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| RESEARCH ARTICLE

Financial Statement Analysis and its Impact on Investment Decisions in Ghana

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| ABSTRACT
The objective of the study is to investigate the influence of financial statement analysis on investment decisions among investors in the Ghana Stock Exchange Market. Quantitative research design was employed where data was collected through structured questionnaires issued to both individual and institutional investors on the Ghana Stock Exchange Market. In all a total of ninety-seven (97) valid responses were analyzed using descriptive and inferential statistical tools, including correlation and regression analysis. The findings of the study revealed a strong and statistically significant relationship between financial statement analysis and the quality of investment decisions of investors in the Ghana Stock Exchange Market, particularly emphasizing the importance of profitability and liquidity indicators.

| KEYWORDS
Financial Statements, Investment Decisions, Investors, Ghana Stock Exchange, Decision Making

| ARTICLE INFORMATION

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1. Introduction

Investors, whether institutional or retail, are constantly seeking avenues to allocate their resources efficiently to earn optimal returns while minimizing risks. One of the fundamental tools used in making informed investment decisions is the financial statement (Arrow & Lind, 2013). Financial statements offer a thorough overview of the financial performance of an organization and position, which enables investors to evaluate its profitability, liquidity, solvency, and overall stability (Yarana, 2023). Analyzing these financial statements equips investors with the knowledge required for rational decisions-making in an otherwise uncertain market environment.

Financial statement analysis focuses on the different ways to evaluate the data from income statements, balance sheets, cash-flow statements, changes in capital funds, and other sources, including ratio analysis, horizontal and vertical analysis, and trend analysis (Wibowo & Putra, 2023). These tools help in discovering patterns and warning signals or opportunities within a company’s financial structure (Lee & Shin, 2017). Investors who can analyze financial statements can find out whether the company is undervalued, overvalued, or in a distressed condition. Hence, financial literacy and the ability to analyze finance become the very elements of the success of investment practice.

Established in 1990, the Ghana Stock Exchange (GSE) is an essential component of the Ghanaian financial system by providing a platform for companies to provide long-term funding and allow investors to transact equity and debt instruments (McNichols & Stubben, 2008). The performance of GSE appertains to the confidence of investors and the need for economic development. Among the GSE normative practices, list of companies needs to publish audited financial statements on an annual basis in accordance with international best practices. This is expected to further enhance the area of transparency with a view to serving as a basis for evaluation of investments. However, the simple presence of such financial reports is no guarantee that they may be effectively used by investors (Agrawal et al., 2015). Many retail investors in Ghana lack the skills required to interpret sophisticated financial data, therefore their investment decisions will be grounded on speculation and gossip rather than analysis (Heksarini & Nadir, 2018).

The increasing volatility and competitiveness of financial markets will have the justification for the investor to analyze any investment thoroughly prior to committing resources. Some investors in Ghana, especially institutional investors, apply financial analysis to decision-making, whereas anecdotal evidence indicates that many investors tend to ignore the process (Korniotis & Kumar, 2010). This may lead not only to poor investment decisions and investments performing poorly, but also to reduced investor confidence in the stock market. Hence, this raises several pertinent questions about how far actual financial statement analysis could influence investment behavior among GSE actors.

The study, therefore, aims to assess the influence of financial statements analysis on investors' investment decisions, using companies listed on the GSE as a case study. The study therefore seeks to understand how investors utilize financial information provided by companies in their investment decisions. The results of the research will provide useful information for enhancing investor education, corporate reporting practices, and market efficiency in Ghana.

2. Literature Review

2.1 Theoretical Review

Signaling Theory, developed by Michael Spence (1973), has been used to understand how information is transmitted in information asymmetric markets, one in which management has more information than stockholders about a firm's operations and financial condition. In these situations, firms take a few different steps to communicate private information concerning their performance, credibility, and possible direction to the public. These signals can be in the form of an audited financial statement, cascading dividends, issuing debt, and/or signals of management change (Spence 1973; Ross 1977).

The fundamental premise of Signaling Theory is credible signals restrict uncertainty in the market and allow external parties to infer a firm's true quality or value. Moreover, signals should be costly or difficult to replicate, or else companies that do not actually have strong fundamentals cannot afford to send signals (Heksarini & Nadir, 2018). An example is a firm that consistently makes transparent, timely, audited financial statements signaling strong corporate governance, operational efficiency, and long-term viability (Connelly et al., 2011).

In this study, financial statements are important signals through which firms listed on the GSE convey their financial status, performance profile, and strategic intent. Investors, in particular investors operating in the GSE and similar markets in which the information is limited to determine as it is an underlying firm, often must rely on the public signal to decide when to buy, retain or sell company stock firm.

Signaling theory also potentially explains why firms provide more information than the minimum requirement in their financial statements. Firms that wish to stand apart from inferior competitors will often look to improve their disclosure practices by using different forms of disclosure (such as integrated reporting or using external auditors), with the aim of increasing investor confidence (Wibowo & Putra, 2023). Enhanced disclosures are also viewed as positive signals of managers' efforts to ensure that information provided is transparent and that they are responsible for accountability (Healy & Palepu, 2001).

In conclusion, Signaling Theory emphasizes the strategic role of financial statements as communications medium with markets. It supports the conclusion that financial reports, when appropriately prepared or analyzed, can affect investor perception, lower uncertainty and lead to improved decision making for investors, which is consistent with the GSEs as an information asymmetry market.

2.2 Concept of Financial Statement Analysis

Analyzing a company's financial statements entails evaluating them and performances to determine its economic viability, operational efficiency, profitability, and performance (Zhang, 2025). It is commonly used by investors, authorities, management, and creditors to support their purposes of economic decision making (Desmidt et al., 2011). Analysis is commonly carried out against all three primary financial statements (cash flow statement, balance sheet, and income statement). Each financial statement presents distinct details regarding the financial status of the company and its related operations, but when combined, these three offer a thorough examination of a business's operations and financial situation (Yarana, 2023).

Frazer and Ormiston (2016), contend that financial statement analysis will begin using instruments like trend analysis, ratio analysis, vertical analysis and horizontal analysis, and comparative financial statement analysis.

In developing economies like Ghana, where investors are often unable to rely on access to insider information or analyst predictions, financial statement analysis is particularly important (Yarana, 2023). It is a first-past-the-post basis for making their investment decisions in the relative absence of extensive market research infrastructure. Osei (2002) and Agyapong & Afrane (2017), research found that in Ghanaian context, especially institution investors commonly use annual financial statements as the basis for investment decisions when considering equity investments.

It is important to note that the precision of financial statement analysis determines its efficacy, transparency and timeliness of financial reports provided by firms (Wobowo & Putra, 2023). Any shortcomings can lead to inaccurate conclusions, and ultimately poor investment decisions.

In conclusion, the subject of financial statement analysis is integral to sensible investing practices. It provides a framework for accessing the financial dynamics of a business and for making decisions about capital allocation, evaluation of performance, and decisions about risk, especially if the markets are formal equity markets such as the Ghana Stock Exchange.

2.3 Empirical Review

Multiple studies have shown that financial statement analysis is relevant to investment behavior in developed market environments. For example, Heksarini and Nadir (2018), investigated the predictive nature of financial statements in the U.S. stock market and found that financial report fundamental signals did, in fact, have an impact that led to return on investment over time. This research is also among the first evidence that systematic analysis of financial statements can show an investor when a stock is undervalued and predict the future performance of a stock thereafter. In a similar study, Wibowo & Putra (2023), examined how financial statement variables influenced stock price behavior. They showed that market participants often underreact to important accounting information and financial statement analysis simply provides an edge to investors acknowledging misprice as a response to less information aware participants.

Iqbal and Javed (2007) demonstrated that users of financial statements made better investment decisions rationally compared to non-users. They determined that ratios such as Earnings Per Share, Return on Investment as well as Debt to Equity Ratios held prominent influence.

Oyelade and Akinleye (2019), studied the relationship between financial statements and stock investment decisions, on the Nigerian Stock Exchange. Their study concluded a substantial correlation between the Caliber of financial disclosures and investor confidence. They identified earnings information, as well as cash flow statements, as the most consulted components by active investors.

Additionally, Abdullahi and Mansor (2015) studied investor behavior and concluded that institutional as well as sophisticated retail investors were strongly dependent on financial statement information from the analysis for decision to buy or divest securities. They concluded that financial analysis is a useful mechanism for diminishing investment risk, even in markets that tend to be structurally inefficient.

In the Ghanian context, Osei (2002) conducted, one of the first studies examining the GSE, an evaluation of the level of market efficiency of the GSE and settled that the GSE was weak form efficient. Consequently, it is not possible to forecast future prices using historical prices and that investment decisions should be based on fundamental analysis, derived from financial statements.

Agyapong and Afrane (2017) looked at retail investors' financial literacy on the GSE, and the impact on their use of financial statements, and found that although most investors were aware of financial statements, it was only a minority of them that had or could accurately interpret them. Surprisingly, those who could improve their exit decisions significantly, verifying the usefulness of financial statement analysis.

3. Methodology

This study employs a descriptive and explanatory research design, which is regarded as the ideal form of research in exploring the consequences of analyzing financial statements on investment decisions made by investors on the GSE. Descriptive research design gives the researcher the ability to illustrate a fair reflection of the entities that are being studied specifically, how investors drill down on their financial statements to create an investment decision. The explanatory (or causal) research design seeks to identify relationships between variables (Creswell, 2014). In this study, the explanatory portion seeks to determine how much financial statement analysis impacts the investor's decision on investment outcomes such as acute stock allowance, portfolio allocation, or risk assessment on an investment decision.

The study employed 100 responders in the sample, carefully chosen to provide a representative cross-section of key stakeholders involved in investment decision-making on the GSE. To ensure the collection of reliable and representative data, Purposive sampling and stratified random sampling were the two sample strategies used in the investigation.

Structured questionnaires were used to collect primary data from investors on the GSE for the study.

4. Results and Discission

4.1 Response Rate

Hundred (100) questionnaires in total were disseminated to the various investors on the GSE and out of these, ninety-eight (98) questionnaires were returned, indicating 98% preliminary response rate. During the researcher’s data cleaning, it was realized that one (1) of the returned questionnaires was found to be incomplete and was excluded from the final analysis. This means that ninety-seven (97) questionnaires representing ninety-seven percent (97%) were fully completed and considered valid.

A high response rate like this is considered excellent in every survey-based study which significantly strengthens the credibility of the findings. According to Babbie (2010), a response rate of 50% is seen sufficient, 60% is deemed good, and 70% or more is deemed very good. Therefore, the ninety-seven percent (97%) achieved in this study surpasses standard benchmarks and this implies that the data is both representative and reliable for drawing meaningful conclusions. This is presented in **Table 1** below.

Table 1. Questionnaire Response Summary

Questionnaires Distributed	Returned	Valid Responses	Valid Response Rate
100	98	97	97%

Source: Authors construct, 2026

4.2 Demographics

The gender distribution of the study indicates that 69% of the respondents were male, while 31% were female. This means that the Ghana Stock Exchange Market is dominated by male investors, which aligns with trends in many financial markets where male participation in investment activities often surpasses that of females. However, the female investors of 31% highlights increasing inclusivity and interest of female in the financial markets. This can be seen in **Table 2** below.

Table 2. Gender Distribution

Gender	Frequency	Percentage (%)
Male	67	69
Female	30	31
Total	97	100

Source: Authors construct, 2026

4.3 Educational Background

The educational background of the respondents was examined and the study revealed that 51.5% of the respondents have a bachelor's degree, 27.8% of the respondents were with a master's degree, and 10.3% and 10.3% of the respondents hold Diploma and other qualifications respectively. These results indicate that most of the investors in the Ghana Stock Exchange are well educated. This is presented in **Table 3** below.

Table 3. Educational Background

Educational Level	Frequency	Percentage (%)
Diploma	10	10.3
Bachelor's Degree	50	51.5
Master's Degree	27	27.8
Other	10	10.3
Total	97	100

Source: Authors construct, 2026

4.4 Type of investor

The study also did seek to find out the types of investors on the GSE, and the findings show that 69.1% of the investors were individual investors and 30.9% were institutional investors. This result implies that most of the investors in the investors in the Ghana Stock Exchange are individual investors and a significant number being institutional investors.

This is shown in **Table 4** below.

Table 4. Type of Investor

Type of Investor	Frequency	Percentage (%)
Institutional	30	30.9
Individual	67	69.1
Total	97	100

Source: Authors construct, 2026

4.5 Years of Investment Experience

Most of the investors (41.2%) on the Ghana Stock Exchange have between 2-5 years of investment experience, 30.9% of the investors have between 6-10 years of investment experience whiles 15.5% and 12.4% have been investing for less than 2 years and more than 10 years respectively. This means that the Ghana Stock Exchange Market is dominated by relatively newer entrants. This is depicted in **Table 5** below.

Table 5. Years of Investment Experience

Years of Experience	Frequency	Percentage (%)
Less than 2 years	15	15.5
2–5 years	40	41.2
6–10 years	30	30.9
Above 10 years	12	12.4
Total	97	100

Source: Authors construct, 2026

4.6 Financial Statement Usage Among Investors

Most of the investors on the Ghana Stock Exchange (41.2%) always use financial statements in their investment decisions, 30.9% of the investors often use financial statements in their investment decisions, whiles 20% occasionally utilize financial statements while making investing choices and 7.2% have never utilize financial statements while making investing choices. These results therefore highlight enhanced financial literacy and greater emphasis on the importance of objective financial data in investment practices. This is shown in **Table 6** below.

Table 6. Frequency of Financial Statement Use

Frequency of Use	Frequency	Percentage (%)
Always	40	41.2
Often	30	30.9
Occasionally	20	20.6
Never	7	7.2

Total	97	100

Source: Authors construct, 2026

4.7 Components of Financial Statement Analysis that Significantly influence investors' Decision Making

The study also tried to find out the sppecific ratios investors on the GSE rely on in making investment decisions. İt was revealed that 63.9% of investors on the GSE investment decisions are inflenced by Profitability Ratios, 22.7% influenced by Liquidity Ratios, 9.3% by Debt Ratios and 4.1% are influenced by Market Valuation Ratios. This leads to a conclusion that most investors on the GSE rely on Profitability Ratios in making investment decisions. This is presented in **Table 8** below.

Table 7. Components of Financial Statements Analysis

Component of Financial Statements Analysis	Frequency	Percentage (%)
Profitability Ratios	62	63.9
Liquidity Ratios	22	22.7
Debt Ratios (Leverage)	9	9.3
Market Valuation Ratios	4	4.1
Total	97	100

Source: Authors construct, 2026

4.8 Importance of Financial Statements in Investment Decisions

The result of the study also revealed that most of the investors on the GSE (58.8%) consider financial statements to be "Very Important" in their investment decisions whiles 25.8% of the investors consider it to be "Important", 10.3% of the investors were neutral and 5.2% of the investors did not consider financial statements important. This shows a very high degree of confidence placed on the value of financial statements among investors on the GSE. This is depicted in **Table 7** below.

Table 8. Level of Importance in Decision Making

Level of Importance	Frequency	Percentage (%)
Very Important	57	58.8
Important	25	25.8
Neutral	10	10.3
Not Important	5	5.2
Total	97	100

Source: Authors construct, 2026

4.9 Relationship Between Financial Statement Analysis and Investment Decision

The study also examined the empirical correlation between the use of financial statements and the quality of investors' investment decisions. The study specifically examined whether investors in the Ghana Stock Exchange greater reliance on financial statements translates into more informed and rational investment decisions.

4.9.1 Correlation Analysis

The researchers conducted a Pearson correlation analysis to assess the connection between financial statement usage/analysis and the quality of investment decisions among investors on the Ghana Stock Exchange. **Table 9** below shows the outcome of this analysis.

Table 9. Correlation Between Financial Statement Usage and Investment Decision Quality

Variables	Financial Statement Usage	Investment Decision Quality
Financial Statement Usage	1	0.68
Investment Decision Quality	0.68	1
Significance Level (p)	0.001	0.001

Source: SPSS (Version 25)

Interpretation:

The results as seen in **Table 9** above indicate a strong positive link between the quality of investment decisions and the use/analysis of financial statements at correlation coefficient of $r = 0.68$. This means that investors on the GSE who frequently use/analyze financial statements tend to make more informed, objective, and higher-quality investment decisions.
The significance value ($p = 0.001$) is less than the threshold of 0.05 which indicates that the relationship is statistically significant.
Therefore, the findings confirm that greater use/analyze of financial statements information enhances the quality of investors investment decision-making.

4.9.2 Regression Analysis

The study further tried to understand which components of financial statement analysis most significantly influence investors investment decision making and, in this regard, a multiple regression analysis was performed. The dependent variable was investment decision quality, and the independent variables were the key financial ratios (profitability, liquidity, and debt ratios). The result of this analysis is presented in **Table 10** below.

Table 10. Regression Analysis

Predictor Variable	Beta (β)	t-value	Sig. (p-value)
Profitability Ratios	0.45	4.31	0.000
Liquidity Ratios	0.30	3.12	0.003
Debt Ratios	-0.12	-1.01	0.316

Source: SPSS (Version 25)

Interpretation:

As seen in the table above, profitability ratios and liquidity ratios have a positive and statistically significant impact on the quality of investors investment decision quality with a regression of ($\beta = 0.45$, $p < 0.01$) and ($\beta = 0.30$, $p < 0.01$) respectively. The implication of this result is that investors heavily rely on these components when analyzing financial statements and making investment decisions.
The result also revealed that debt ratios ($\beta = -0.12$, $p = 0.316$) do not significantly influence investors investment decision-making. This suggests that investors on the GSE pay less attention to leverage metrics or may lack understanding of how debt impacts risk. These results emphasize how crucial of focusing on profitability and liquidity in financial reporting, as they are key signals to investors in their investment decisions.

5. Discussion of Results

The study investigated how financial statement analysis affects investors' choices on the GSE. Specifically, the study sought to better understand investors' frequency use of financial statements, perceived importance of financial statements, and to explore the statistical relationship between financial statement usage and the quality of investors' investment decision making.

The results of the study revealed that most of the investors on the Ghana Stock Exchange either always or often use financial statements when making investment decisions and view them as important in that process of decision making. This study also found a statistically significant relationship between financial statement analysis and quality investment decision making. Profitability and liquidity ratios were found to be the most influential forms of indicators of impact as compared to debt ratios which had very little impact.

5.1 Contribution and Implication of the study

As capital markets continue to grow and attract a wide range of investors, the need for informed investment decisions becomes more essential. This study brings input into the financial ecosystem for beneficiaries.

Also, the study is useful for investors, as they are enlightened about the importance of financial statement analysis and the way they can use it to make well-informed and yet less risky investment decisions (Bokpin, 2011).

Moreover, the study is important for companies listed on the Ghana Stock Exchange, because knowing how investors relate and interpret their financial reports can help them to improve the presentation and clarity of their financial disclosures, fulfilling the requirement of investors for increased confidence in their disclosures and a more transparent market.

Furthermore, the study serves as a very valuable input to regulators and policymakers such as the Securities and Exchange Commission (SEC) and the Ghana Stock Exchange, as the study will provide evidence-based insights for the design of policies meant to improve financial reporting standards and investor education initiatives.

6. Conclusion

Findings from this study indicate that financial statement analytical review is a significant and inescapable part of the investment-making process of investors on the Ghana Stock Exchange. Results from the study revealed that financial statements and ratios (particularly those measuring profitability and liquidity ratios) are among the most dominant factors used by investors in the evaluation of sustainability and riskiness associated with prospective investments. Therefore, it can be concluded that greater reliance on financial statement information enhances the quality of investment decision-making on the Ghana Stock Exchange.

These findings also highlight the importance of focusing on profitability and liquidity in financial reporting, as they are key signals to investors regarding a firm’s stability and future performance. This study also concludes that there is a statistically significant relationship between financial statement analysis and quality investment decision making. Profitability and liquidity ratios are the most influential forms of indicators of impact as compared to debt ratios which had very little impact.

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Conflict of interest

The authors declare that they have no conflict of interest.

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