ASSESSMENT OF FINANCIAL STATEMENT AND BUSINESS GROWTH: A CASE STUDY OF SOME PRIVATE BUSINESS ENTERPRISES IN LAGOS STATE

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ABSTRACT

The main aim of this study was to assess financial statement and business growth of some private business enterprises in Lagos State. Descriptive survey design was adopted for the study. The study was conducted in Lagos State. The population of the study consisted of all accountants and small and medium scale business operators in Lagos State. Simple random sampling technique was used to select 30 accountants and 300 small and medium scale business operators. This gave a total of 330 respondents that made up the sample size used for the study. The instrument used in this study for data collection was a questionnaire titled "Financial Statement and Business Growth Questionnaire (FSBGQ)". Face and content validation of the instrument was carried out by an expert in testing, measurement, and evaluation to ensure that the instrument has the accuracy, appropriateness, and completeness for the study under consideration. The reliability coefficient obtained was 0.89, and this was high enough to justify the use of the instrument. The researcher subjected the data generated for this study to appropriate statistical techniques such as percentage and regression analysis. The test for significance was done at 0.05 alpha levels. Based on the findings of the study, it was concluded that financial statements are practically the success determination of a company. Therefore, investors, other public individuals and institutions make use of it to access a company. In all, it shows how well or poorly a company is doing, therefore, shedding light on its future potentials. Therefore, one of the recommendations made in this study was that, it is most vital for aspiring investors, entrepreneurs, and managers to develop the ability to understand the financial health of a company. This can help them better, to identify promising opportunities while avoiding undue risk, and also help them make more strategic business decisions.

KEYWORDS: Financial statement, Business growth, Private business enterprises and Lagos State.

Introduction

Good financial management is critical to the success of any business, but it is especially important in small and medium-sized enterprises (SMEs), where the risk of insolvency is often only a few unpaid invoices away. According to

Joseph (2008), small and medium-sized enterprises are defined as not having public accountability by not publishing general-purpose financial statements for external users. This process of reviewing the financial statements allows for better economic decision-making. Globally, publicly listed companies are required by law to file their financial statements with the relevant authorities. According to Alsayah & Mashhour (2007), financial statements are intended to be understandable by readers who have a reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently. For example, publicly listed firms in America are required to submit their financial statements to the Securities and Exchange Commission (SEC).

According to Janssen (2009), a company's growth is essentially the result of the expansion of demand for products and services. Firms are also obligated to provide their financial statements in the annual report that they share with their stakeholders. As financial statements are prepared in order to meet requirements, the second step in the process is to analyse them effectively so that future profitability and cash flows can be forecasted (Anthony, 2006). Accounting information assists in guiding the decision maker in his or her judgement or future performance (Achtenhagen et al., 2010). Financing decisions are made based on the financial statements of that company. If a company is taking a loan, the lender will look at the financial statements of the company and if they're not flattering, it may negatively impact the ability of the company to borrow money.

Statement of the Problem

Finance and its related matters are the most important part of a business, as the whole point is to make money. Therefore, it shows the important business activities and overall financial performance of a business or company. Furthermore, these statements are very important and used for public assessment of the company. As a result, it is mostly handled by external bodies and agencies to ensure accuracy and for taxation reasons. While accountants and finance specialists are trained to read and understand these documents, many business professionals are not. The effect is an obfuscation of critical information. It is in this regard that this study seeks to assess whether there is any significant effect of financial statement on business growth of enterprises in Lagos State.

Objectives of the Study

The main aim of this study was to assess financial statement and business growth of some private business enterprises in

Lagos State. specifically, the study sought to:

1. Determine the type of financial statements prepared by them.
2. Assess the numerous benefits of accurate financial statement analysis.
3. Find out the effect of financial statement on business growth.

Research Questions

1. What are the types of financial statements prepared by them?
2. What are the numerous benefits of accurate financial statement analysis?
3. What is the effect of financial statement on business growth?

Hypothesis

There is no significant effect of financial statement on business growth.

Conceptual Review

Concept of Financial Statement

Financial statements (or financial reports) are formal records of the financial activities and position of a business, person, or other entity. The actual items that meet this financial statement definition are generally much more specific, and each has an important role to play (GoCardless, 2021). Each type of financial statement will often have a knock-on effect on another type. As such, you cannot gain a full overview of a company with just one type of statement. You must consolidate the data from one statement with the data from another statement to gain a deeper understanding of your company's financial health. According to Saoud (2020), the concept of a financial statement is based on two types of analysis: ratio financial analysis and quantitative analysis. Analysis generally means diagnosing a situation and highlighting weaknesses or strengths. The concept of analysis using ratios is based on the definition of the ratio, where (%) means the relationship between two variables or two items that share common characteristics or a similar situation. If the analysis is based on ratios, it is intended to establish relationships between two accounting variables that have common relationships or characteristics in order to study a particular case.

Financial Statement Analysis is a method of reviewing and analysing a company's accounting reports (financial statements) in order to gauge its past, present, or projected future performance. This process of reviewing the financial statements allows for better economic decision-making. According to Akeem (2021), financial statements are practically the success

determination of a company. Therefore, investors, other public individuals, and institutions make use of it to access a company. Overall, it demonstrates how well or poorly a company is performing, shedding light on its future potential.

Concept of Business Growth

The term "growth" means an increase in size or an improvement in quality as a result of a process of development in which an interacting series of internal changes leads to increases in size accompanied by changes in the characteristics of the growing object. Business growth is therefore the development of an industry, organization, small or large scale enterprises with an excellent record of profit and cost reduction. According to Gerald (2013), growth is the most frequently used corporate strategy. It means increasing sales, assets, net profits and a chance to take advantage of the experience curve to reduce the per unit cost of products sold and thereby increase profits. Cost reduction is very crucial if a firm's industry is growing quickly and competitors are engaged in price wars in attempts to increase their market shares.

Not every growth strategy is appropriate for every business. The key to finding the right growth strategy is properly matching it to your company and its specific marketplace. Since the wrong strategy can devastate your business, it's important to determine whether you are selling new or emerging products in a new or existing market. Olomi (2004) highlighted the various indicators for business growth. The indicators can be grouped under four categories, namely; business outcomes, business outputs, capacity and qualitative indicators.

i. ***Outcome indicators*:** Profit, the difference between revenues and costs, is a common target of all private businesses and has to be achieved in order for any other objective to be sustainably realized. The amount of profit that a business makes is a function of the revenues generated as well as the level of efficiency in the business. An increase in profit thus signifies an increase in sales and an increase in efficiency. So, generally, one can observe his/her business growth through the increment of these aspects.

ii. ***Output indicators*:** The main outputs of the business are the products and/or sales. A production level can be a reasonable indicator of the business size because it's likely to reflect both the capacity of the business and its potential for profit. According to Olomi (2004), the value of goods produced is not readily available to outsiders, so sales value is the most widely used growth indicator. When the quantity of products produced by the business

increases, it implies that the business is growing.

iii. ***Capacity indicators*:** These reflect the potential of the business to produce outputs and outcomes. They include the value of assets, capital invested, production capacity, and workforce size. The managers can realise their business growth by observing an increase in assets and production capacity without forgetting the capital invested and the increased number of employees.

iv. ***Qualitative indicators*:** These include business structure, management practices, and the degree of formalization. When the structure of the business is expanded to allow decentralisation and when management practices increase and become more complicated and the degree of formalisation increases, then the business is growing (Olomi, 2004).

According to Mital, Robinson Jr., and Pearce (2008), growth strategies, also known as master business strategies, provide the foundation for strategic actions. They are the basis of the coordinated and sustained efforts directed towards achieving long-term business objectives. Growth strategies have been critical to the company's expansion, development, stability, and ultimate success. These grand strategies have enabled organisations to increase their market shares, develop new markets, and develop new products and services.

Types of Financial Statement

Every business requires several critical financial statement documents. There are five types of financial reporting statements that a company’s accountant prepares. Each tells us about a different and important piece of a company’s financial health. These statements are the balance sheet, income statement, cash flow statement, and the statement of shareholder’s equity, followed by any footnotes to financial statements. John (2019) noted that it’s not just a matter of compliance or best practice; they are vital tools to stay on top of your figures. Below is the key financial statement you need to know about:

- **Income statement:** The income statement is arguably the most important. A business needs to keep a very close eye on profit and money coming in, and that is precisely what an income statement does. An income statement may also be known as a profit and loss statement, showing your business's income and outgoings over a set period. The income statement takes revenue, losses, and expenses into account, so it can show whether your company has turned a profit or has missed its mark (GoCardless, 2021).

- **Cash flow statement:** The cash flow statement shows how money enters and leaves your business, so you can see what you have available as working capital at a particular time. A cash flow statement is essential for showing you how quickly you could source cash if you needed it, as it doesn't take into account things like raw materials or purchases made—but not yet paid for—on credit. According to Aremu et al. (2011), cash flow helps the investors and creditors to access the ability of the firm to generate positive future cash flow, meet the debt obligations, and shed light on the cash and non-cash aspects of the investing and financial transactions.

- **Statement of change in equity:** This document shows the changes made to your company's share capital, retained earnings, and accumulated reserves. For a sole trader, it shows changes to the owners' equity. For a partnership, it shows the changes between both partners' equities. In the case of a company, the statement of change in equity shows how equity shares have changed among all the shareholders (GoCardless, 2021).

- **Balance sheet:** The balance sheet displays three key things: the assets; liabilities; and equity. A balance sheet can show the current value of a business for the period it covers. Looking at your balance sheet can help you understand if you can meet your financial obligations.

- **Note to Financial Statements:** This is an International Financial Reporting Standards (IFRS) requirement that adds context to the information in your other financial statement documents. For example, your assets may be listed on the balance sheet, but your note to the financial statements document is where you will explain precisely what those assets are. The information in this document is required to ensure you are compliant with standards and regulations (GoCardless, 2021).

Benefits of Accurate Financial Statement Analysis

Financial statement analysis can benefit organisations in numerous ways. It provides internal and external stakeholders with the opportunity to make informed decisions regarding investments. Financial statement analysis also provides lending institutions with an unbiased view of a business's financial health, which is helpful for making lending decisions. And as top executives and others in management rely on accounting to provide an accurate depiction of the effects of their decisions, financial statement analysis helps with matters of corporate governance as well. Financial statement analysis is crucial for

complying with business laws and regulations while also meeting the needs of stakeholders and various other parties. But in order to conduct accurate financial statement analysis, developing skills and intuition is as important as following best accounting practices. According to the Online Master of Accountancy (2020), business growth depends on the accurate and timely analysis of financial statements. While the rapid pace of business today is placing more importance on insights gathered by accountants, developing knowledge is still an essential aspect of growing a business.

There are many benefits of financial reporting, which is why a company should want to keep detailed and accurate financial statements. For one, there are financial reporting requirements if your company is a publicly held company with investors and shareholders. For another, if you pay taxes to the Internal Revenue Service, you’re going to have to share lots of information about your income, expenses, debts, and other information about your assets and liabilities. Other than the legal ramifications of not keeping good books, there are many other benefits of financial reporting that financial statements provide to the long-term health and growth of a company. Each has its own role to play in the snapshot it offers.

- **Better debt management:** The amount of debt your company carries and in what form is an important measure of the financial health of your company. Financial statements separate your assets from liabilities and give you a picture of what you owe versus what you are bringing in. One of the benefits of financial statements is knowing your liquid assets so you can help manage your debts - and pay off the highest-cost liabilities first (John, 2019).

- **Identifying trends:** Financial statements help a company's management take a quick and detailed look at the ways in which they have been doing business over a period of time, as well as identify any past or present trends that can lead to problems down the road and need to be tackled right away. They can also be used to identify sales and growth trends that could lead to increased profitability.

- **Progress tracking in real time:** Financial statements are designed to be fluid documents that change many times over the course of a reporting period, depending on many different income and expense factors. Therefore, paying close attention to statements such as the balance sheet can make it easier to make important decisions while things are happening, rather than having to retroactively respond to receiving bad news later on.

- **Managing liabilities:** Every business has liabilities ranging from business loans to credit cards to vendor accounts and other accounts payable. It's always a good idea to have this information available, and if you apply for most loans or lines of credit, it's usually expected that you will have this information available quickly and in an easy-to-read format (John, 2019).

- **Progress and compliance:** Another of the many advantages of financial statements is that by having a series of accurate financial documents, it will be much easier for you to gauge whether or not your business is making progress or falling behind.

Effects of Financial Statement on Business Growth

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. Financial statements should be understandable, relevant, reliable, and comparable. Reported assets, liabilities, equity, income, and expenses are directly related to an organization's financial position. According to Saoud (2020), there are different users of financial statement analysis. Business owners, investors, creditors, the government, employees, customers, and the general public are among them. These can be classified into internal and external users. Internal users refer to the management of the company who analyses financial statements in order to make decisions related to the operations of the company (Saoud, 2020). External users do not necessarily belong to the company but still hold some sort of financial benefit.

1. The managers of the company use their financial statement analysis to make intelligent decisions about their performance. For example, they may use accounting reports to determine the cost per distribution channel or the amount of cash remaining and make decisions based on the results of these analyses (Saoud, 2020).

2. Small business owners need financial information from their operations to determine whether the business is profitable. It helps in making decisions like whether to continue operating the business, whether to improve business strategies or whether to give up on the business altogether.

3. Investors who have purchased shares in a company need financial information to know the method used by the company in its performance evaluation process. According to Saoud (2020),

investors use financial statement analysis to determine what to do with their investments in the company, so depending on how the company is doing, investors will either hold onto their shares, sell them or buy more (Saoud 2020).

4. Creditors are interested in knowing if a company will be able to pay its debts or loans as they become due. The creditors use cash flow analysis of the company's accounting records to measure the company's liquidity, or its ability to make short-term payments.

Methodology

Descriptive survey design was adopted for the study. The study was conducted in Lagos State. The population of the study consisted of all accountants and small and medium scale business operators in Lagos State. Simple random sampling technique was used to select 30 accountants and 300 small and medium scale business operators. This gave a total of 330 respondents that made up the sample sizes used for the study. The instrument used in this study for data collection was a questionnaire titled "Financial Statement and Business Growth Questionnaire (FSBGQ)". Face and content validation of the instrument was carried out by an expert in testing, measurement, and evaluation to ensure that the instrument has the accuracy, appropriateness, and completeness for the study under consideration. The reliability coefficient obtained was 0.89, and this was high enough to justify the use of the instrument. The researcher subjected the data generated for this study to appropriate statistical techniques such as percentage and regression analysis. The test for significance was done at 0.05 alpha levels.

Results and Discussion

Research Questions

Research Questions One: The research question sought to find out the types of financial statements prepared by them. To answer the research question percentage analysis was performed on the data, (see table 1).

TABLE 1: Percentage analysis of the types of financial statements prepared by some private business enterprises in Lagos State.

EXTENTS	FREQUENCY	PERCENTAGE
Income statement	121	36.67**
Cash flow statement	98	29.70
Statement of change in equity	40	12.12*
Balance sheet	71	21.51
TOTAL	**330**	**100%**

****The highest percentage frequency**
***The least percentage frequency**
SOURCE: Field survey

The above table 1 presents the percentage analysis of the types of financial statements prepared by some private business enterprises in Lagos State. From the result of the data analysis, it was observed that "income statement" 121(36.67%) was rated the highest prepared financial statement as affirmed by the respondents, while "statement of change in equity" 40(12.12%) was rated the least.

Research Questions Two: The research question sought to find out the numerous benefits of accurate financial statement analysis. To answer the research question percentage analysis was performed on the data, (table 2).

TABLE 2: Percentage analysis of the numerous benefits of accurate financial statement analysis.

EXTENTS	FREQUENCY	PERCENTAGE
Better debt management	112	33.94**
Identifying trends	98	29.70
Progress tracking in real time	32	9.70*
Managing liabilities	37	11.21
Progress and compliance	51	15.45
TOTAL	**330**	**100%**

****The highest percentage frequency**
***The least percentage frequency**
SOURCE: Field survey

The above table 2 presents the percentage analysis of the numerous benefits of accurate financial statement analysis. From the result of the data analysis, it was observed that the benefit, tagged "better debt management" 112(33.94%) was rated the greatest benefit of accurate financial statement analysis by the respondents with the highest percentage, while "progress tracking in real time" 32(9.70%) was rated the least benefit of accurate financial statement analysis by the respondents with the least percentage.

Research Questions 3: The research question sought to find out the effect of financial statement on business growth. To answer the research question, descriptive statistic was performed on the data, (see table 3).

Table 3: Descriptive statistics of the effect of financial statement on business growth

Variable	N	Arithmetic mean	Expected mean	R	Remarks
Business Growth	330	17.41	12.5	0.94	*Strong to Perfect Relationship
Financial Statement		15.66	12.5		

Source: Field Survey

The above table 3 presents the result of the descriptive analysis of the effect of financial statement on business growth. The two variables were observed to have strong to perfect relationship at 0.94%. The arithmetic mean for business growth (17.41) was observed to be higher than the expected mean score of 12.5. In addition to that, the arithmetic mean as regards financial statement (15.66) was observed to be higher than the expected mean score of 12.5. The result therefore means that there is remarkable effect of financial statement on business growth.

Hypothesis

Hypothesis One: The null hypothesis states that there is no significant effect of financial statement on business growth. In order to answer the hypothesis, simple regression analysis was performed on the data (see table 4).

Table 4: Simple Regression Analysis of the effect of financial statement on business growth

Model	R	R-Square	Adjusted R Square	Std. error of the Estimate	R Square Change
1	0.97a	0.94	0.94	0.38	0.94

***Significant at 0.05 level; df= 328; N= 330; critical R-value = 0.139**

The above table 4 shows that the calculated R-value (0.97) was greater than the critical R-value of 0.139 at 0.5 alpha levels with 328 degrees of freedom. The R-Square value of 0.94 predicts 94% of the effect of financial statement on business growth. This rate of percentage is highly positive and therefore means that there is significant effect of financial statement on business growth. It was also deemed necessary to find out the effect of the variance of each class of independent variable as responded by each respondent (see table 5).

Table 5: Analysis of variance of the effect of financial statement on business growth

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	805.420	1	805.420	5443.448	.000b
Residual	48.531	328	0.148		
Total	853.952	329			

a. Dependent Variable: Business Growth
b. Predictors: (Constant), Financial Statement

The above table presents the calculated F-value as 5443.448 and the P-value as .000b. Being that the P-value (.000b) is below the probability level of 0.05, the result therefore means that there is significant effect exerted by the independent variables i.e. financial statement on the dependent variable which is business growth. The result therefore means that there is significant effect of financial statement on business growth. The result, therefore, is in agreement with the research findings of Saoud (2020), which showed that most managers of companies use financial statement analysis to make intelligent decisions about the organization's performance. For instance, they may gauge the cost per distribution channel or how much cash they have left from their accounting reports and make decisions based on these analysis results. Likewise, small business owners use financial information from their operations to determine whether their business is profitable or not, and may use this information to make decisions on whether to continue operating the business, to improve business strategies, or to give up on the business. However, the significance of the result caused the null hypotheses to be rejected while the alternative was retained.

Conclusion

One of the key purposes of financial statements is that they help investors analyse the current and future performance of a company. Therefore, with the financial statement, they can predict how well it will do in the future. It also helps in estimating a company's stock price. Financial statement analysis requires a high level of analytical,

problem-solving, and technical skills. Accountants who are able to provide detailed, quality statement analysis can bring short and long-term benefits to businesses, making them a valuable asset to an organization's financial ventures. Finally, financial statements are practically the success indicator of a company. However, investors, other public individuals, and institutions make use of it to access a company. Overall, it demonstrates how well or poorly a company is performing, shedding light on its future potential.

Recommendations

1. It is most vital for aspiring investors, entrepreneurs, and managers to develop the ability to understand the financial health of a company. This can help them better, to identify promising opportunities while avoiding undue risk, and also help them make more strategic business decisions.
2. Not every growth strategy is appropriate for every business. Since the wrong strategy can devastate your business, it's important to determine whether you are selling new or emerging products in a new or existing market.
3. Small and medium scale operators should be sensitized and trained on the importance of financial reporting in their enterprises.

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