeable of what they are doing.

Though there are government laws and regulations that affect decision making in the Division, the government should not set tight regulations because this affects the Division's decision making. Therefore while the government is setting laws and regulations it should consider the well being of the organizations under it since the regulations affect everyone in the organization not management only and so the strategic plan thereby also impacting the decisions made hence poor performance and employee demonization.

There are many economic challenges that were given affecting decision making for example inflation, economic crisis, late release of funds and government policy were the biggest challenges that were given. To control inflation as it is the most unavoidable challenge; the government can increase taxes (such as income tax and Value Added Tax) and cut spending.

This improves the budget situation and helps to reduce demand in the economy as well as reducing the growth of aggregate demand when the monetary policy is in place.

Government should begin setting limits on imported goods or setting price restrictions on specific products. This will attempt to save domestic jobs during an economic downturn or crisis. Limiting the amount of imports from free trade policy may help companies avoid the layoffs hence increasing the domestic production of consumer goods. This reduces the economic crisis which often reduces the amount of personal income for consumers hence reducing the amount of money individuals are willing to spend on various goods and service.

In conclusion, it should be noted that not all the information necessary to make sound financial decisions is readily available from financial reports. A number of ratios need to be calculated and compared with others to enable the decision maker to draw the correct conclusions. It should be remembered that the financial statements reflect the historic activities and that decisions are taken about the future. They largely portray the financial effects of past events and do not necessarily provide non-financial information.

However information is a key element in decision making therefore the researcher recommends Nyendo-Ssenyange Division to continue using financial reports in decision making since they provide management with all the information needed for making the economic decisions however it should be noted that there are challenges faced when preparing the statements of which if the challenges are not identified, the decisions may be affected though such challenges can also be avoided by employing seniors that are well conversant with preparation of the financial statements there by making well informed and economic decisions which can be implemented to meet the organizational goals and objectives hence improving on the organization’s performance.

5.4 Suggestions for further research

This study was limited to the effect of financial reporting on decision making. Thus other studies can be carried on:

- The challenges of using financial reporting in decision making in an organization
- The impact of improving the quality of financial reporting on decision making
- The role of management in financial reporting and decision making in an organization
- The relevance of Financial Statements and their Impact on Organizational Performance

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APPENDICES

Appendix I: REASEARCH QUESTIONNAIRE

PART 1

QUESTIONNAIRE TO NYENDO- SSENYANGE DIVISION

Dear respondents.

This research is being carried out by Namayega Maria, a under graduate student at Uganda Martyrs University- Nkozi. The research is being conducted to **ASSESS THE EFFECT OF FINANCIAL REPORTING ON DECISION MAKING IN NYENDO-SSENYANGE DIVISION MASAKA MUNICIPALITY**. The study is carried out as a partial fulfillment of the requirements for the award of a Bachelor's Degree in Business Administration and Management of Uganda Martyrs University.

The information provided when answering the questions is for academic purposes only and will be treated with high confidentiality. Your cooperation in answering the questions below is highly appreciated.

SECTION A; Background information about respondents

Instructions: Fill the spaces provided or indicate the response corresponding to appropriate choice of response where applicable.

1. Gender

   a) Male ☐ b) Female ☐

2. Age

a) 20- 29 ☐ b) 30- 39 ☐ e) Above 60 ☐

c) 40- 49 ☐ d) 50- 59 ☐

3. Highest level of education

a) Certificate ☐ b) Diploma ☐ e) Degree ☐

c) Masters ☐ d) PHD ☐

4. Experience with company

a) 1- 2 years ☐ b) 2- 3 years ☐ e) Above 6 yrs ☐

c) 4- 5 years ☐ d) 3- 4 years ☐

SECTION B: General Section

Under this section, tick the appropriate box to indicate the extent of your level of agreement with the following statements. (Independent variable and Dependent variable)

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
5	4	3	2	1

	5	4	3	2	1
The Statement of Financial Position plays an important role in the decision making in a Government institution.					
The Statement of Comprehensive Income plays an important role in the decision making of a Government Institution.					
The Cash Flow Statement plays an important role in the decision making of a Government Institution.					
The statement of Changes in owner's equity plays an important role in the decision making of a Government Institution					
Nyendo – Ssenyange Division uses Financial Statements to guide the Division in decision making.					

Statement of Financial Position (Balance Sheet) and decision making

	5	4	3	2	1
The Statement of Financial Position provides decision makers with information which can be used to guide decision making in an organization.					
The information in the Statement of Financial Position can guide an organization to plan how to pay off its liabilities.					
The information in the Statement of Financial Position helps an organization in deciding on the disposal of old assets and acquisition of new assets.					
The information about current assets and liabilities can help an organization to plan for the level of working capital in organization.					
The information in the Statement of Financial Position can help an organization in planning for its liquidity to help it meet its obligations when they are due.					

Statement of Comprehensive Income and decision making

	5	4	3	2	1
The Statement of Comprehensive income provides information about the financial performance of an organization. The information derived from this statement assists the organization in planning for the future performance of the organization.					
Information from the Statement of Comprehensive income is used in planning for the revenue of the organization.					
The Information in the Statement of Comprehensive income is used to make decisions about the expenditures of the organization.					
The information from the Statement of Comprehensive income is used to plan for the profitability of an organization.					
The information from the Statement of Comprehensive income is used in making decisions about dividends to shareholders.					
Nyendo- Ssenyange Division uses information from the Income Statement in its planning for the Division.					

Statement of Cash flows and decision making

	5	4	3	2	1
The Cash Flow Statement helps users to assess the entity's liquidity and solvency.					
The Cash Flow Statement helps Users to assess the organization's ability to meet its obligations when they are due.					
The Cash Flow Statement helps users to assess the entity's operating, investing and financing activities.					
Nyendo- Ssenyange Division uses information from Cash Flow Statement to make decisions about its expenditures in different activities.					

Statement of changes in owner's equity and decision making

	5	4	3	2	1
The statement of changes in owner's equity helps the equity investors to know more about their powers to appoint and remove directors and their entitlement to share in residual income and net assets.					
The statement of changes in owners' equity helps loan creditors and trade creditors to acquire assurance that the directors will not distribute funds to equity investors before settling the outstanding debts in full.					
The statement of owners' equity helps the entity to know the common stock and additional paid-in-capital (Direct investment by the owners) and the earnings of the entity reinvested in the business (Retained earnings).					
Nyendo- Ssenyange Division uses information from the statement of owners' equity to make decisions concerning share capital, reserves and long term creditors.					

In these sections, fill in the appropriate answers for each question in the space provided and circle the suitable answer where necessary.

SECTION C: Dependent variable

1. What procedures/ steps do you follow when carrying out decision making in your Division using financial reporting?

i) …………………………………………………………………………………………………..

ii) ………………………………………………………………………………………………….

iii) ………………………………………………………………………………………………….

How often do you carryout decision making and why?

A. Every month.

B. Every after a year.

C. Every after two years or three years.

D. Where need be.

E. Every after two weeks.

Reason

………………………………………………………………………………………………………

3. What are some of the advantages of carrying out decision making using financial reports?

A. To meet the organization's goals and objectives

B. To improve on the organization's performance by implementing the plans and decisions made by management

C. To find out whether financial reports are good tools in decision making

D. To identify areas of weakness and look for how to improve on them especially when using the figures estimated in financial reports when making decisions.

E. It helps in identifying errors made in making financial reports hence obtaining the necessary information used in decision making

4. What are some of the challenges faced in decision making?

A. Inaccurate or wrong estimated figures in the financial reports leading to poor decision making.

B. Lack of experts that is poor management in decision making

C. Shortage of experts to help in approving the financial reports for example the auditors before making decisions.

D. Late submission of reports by accountants and auditors of the organization hence delays in decision making by management

E. Making decisions which are not in line or related with the goals and objectives of the organization.

F. Workers not willing to implement the decision made in order to meet the organization's goals and objectives hence leading to the organization's poor performance.

SECTION D: Intervening factors

1. Do government laws and regulations affect your decision making? If yes, explain your answer.

……………………………………………………………………………………………………

2. What is your strategic plan in this year?

i) To perform what is expected of us through serving our people equally.

ii) To recruit new and skilled employees in order to improve on our performance.

iii) To maintain equitable and sustainable development.

………

3. What are some of the economic conditions affecting decision making in your organization?

……

Tick the most appropriate box to indicate the extent of your level of agreement with the following statements.

4. Do you agree that there is a relationship between financial reporting and decision making?

Agree ☐ Strongly agree ☐ Disagree ☐ Strongly disagree ☐

5. Do you agree that Financial Statements play a big role in decision making in an Organization?

Agree ☐ Strongly agree ☐ Disagree ☐ Strongly disagree ☐

THANK YOU FOR PARTICIPATING IN THIS RESEARCH

Appendix II: Interview Guide Questions

The first four (4) questions, the respondents either strongly agree, agree, neutral, disagree or strongly disagree.

1. The statement of Financial Position provides decision makers with information which can be used to guide decision making in an organization.

2. Information from the Statement of Comprehensive Income is used in planning for the revenue of the organization.

3. Do you agree that there is a relationship between financial reporting and decision making?

4. Do you agree that Financial Statements play a big role in decision making in an organization?

5. What procedures/ steps do you follow when carrying out decision making in your Division using financial reporting?

6. How often do you carryout decision making?

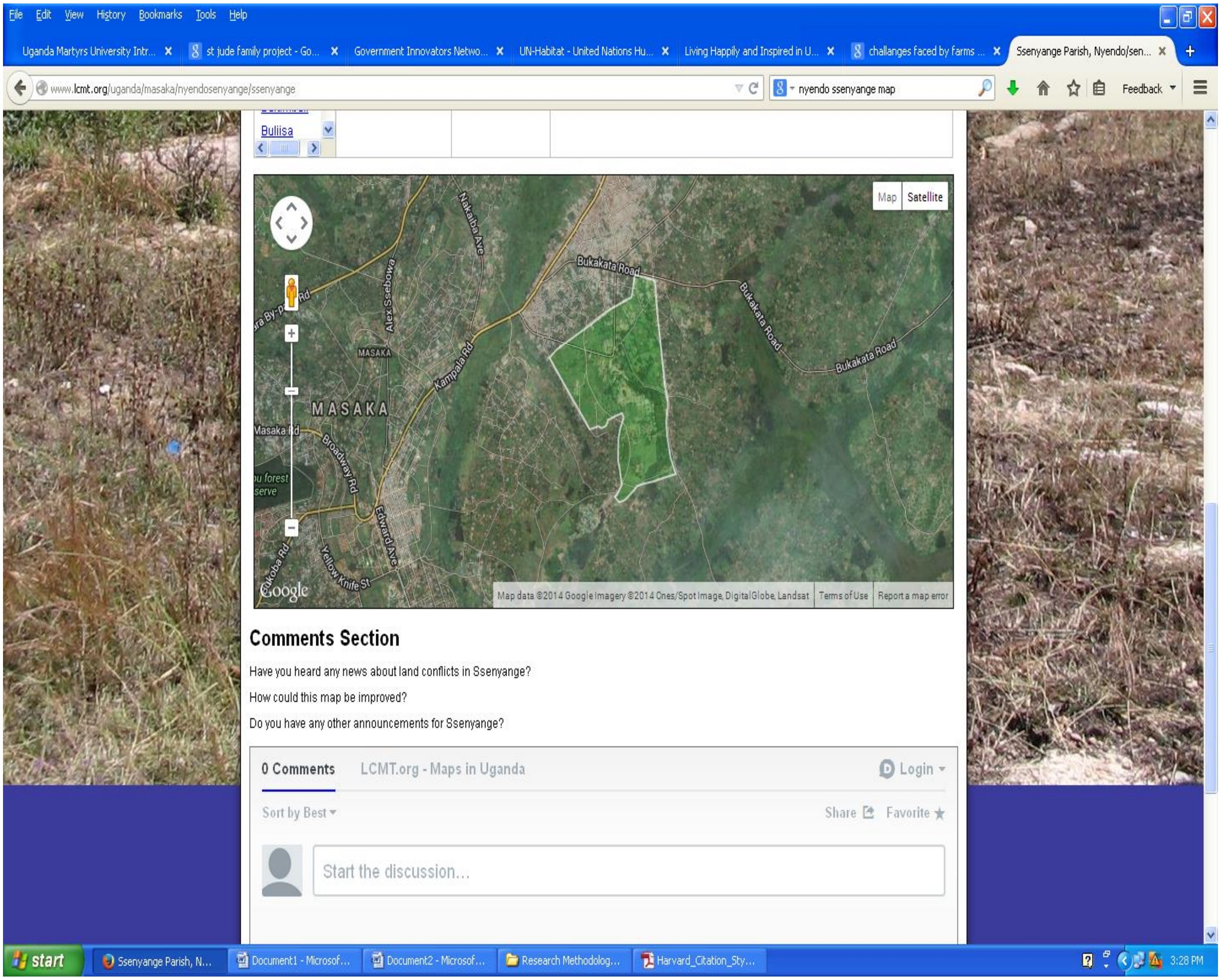
7. What are the advantages of using financial reports in decision making?

8. What are some of the challenges faced in decision making while using financial reports?

9. Are you affected by government laws and regulations in decision making?

10. What are the economic conditions affecting decision making in the Division?

Appendix III: A Screenshot showing the Map of Nyendo-Ssenyange Division



Appendix III: A Screenshot showing the Map of Nyendo-Ssenyange Division