



## INVESTORS' PERCEPTIONS OF THE VALUE RELEVANCE OF ACCOUNTING INFORMATION IN BANGLADESH

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### ABSTRACT

*This paper aims to explore how both institutional and individual investors perceive the importance of various financial statement items in the valuation of equities. Employing a descriptive survey design, the study targeted all investors involved in the DSE. A total of 400 respondents were sampled from this population. Data were gathered via structured questionnaires and subsequently analyzed using descriptive statistics alongside independent sample t-tests. The results suggest an overall agreement among respondents regarding the usefulness of accounting information in decision-making processes. However, notable differences emerged between institutional and individual investors regarding the significance of accounting information for valuation purposes.*

**Keywords:** Financial Statements; DSE; Bangladesh; Institutional and Individual Investors.

### INTRODUCTION

Individuals seeking to optimize their financial resources often prioritize investment in the stock market. However, stakeholders involved in financial and investment decision-making, including investors, creditors, financial analysts, and auditors, do not adhere to fixed criteria. Each group relies on its own approach to assess situations and make rational decisions (Hosen et al., 2020).

Financial statements serve as crucial tools, offering value-relevant information to various users like investors, creditors, financial analysts, and auditors, enabling them to make well-informed decisions (Irungu, 2013). The absence of price-relevant accounting information impedes effective market functioning (Kothari, 2001). Financial statements also aid financial managers in forecasting the future and enhance corporate communication, accountability, and governance (Anderson & Epstein, 1995).

However, a critical inquiry remains: to what extent do users of financial reports actually incorporate these reports into their decision-making processes? Numerous studies, both in developed and developing countries, have explored user perceptions regarding the usefulness of disclosed financial information. While some studies focused on specific user categories like individual investors (e.g., Ho et al., 2004; Abdelkarim et al., 2009; Hosen et al., 2020), financial experts (Streuly, 1994), or investment analysts (Moloi & Adelowotan, 2018), others have examined perceptions across multiple user groups (Saini & Sharma, 2019; Abdelkarim & Alawneh, 2009; Martins & Silva, 2018; Nassir Zadeh, 2011; Alzarouni et al., 2011) or differences among these groups in valuing accounting information for informed decision-making. While certain studies demonstrate agreement among user groups regarding the importance of different financial statement items, others highlight contrasting viewpoints. Thus, this study seeks to

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contribute empirical evidence from Bangladesh, examining investors' perspectives on the value relevance of accounting information in their investment decisions, thereby enriching the ongoing discourse with a rational dimension.

### **RESEARCH PROBLEM**

Despite the established importance of financial statements in providing value-relevant information to various users such as investors, creditors, financial analysts, and auditors, there remains an ongoing debate about the extent to which these stakeholders actually incorporate financial reports into their decision-making processes. Prior research has shown mixed results, with some studies indicating consensus among different user groups on the importance of financial statement items, while others reveal significant differences in their perceptions and usage of accounting information. This inconsistency underscores a critical need for further investigation, particularly in different economic contexts. This study aims to address the gap by examining the specific case of Bangladesh, focusing on how investors perceive and utilize accounting information from financial statements in their investment decisions. The objective is to provide empirical evidence that contributes to the broader understanding of the value relevance of accounting information and its practical application in investment decision-making, thereby adding a rational dimension to the ongoing discourse on this subject.

### **OBJECTIVES OF THE STUDY**

The primary aim of this paper is to explore investors' views on the value relevance of accounting information in Bangladesh. The specific objectives are outlined below:

- To analyze how investors, both individual and institutional, perceive the importance of accounting information in shaping their investment decisions.
- To examine any disparities in the perceptions of institutional and individual investors regarding the price relevance of accounting information.

### **LITERATURE REVIEW**

Investors rely on value-relevant information to make informed investment decisions, often sourcing such information from various channels, including company financial statements. Accounting information can be broadly categorized into mandatory disclosure, which refers to information companies are required to disclose, and voluntary disclosure, which includes additional information provided beyond mandatory requirements (Meek et al., 1995).

The importance of value-relevant accounting information to participants in capital markets has been a subject of extensive research. Early studies, such as Baker and Haslam (1973), explored individual investors' perceptions on the New York Stock Exchange (NYSE), revealing the diverse factors influencing their decision-making processes, particularly the influence of stock brokers' advice.

In recent studies, scholars have delved into different facets of investors' dependence on accounting information. For example, Wen et al. (2020) scrutinized the influence of investor sentiment on the correlation between accounting variables and stock returns. Their findings revealed that investor sentiment notably affects the value relevance of accounting information, particularly for companies with more complex valuation and arbitrage dynamics.

Guoqiang et al. (2019) explored the significance of accounting information to professional investors in China operating within an IFRS environment. Their findings revealed that professional investors perceive accounting information as possessing both confirmatory and predictive value for their decision-making processes.

Alina Lerman (2020) investigated the attention of individual investors to accounting information within online financial communities such as Yahoo! message boards and StockTwits. The study highlighted investors' keen interest in various accounting metrics, particularly during significant events like earnings releases and 8-K reports.

Ahmad et al. (2016) examined the value relevance of accounting information for individual investors in the Amman Stock Exchange (ASE), focusing on metrics such as earnings, cash flows, financial risk, and market stock price. Their research indicated that investors view accounting information as valuable and complementary, with financial risk being identified as the most relevant factor. Similarly, Iftakhar (2022) and Shahida (2019) also emphasize the need to increase investors' awareness of the importance of accounting information for investment decisions and suggest that companies should proactively disclose accounting information to assist investors in their decision-making process.

Barth et al., (2023) investigate the evolution of the value relevance of accounting information related to the development of new economies from 1962 to 2018. They reveal the increased value relevance of certain accounting items such as those related to intangible assets, growth opportunities, and alternative performance measures, which are crucial in the context of the new economy.

Studies by Abu-Nasser and Rutherford (1996) in Japan and Al Sawalqa (2012) in Jordan revealed moderate reliance on corporate annual reports among external users. Similarly, research conducted in Arab countries like Saudi Arabia (Al-Mubarak, 1997), Qatar (Alattar and Al-Khattar, 2007), Palestine (Abdelkarim et al., 2009), Sri Lanka (DeZoysa and Rudkin, 2010) and Egypt (Gad and El Din, 2013) underscored the importance of corporate financial reports in investors' decision-making processes.

However, despite these insights, there is a scarcity of research addressing this subject within the framework of Bangladesh. Thus, this study seeks to enhance the existing body of literature by examining investors' perspectives on the value relevance of accounting information in Bangladesh.

## **METHODOLOGY OF THE STUDY**

In pursuit of the goal of exploring differences in investors' views on the importance of accounting information, a survey was designed and disseminated to both institutional investors (including stock dealers, asset management firms, merchant banks, and insurance companies listed on the DSE) and individual investors engaged in trading activities on the DSE. The study population encompasses all institutional investors and individual investors who hold shares in companies registered and listed on the DSE.

This study centers its focus on investor groups for several reasons. Firstly, underlying investors serve as the primary fund suppliers and are deeply involved in assessing the risk-return tradeoff when making investment decisions. Secondly, both individual and institutional investor groups represent the largest and most actively engaged segments within the DSE. Therefore, their perspectives and attitudes towards financial disclosure carry significant weight. Previous literature, exemplified by studies such as Abdelkarim et al. (2009), DeZoysa and Rudkin (2010), Ho et al. (2004), Hossain et al. (2020), Abdeslam (1990), and Al-Azmi (2009), predominantly concentrated on the perceptions of individual investors. In contrast, Alattar and Al-Khater (2007) focused exclusively on institutional investors' views on the utility of annual reports. As a result, this study prioritizes the examination of perceptions held by both individual and institutional investors.

**Population and Sample Size:** This study deals with a sizable population of individual investor groups, prompting the adoption of a sampling method proposed by Krejci and Morgan (1970).

Initially, over 400 questionnaires were distributed among individual investors, yielding 150 usable responses. For gathering the opinions of institutional investors, Yaro Yamani's sampling method (Guilford, J. F. B., 1973) was employed, resulting in a sample size of 141. Due to a low response rate, 200 questionnaires were distributed among institutional investors, with only 75% being completed and returned for analysis.

**Scale and Measurement:** A five-point Likert scale, following the framework outlined by Myburgh (2001), was utilized in the questionnaire. It comprised both closed and open-ended questions. The first section aimed to gather general information from respondents, while second section focused on investors' perspectives regarding the utilization of accounting data in investment decisions. The third section delved into the perceived value relevance of various financial statement items in investments

**Questionnaire Design and Reliability:** Drawing inspiration from prior literature (Ho et al., 2004; Hossain et al., 2020; Farj, Jais & Isa, 2016; Abdelkarim and Alauneh, 2009; Dejoisa and Rudkin, 2010; Alanezi et al., 2014), the questionnaire was developed. A draft underwent review by accounting and finance professionals, and based on their feedback, the questionnaire was refined. Table I presents the internal consistency of the questionnaire, indicating a moderately reliable scale (with all items ranging from 0.51 to 0.72) (Hinton et al., 2014).

**Table I: Reliability Statistics**

	Cronbach's Alpha	No. of Items
Profit and Loss and other comprehensive income Statement	0.51	6
Financial Position Statement	0.65	9
Value Added Statement	0.72	5
Cash Flow Statement	0.62	3
Five year Financial Summary	0.52	13
Other Items of Financial Statements	0.64	15

Source: Survey Instrument

Notes: i) Data are derived from the output on SPSS version 23.0

ii) Data compiled by the researcher

**Methods of Data Analysis:** The gathered data were analyzed using Eviews 10.0, SPSS version 25.0, and Microsoft Excel. Analysis techniques encompassed frequency, percentage, mean, standard deviation, and one-sample t-tests. Furthermore, a t-test was employed to assess the differences in means between two investor categories (institutional and individual).

**Sample Profile:** As depicted in Table II, 91% of respondents were male, while 9% were female. The majority of respondents were below 40 years of age. Furthermore, Table II indicates that a significant portion of respondents (61.3%) held a master's degree, reflecting a high level of education among participants. Regarding experience, Table II illustrates that most respondents had between one and ten years of experience in investment.

**Table II: Demographic Characteristics of Respondents by Gender**

Gender	Institutional Investors		Individual Investors		Total	
	No.	(%)	No.	(%)	No.	(%)
Male	135	90.0	138	92.0	273	91.0
Female	15	10.0	12	8.0	27	9.0
<b>Total</b>	<b>150</b>	<b>100</b>	<b>150</b>	<b>100</b>	<b>300</b>	<b>100.0</b>
Respondents' Age						
21- 35 years	85	56.7	44	29.3	129	43.0
36-40 years	47	31.3	60	40.0	107	35.7
41-50 years	11	7.3	36	24.0	47	15.7
50 years above	7	4.7	10	6.7	17	5.7
<b>Total</b>	<b>150</b>	<b>100</b>	<b>150</b>	<b>100</b>	<b>300</b>	<b>100.0</b>
Education Level						
HSC	0	0	14	9.3	14	4.7
BA/ B.Sc./BBA	35	23.3	63	42.0	98	32.7
MBA/ M Sc./ MA	115	76.7	69	46.0	184	61.3
PhD.	0	0	4	2.7	4	1.3
<b>Total</b>	<b>150</b>	<b>100</b>	<b>150</b>	<b>100</b>	<b>300</b>	<b>100.0</b>
Years of Experience						
1-5 years	45	30.0	19	12.7	64	21.3
6- 10 years	55	36.7	44	29.3	99	33.0
11-15 years	30	20.0	76	50.7	106	35.3
Above 16 years	20	13.3	11	7.3	31	10.3
<b>Total</b>	<b>150</b>	<b>100</b>	<b>150</b>	<b>100</b>	<b>300</b>	<b>100.0</b>

Source: Survey Instrument

Notes: Data compiled by the researcher

**Table III: Demographic Characteristics of Institutional Respondents by Sector**

	Institutional Investors	
	No.	(%)
Merchant Banks	42	28.0
Stock Dealer	49	32.7
Insurance Company	33	22.0
Asset Management Company	26	17.3
<b>Total</b>	<b>150</b>	<b>100</b>

Source: Survey Instrument

Notes: Data compiled by the researcher

Table III showcases the distribution of institutional investors, with 32.7% being stock brokers, 28% merchant banks, 22% insurance companies, and the remainder being asset management firms. Table IV delineates that 26% of individual investors were service holders, 16.7% were bankers, and 10% worked in insurance companies.

**Table IV: Demographic Characteristics of Individual Respondents by Sector**

	Individual Investors	
	No.	(%)
Banks	25	16.7
Insurance Company	15	10.0
Service Company	40	26.7
Academician	4	2.7
Others	66	44.0
<b>Total</b>	<b>150</b>	<b>100</b>

Source: Survey Instrument

Notes: Data compiled by the researcher

## **RESULTS AND DISCUSSION**

### **Investors' Perspectives on the Utility of Accounting Information in Investment Processes:**

Respondents consider published financial information to be the most essential source of data, with a mean value of 3.71 in Table V. The table also indicates a broad consensus among respondents regarding the advantages of using accounting information in decision-making processes. All items have mean values surpassing 3, with a p-value below 0.01, indicating statistical significance. This implies that investors perceive accounting information as valuable for guiding investment decisions and evaluating a company's liquidity, consistent with the findings of Alattar and Al-Khater (2007).

Table – V (Landscape based)

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**Investors' Perceptions of Various Items in the Firm's Financial Statements:**

Retained earnings are identified as the most significant element in the statement of financial position, with an average rating of 3.70. In contrast, "Non-Current Assets" exhibit the lowest mean value, standing at 3.25. In the profit and loss and other comprehensive income section, earnings per share (EPS) receive the highest average rating of 3.60, followed by DPS, profit after tax, gross profit, total revenue, and net operating expenses, with mean values ranging from 3.23 to 3.60. These findings suggest that investors prioritize profitability ratios when assessing company performance prior to making investment choices.

Retained earnings for future growth rank as the most significant item in the value-added statement, with an average value of 3.21. Within the cash flow statement category, cash flow from financing activities emerges as the most significant factor influencing decision-making, receiving a mean rating of 2.95. It is followed by net cash flow from investing activities and net cash flow from operating activities, with mean values of 2.84 and 2.77, respectively. Market value per share stands out as the most critical item driving decisions in the five-year financial summary category, with an average value of 3.87, followed closely by debt to total assets, return on equity, and net asset value, each with an average value of 3.77. This indicates investors prioritize market price per share when making investment decisions.

Regarding other financial statement items influencing investment decisions, reveals the highest mean value for the News Board, followed by various items such as information from shareholders, reports of independent auditors, health, safety, and environment reports, corporate directories/profiles, corporate social responsibility reports, graphical representations of selected growth indicators, corporate events, and notes on accounts.

The combined mean scores across all sections suggest that respondents place the highest importance on the Profit and Loss and Other Comprehensive Income Statement section, with an average score of 3.44. This is followed closely by the Financial Position section, which has a mean score of 3.43, and then by the Value Added Statement and Statement of Cash Flow, with mean scores of 3.09 and 2.86, respectively.

**Discrepancies in how institutional and individual investors perceive the importance of accounting information.**

Table VI illustrates the mean perceptions of both individual and institutional investors regarding different items within the firm's financial statements, encompassing the statement of profit and loss and other comprehensive income, statement of financial position, value added statement, cash flow statement, five-year financial statement summary, and other items. The table indicates that institutional investors have higher mean ratings for certain items compared to individual investors.

**Table VI: Group Statistics**

<b>Statement of Profit and Loss and Other Comprehensive Income</b>				
Investors Type	N	$\bar{X}$	$\sigma$	Std. Error Mean
Individual	150	3.34	0.34539	0.02820
Institutional	150	3.53	0.39403	0.03217
<b>Statement of Financial Position</b>				
Individual	150	3.35	0.36380	0.02970
Institutional	150	3.51	0.25883	0.02113
<b>Value Added Statement</b>				

Individual	150	2.59	0.41087	0.03355
Institutional	150	3.10	0.43699	0.03568
<b>Cash Flow Statement</b>				
Individual	150	2.74	0.59562	0.04863
Institutional	150	2.98	0.33939	0.02771
<b>Five year Financial Summary</b>				
Individual	150	3.62	0.26025	0.02125
Institutional	150	3.67	0.12593	0.01028
<b>Other Items of Financial Statements</b>				
Individual	150	2.95	0.30966	0.02528
Institutional	150	3.11	0.28865	0.02357

Source: Survey Instrument

Notes: i) Data are derived from the output on SPSS version 23.0; ii) Data compiled by the researcher

Table VI presents the summary of the result of group statistics conducted to compare the mean difference between the perception of institutional and individuals' investors various items of the firm's financial statement. It is shown that institutional investors mean score of various items of the firm's financial statement are larger than individual investors.

**Table VII: Independent Samples Test**

Levene's Test for Equality of Variances			t-test for Equality of Means						
	F	Sig.	t	df	Sig.	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
<b>Statement of Profit and Loss and other Comprehensive Income</b>									
Equal variances assumed	0.11	0.74	-4.44*	298	.000	-0.19	0.042	-0.274	-0.105
Equal variances not assumed			-4.44*	292.9	.000	-0.19	0.042	-0.274	-0.105
<b>Statement of Financial Position</b>									
Equal variances assumed	6.127	0.014	-4.40*	298	0.00	-0.1607	0.036	-0.232	-0.089
Equal variances not assumed			-4.40*	269.1	0.00	-0.1607	0.036	-0.2325	-0.088
<b>Value Added Statement</b>									
Equal variances assumed	0.317	0.574	-10.20*	298	.000	-.50	.048	-.596	-.403
Equal variances not assumed			-10.20*	296.9	.000	-.50	.048	-.596	-.403

<b>Cash Flow Statement</b>									
Equal variances assumed	25.3	.000	-4.288	298	.000	-.24000	.05597	-.35015	-.12985
Equal variances not assumed			-4.288	236.5	.000	-.24000	.05597	-.35027	-.12973
<b>Five year Financial Summary</b>									
Equal variances assumed	36.8	.000	-2.30*	298	.011	-.05436	.02361	-.10082	-.00790
Equal variances not assumed			-2.30*	215.2	.011	-.05436	.02361	-.10089	-.00783
<b>Other Items of Financial Statements</b>									
Equal variances assumed	0.589	0.443	-4.745	298	.000	-.16400	.03456	-.23202	-.09598
Equal variances not assumed			-4.745	296.5	.000	-.16400	.03456	-.23202	-.09598

Source: Survey Instrument

Notes: i) Data are derived from the output on SPSS version 23.0; ii) \* *Significant at the 0.01 level*;  
iii) Data compiled by the researcher

The results from Table VII, which presents the outcomes of Levene's test for equality of variances, were aimed at evaluating whether there was consistency in the variation of scores between individual and institutional investors. This determination helped in deciding which t-values to utilize for interpreting the results. A p-value exceeding 0.05 indicates that the differences in variances between individual and institutional investors are equal, thus upholding the assumption of equal variances. Table VII shows that the significance levels of Levene's test are 0.74, 0.574, and 0.443 for the profit & loss and other comprehensive income statement, value-added statement, and other items of the financial statement, respectively. These values surpass 0.05, suggesting that the discrepancies in variances between the two groups are not statistically significant. To evaluate whether a noteworthy difference exists between the two groups, the assumption of equal variances, based on Levene's results, is adopted. The p-value of the t-test is 0.000, which is below 0.01, indicating a significant difference between the mean scores of individual and institutional investors' perceptions. For the statement of financial position, cash flow statement, and five-year financial summary, the p-values from Levene's test results are less than 0.05. Consequently, the assumption of unequal variances is chosen based on Levene's results, and the p-values of the t-test results are less than 0.01, indicating a significant difference between the two groups.

## CONCLUSIONS

This research seeks to investigate the perceptions of investors in Bangladesh regarding the significance of accounting information. By distributing questionnaires to both institutional and individual investors, valuable insights were obtained. The findings highlight a broad consensus among respondents regarding the crucial role of accounting information in decision-making processes. Importantly, the results of independent-samples t-tests reveal differences in the perceptions of institutional and individual investors regarding the relevance of different financial statement items. This emphasizes the significant role of financial reporting in a developing economy such as Bangladesh, where emerging market companies endeavor to attract both domestic and foreign investors.

Furthermore, these results offer crucial evidence for accounting professionals, highlighting the significance of accounting information to investors. This insight enables them to tailor financial statements to better meet investor needs, thereby fostering greater investor confidence and facilitating capital inflows. Ultimately, these findings underscore the importance of enhancing corporate financial reporting practices not only to improve transparency and accountability but also to stimulate investment and economic growth in Bangladesh.

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**Table V: Investors' perceptions on the purpose of using accounting information in investment decisions**

Statement	Institutional Investors (N = 150)				Individual Investors (N = 150)				Total (N = 300)			
	$\bar{x}$	$\sigma$	t- Stat.	P	$\bar{x}$	$\sigma$	t- Stat.	P	$\bar{x}$	$\sigma$	t- Stat.	P
1. Investors rely on accounting information as significant source of information to aid their investment decisions.	3.75	0.49	92.87	0.00*	3.68	0.47	96.29	0.00*	3.71	0.48	133.55	0.00*
2. Accounting information enhances the efficiency and effectiveness of decision makers.	3.79	0.44	106.05	0.00*	3.63	0.52	85.00	0.00*	3.71	0.49	131.67	0.00*
3. Accounting information helps investors to evaluate their investment decisions.	3.68	0.52	86.3	0.00*	3.21	0.63	62.45	0.00*	3.45	0.62	95.78	0.00*
4. Accounting information helps investors reduce the expected risk of an investment.	3.55	0.63	69.11	0.00*	3.67	0.54	83.27	0.00*	3.61	0.59	106.34	0.00*
5. Accounting information helps investors evaluate the firm's performance before investing in its shares.	3.59	0.63	70.18	0.00*	3.63	0.55	80.74	0.00*	3.61	0.59	106.13	0.00*
6. Accounting information helps investors predict current and future profits of firms.	3.39	0.72	57.48	0.00*	3.57	0.49	88.91	0.00*	3.49	0.63	96.56	0.00*
7. Accounting information helps investors predict future dividends.	3.37	0.74	55.98	0.00*	3.45	0.59	72.17	0.00*	3.41	0.67	88.70	0.00*
8. Accounting information helps investors predict securities prices.	3.31	0.82	49.46	0.00*	3.22	0.85	46.38	0.00*	3.26	0.83	67.74	0.00*
9. Changes in accounting information may cause share prices to fluctuate.	3.34	0.84	49.04	0.00*	3.27	0.80	50.01	0.00*	3.30	0.82	70.06	0.00*
10. Accounting information is useful for a firm's future investment plans.	3.74	0.52	87.47	0.00*	3.73	0.51	88.99	0.00*	3.74	0.52	124.97	0.00*
11. Accounting information helps investors judge a company's liquidity.	3.64	0.64	69.93	0.00*	3.66	0.50	89.16	0.00*	3.65	0.57	110.28	0.00*

Source: Survey Instrument

Notes: i) Data are derived from the output on SPSS version 23.0; ii) \* Significant at the 0.01 level; iii) Data compiled by the researcher