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THE USEFULNESS OF ANNUAL REPORTS TO AUSTRALIAN
PRIVATE INVESTORS

by

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CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

For many years companies have been required to publish annual reports to satisfy professional, legal and stock exchange requirements. Over the years, changes in the reporting process have taken place, particularly in the last decade, where significant changes have occurred. The professional accounting bodies through the Australian Accounting Research Foundation (AARF) have been responsible for amending existing standards and developing new accounting standards. As a result, 18 new professional accounting standards have been introduced within a ten year period. Furthermore, the Australian Securities Commission, previously the National Companies and Securities commission expanded its reporting requirements for public companies through the Australian Securities Commission Act, consequently, in 1987 the new Schedule 7 on company accounts was introduced, effecting both the content and form of corporate annual reports. Trevor Parry (1987), the national technical director for chartered accountants, Pannell, Kerr and Foster, expressed the view that:

" The new Schedule 7 represents the most significant change in corporate financial reporting in Australia since the introduction of Schedule 9 in 1961. It is a radical departure from existing regulations both in content, form and application ..."

In 1984, we had the creation of the Accounting Standards Review Board (ASRB), which through the then Companies Act put legal force behind standards of which it approved. In 1988, the Accounting Standards Board (AcSB) of the AARF merged with the ASRB. McGregor (1989), stated "that the merger was viewed as a joint venture between the government and the accounting profession." In 1991, the Australian Securities Commission Act, established the Australian Accounting Standards Board (AASB), replacing the ASRB. According to Kenley (1991), the basic functions of the new AASB are similar to those initially proposed for the ASRB. The ASRB and now the AASB have both been responsible for approving 28 applicable accounting standards, which are now required by law to be complied with.

1.2 OBJECTIVES OF FINANCIAL REPORTING

For the past two decades the accounting profession both in Australia and overseas has attempted to determine a relevant set of objectives for financial reporting. In 1971, the American Institute of Certified Practising Accountants was responsible for the formation of a study group, known as the Trueblood committee, which was appointed to report on the objectives of financial reporting. To develop a set of objectives, the Trueblood committee sought to have interviews and meetings with various interested groups from most sectors of the economy. The report listed twelve objectives of financial reporting. The first and basic objective being:

"... to provide information on which to base economic decisions."

The objective is clearly directed towards the usefulness of accounting information. When it came to identifying the users of financial statements, objective No 2 referred to users:

"...Who have limited authority, ability, or resources to obtain information and who rely on financial statements as their principal source of information about an enterprise's activity."

Furthermore, objective No 3 identified both investors and creditors as users of financial statements and was generally directed towards providing information useful for prediction, comparison and evaluation of potential cash flows and information should be provided to the user groups to ascertain the amount, timing and related uncertainty of such cash flows.

In 1976, the Accounting Standards Steering Committee of the Institute of Chartered Accountants in England and Wales published a discussion paper known as the Corporate report. The report reviewed the objectives of accounting and were later reinforced by the U.K. government on proposed legislation aimed at company reporting activity. The Committee's view was that the fundamental objective of corporate reports was as follows:

"...to communicate economic measurement of and information about the resources and performance of the reporting entity useful to those having reasonable right to information."

The report acknowledged users as those having a reasonable right to information. The users were identified as equity investors, loan creditors, employees, analysts, advisers, business contacts, government and the public. Whilst the Corporate Report identified a wider group of users, both the Corporate and Trueblood reports agreed that annual reports should provide useful information to investors for decision making.

Further to the Trueblood report the American Institute of Certified Practising Accountants set up the Wheat Committee. This committee was charged with the task of improving the standard setting process, which led to the establishment of the Financial Accounting Standards Board (FASB). In 1978, this board began to develop a conceptual framework for financial accounting and reporting. As part of this framework it released a statement of objectives of financial reporting by business and enterprise which carried through the ideas expressed by the Trueblood report.

The objectives of financial reporting have been addressed by the accounting profession in Australia. The Australian Accounting Research Foundation set up by the two professional bodies, the Institute of Chartered Accountants and the Australian Society of Accountants, has been responsible for two studies in this area. The first, published in 1972 was written by Kenley and Staubus. The authors suggested that the objective of accounting was:

"...to provide financial information about the economic affairs of an entity for use in making decisions."

Barton was responsible for writing the second study which was published in 1982. He suggested that the objective of accounting was to:

"...satisfy the needs of users for financial information on the economic affairs of a firm. Users require financial information about the firm's operations and its resources and obligations for use in economic decision making and control and for accountability purposes."

Both studies identified the key objective as providing useful information to users for decision making purposes and appear to be consistent with the objectives stated from overseas reports.

Subsequently, in 1990, the Australian Accounting Research Foundation and the Accounting Standards Review Board put in place the first formal building blocks of a conceptual framework for general purpose financial reporting. The Statement of Accounting Concepts 2 (SAC 2), "Objective of General Purpose Financial Reporting", was issued as part of the conceptual framework in order to identify the users of general purpose financial reports, the common information needs of such users and the broad types of information required to meet those needs.

SAC 2 (para. 16) identifies 3 primary users of general purpose financial reports, whose common information needs should dictate the type of information to be disclosed in such reports. These groups are resource providers (shareholders and creditors), recipients of goods and services and parties performing a review or oversight function. SAC 2 (para. 26) states that the objective of general purpose reports is to:

..."provide information useful to users for making and evaluating decisions on the allocation of scarce resources."

The above statement refers to a decision usefulness objective for financial reporting. That is, annual reports should be designed to provide users with information useful to users for making and evaluating decisions on the allocation of scarce resources. It is agreed that the purpose of accounting reports is to provide information useful to users. My research will examine the extent to which annual reports are found useful by shareholders in their decision making.

1.3 OBJECTIVES OF THE RESEARCH

The objective of this thesis will be to examine to what extent private shareholders read and use information contained within company annual reports.

More specifically the thesis will be concerned with gathering information to establish the following:

1. the extent to which shareholders read the various sections contained in the annual report;
2. the reason why shareholders fail to read sections contained in the annual report;
3. the sections in the annual report investors have difficulty understanding;
4. the extent to which annual reports are found useful by shareholders for investment decision making;
5. the respondents personal characteristics;
6. whether any significant relationship exists between the shareholder's personal characteristics and the extent to which they read and use certain sections of the annual report.

1.4 OUTLINE OF THE THESIS

Chapter 1 has reviewed the historical development of established objectives on financial reporting and further defined the purpose of the study.

Chapter 2 will provide a review of prior empirical studies to determine to what extent individual shareholders read, use and rely on the various sections of the annual report.

Chapter 3 will describe the research methodology applied for the purpose of this study. It will detail the selection of the sample, the instrumentation used to gather the data and the statistical analysis used to process the data. Further, it will outline the personal characteristics of the respondents.

Chapter 4 will present the findings of the investigation and Chapter 5 will briefly summarise the findings of the study, provide recommendations for potential future research and state any limitations of the study.

CHAPTER 2

REVIEW OF LITERATURE

2.1 INTRODUCTION

Earlier we documented decision usefulness as an objective of general purpose financial reporting. The question of whether annual reports are found to be useful has been the subject of much research in past years. This chapter will provide an overview of prior related research conducted into the readability and usefulness of corporate annual reports to private shareholders. The review will first look at overseas studies and will then follow with a section on surveys conducted within Australia.

2.2 OVERSEAS EMPIRICAL STUDIES ON THE USEFULNESS OF ANNUAL REPORTS TO INVESTORS.

One of the earliest studies investigating the readability and understanding of annual reports was conducted by Brenner (1971), who surveyed shareholders by use of a mail questionnaire. The questionnaire was sent to 2,000 shareholders located throughout the United States. A total of 484 responses were received representing a 24.2 percent response rate.

The shareholders were asked to indicate on a four point scale the extent to which they read each section of the annual report. It was found that profit and loss statement was the most carefully read item followed by the balance sheet and president's letter, whilst the auditor's report was the least carefully read section.

When presented with the statement; "I find financial statements of corporations to be very useful", 80.37 percent of respondents expressed agreement, but when questioned on the extent to which they understood the financial statements, 44.42 percent of shareholders declared that they found these reports difficult to understand.

Baker and Haslem (1973), conducted a survey of 1,623 individual shareholders in metropolitan Washington, D.C., to determine the extent to which they relied on 33 factors used in investment analysis and selected socio-economic variables. They found that the factors that related to future and expectational elements were considered by respondents as the most useful for decision making. In addition, it was found that investors consider stockbrokers as their most important source of information for investment analysis, whereas, investors placed very little importance to financial statements for decision making.

A study by Epstein (1975), investigated the usefulness of annual reports to a sample of 1766 private shareholders within the United States. He found that only 15 percent of the respondents used the annual report as a primary basis for investment decision making, whereas 48.8 percent relied on the advice of their sharebroker.

In relation to the readability of annual report items, Epstein (1975), found that the balance sheet and profit and loss statement were the two most thoroughly read sections whilst the auditor's report was the least read. For investment decision making the respondents found the balance sheet and profit and loss statement to be the most useful and the auditor's report the least useful.

When questioned about their difficulty in understanding annual report items, the respondents indicated that they had most difficulty comprehending the footnotes and the funds flow statement. Furthermore, the level of usefulness found in an annual report item by a shareholder appeared to depend only on whether the respondent had work experience or education in accounting.

Epstein and Moses (1993), conducted a new study which replicated and expanded Epstein's earlier study. A questionnaire was sent to a random sample of private shareholders around the U.S. and a total of 246 responses were received. They found that shareholder reliance on annual reports had increased from the previous study and that a larger percentage of respondents in this survey found the corporate reports more useful for decision making purposes.

Furthermore, they found that the most widely read item within the annual report was the profit and loss statement, followed by the balance sheet. The items considered most useful for decision making were also the balance sheet and the profit and loss statement.

Lee and Tweedie (1975), carried out research in the United Kingdom. Questionnaires were sent to 1,594 shareholders of a large U.K. industrial company and 374 replies were received, representing a response rate of 23 percent. They found the most widely read part of the annual report was the chairman's report whilst the auditor's reports was the least read section. The profit and loss statement was considered by investors as the most useful for making decisions to buy, sell or hold shares.

The shareholders were further asked to specify which information contained within the annual financial reports was useful in making investment decisions. The respondents considered information relating to future prospects of the company as the most important. This finding is consistent with that of Chenhall and Jachau, (1976), who considered anticipatory and predictive information to be more important than that which is historic. Furthermore, investors were asked to disclose the use made of other sources of information. It was found that the financial press reports was the most thoroughly read.

Lee and Tweedie (1977), carried out a subsequent study by means of interviewing 301 private shareholders from a large public company. They attempted to establish the level of private shareholder understanding of corporate annual reports. It was found that 74 percent of respondents indicated that they understood information contained in annual reports. Of these, 39 percent found it relevant to their investment decisions, while 35 percent found it irrelevant. Tests of actual understanding in reporting areas provided evidence that respondent's had a low level of comprehension in these areas.

A survey was conducted by Chang and Most (1977), to establish the usefulness of annual reports to the private investor. They mailed 1,034 questionnaires to individual shareholders living in the Miami/ Florida area and concurrently sampled 300 New Zealand shareholders through the University of Canterbury. The Miami/Florida sample was obtained from a mailing list of a large national stockbrokerage firm, whereas the selection of names in New Zealand was taken from a firm of share registrars. Their findings indicate that 57 percent New

Zealand investors ranked newspapers and magazines as their most important source of information, whilst 46.8 percent of Miami/Florida investors considered the financial statements as their most important source of information for investment decision making.

Furthermore, Chang and Most (1977), tested the relationship between investor attitudes to annual reports and the characteristics of Miami/Florida respondents. They found that investors over the age of 50 and shareholders who held under \$10,000 in a share portfolio regarded stockbrokers as a more important source of information. In addition, they found that those shareholders employed within the accounting or finance area rated the corporate annual report as the more important source of information.

A further study by, Chang and Most (1977), surveyed individual shareholders around the United States excluding Florida to determine the extent to which investors relied on annual reports. The findings are consistent with the Florida study and show that the Corporate annual report was considered by respondents as the more important source of information. When questioned on the importance of annual report items, the profit and loss statement was found to be the most influential for investment decision making.

The Securities and Exchange Commissions Advisory Committee on Corporate Disclosure in 1977 surveyed 4,400 shareholders (of which 88 percent held their stock directly) to establish investor reliance on annual reports. They found that 91 percent of the respondents indicated that they read the annual report and 77

percent said they read them very or somewhat thoroughly. Furthermore, for investment decision making the shareholders indicated that they were more interested in information which was future orientated.

An investigation into private shareholder usage of annual reports in New Zealand was carried out by Wilton and Tabb (1978). A sample size of 300 shareholders was obtained from two public listed companies and excluded overseas shareholders, trusts, estates, companies and institutions. Their findings indicated that the most widely read section in the annual report was the profit and loss statement and the chairman's review, read by 86.7 and 86.1 percent of respondents respectively. The least read section of the annual report was the auditor's report, with 11.5 percent of respondents claiming to read it thoroughly and 48.5 percent not reading it at all. Furthermore, they found that the financial manager and the accountant tend to read more thoroughly all aspects of the annual financial reports.

The shareholders were further asked to specify which information contained in the annual report was useful in making investment decisions. The profit and loss account and balance sheet were considered the most useful sections whereas the auditor's report was deemed to be the least useful.

2.3 AUSTRALIAN EMPIRICAL STUDIES ON THE USEFULNESS OF ANNUAL REPORTS TO INVESTORS.

Whilst a number of overseas studies were conducted in the area of usefulness of financial reports, a number of Australian studies attempted to establish the extent to which investors read and use annual report items.

A study conducted by Goldberg and Clift (1968), investigated attitudes to annual reports. A mail questionnaire was sent to shareholders of Gibson Kelite Ltd, which was enclosed with the 1967 annual report. In addition a note from the chairman outlining the purposes of the annual report was also mailed. The purposes outlined are as follows:

- "1. Compliance with the requirements of the companies act and stock exchange requirements.
2. Reporting to the owners of the company: the shareholders.
3. Providing a suitable public relations medium in Australia and overseas.
4. Use by our sales representative as a valuable sales aid with current and prospective customers."

The findings indicated that 87 percent of the respondents found the annual report very good or good in respect of the above objectives. The study did not address the issue of whether investors found annual reports useful for decision making. Furthermore, shareholders found the chairman's report the most interesting item to read and that 22.8 percent of respondents were satisfied with the level of information disclosed in the annual report.

Chenhall and Juchau (1977), surveyed 1025 private investors to establish the degree to which they used the items in the financial statements. The sample of private shareholders was drawn from two investor interest groups. Professionally qualified accountants were excluded for the purpose the study.

A mail questionnaire was used for the purpose of measuring the importance of 37 factors used in making share decisions. From the total population of 1025 investors, 476 useable responses were received, which represents a response rate of 46.4 percent. A five point scale was used to identify the importance placed on each factor by the respondent. The factors were then ranked according to a mean response. The results obtained according to Chenhall and Juchau suggest:

"...the factors which are historic in nature tend to rank well behind those which are contemporary and anticipatory."

This was evidenced by the fact that respondents ranked as of great importance; the future economic outlook of the company, expected future percentage growth in the company's earnings per share and the future economic outlook of the industry of which the firm is a part. On the other end of the scale shareholders ranked as slight importance items such as; the past percentage return from dividends, the stability of past dividends and the size of the company in terms of total assets.

A study by Winfield (1978), investigated the extent to which shareholders read and understand the financial statement section of the corporate report. A postal questionnaire was forwarded to 850 private shareholders of which 319 replies were received, representing a response rate of 38 percent. The findings reveal that 70.2 percent of the respondents indicated that they read the financial statements, but found that the most widely and thoroughly read section of the annual report was the director's report.

Furthermore, shareholders were asked to rate the indicators that they required to assess financial performance of the company. They ranked a good past record of results, market growth and a good dividend rate as the three most important, while the shareholder's main sources of information was the company's annual report and the financial newspapers.

Anderson (1979), also investigated the extent to which annual report items are read and used by private investors. The findings revealed that the chairman's review and the profit and loss statement were the most read sections of the annual report, they were read thoroughly by 52.8 and 48.8 percent of respondents respectively. Furthermore, he found that 82.6 percent of respondents had no difficulty in understanding the chairman's report.

Further, Anderson (1979), found that the profit and loss statement and the balance sheet were rated by respondents as the most useful for investment decision making, whilst the statement of account policies was considered the least useful. He also found that private investors ranked sharebroker's advice as their most important source of information followed by newspapers and magazines.

Further research was carried out by Courtis (1980), he surveyed private shareholders using a mail questionnaire to gauge the extent to which annual reports are read and used. He found that the chairman's review was the most read section, followed by the profit and loss account and the director's report. The least read section was the notes to the accounts.

When questioned about the usefulness of the annual report for their equity decision making, the profit and loss account was considered by respondents to be the most important. The balance sheet was considered by investors as the second most useful section whereas, the auditor's report was considered the least important.

2.4 CONCLUSION

This chapter has reviewed prior studies carried out to determine the degree to which the private shareholder read and used information contained within the corporate annual report. The first part of the chapter dealt with overseas empirical studies. The findings indicated that the profit and loss statement was considered by many shareholders to be the most useful section for investment decision making. The chairman's report appeared to be the most thoroughly read section while the auditor's report in many studies proved to be the least read.

The second part of this chapter reviewed Australian empirical studies on the usefulness of annual reports to investors. It can be concluded from the review that the chairman's review was the most read section and the profit and loss statement was rated by respondents as the most useful for decision making purposes.

It must be acknowledged that the studies reviewed were conducted at different times and countries using different population samples, nevertheless, there does appear to be some consistency in the findings of most surveys. The next Chapter will review the research methodology used in this study and will further outline the personal characteristics of the respondents.

CHAPTER 3

RESEARCH METHODOLOGY AND SHAREHOLDER CHARACTERISTICS

3.1 INTRODUCTION

As outlined in Chapter one, the purpose of the thesis is to investigate the degree to which the annual report is read and used by the private shareholder. Chapter two, reviewed prior empirical literature, both Australian and overseas, on the readership and usefulness of corporate annual reports. However, since these studies were conducted a number of years have elapsed, and many changes have been made effecting the format and content of the annual report of Australian public companies. It was thought it may be of significant interest to investigate whether shareholder patterns of readership and use of annual reports had altered over time, given changes to the reporting process. It is not intended however to specifically investigate the impact of such changes on readership and usefulness, but to address the questions in general. This Chapter will describe the methodology used in this survey and will further describe the characteristics of the shareholders in this study.

3.2 SAMPLING PROCEDURE

A sample of 500 individual shareholders was obtained from the share register of each of two public listed companies who operated in diversified industrial activities. The total sample of 500 was comprised of 250 shareholders from each company. The names and address of individual investors were taken at random and specifically excluded overseas investors, companies, institutions and trusts. The systematic sampling method was used to obtain the sample.

3.3 QUESTIONNAIRE DESIGN AND TESTING

A decision was made to conduct a survey by means of a postal questionnaire due to the ability to reach a large number of people for a minimum cost. The first mailing took place in the second week of September 1992 and a follow -up mailing was made during the second week of October 1992. A reminder letter and another copy of the questionnaire was sent to all shareholders not responding to the first mailing. The questionnaires were coded so that those responding to the first mailing would not be sent a reminder. The questionnaire and the attached covering letters are disclosed in Appendix A.

When the completed questionnaires were received, the replies were coded and entered on to a spreadsheet for processing using a computer program (REFLEX) to carry out the relevant statistical tests.

3.4 ANALYSIS OF RESPONDENTS

Table 3.1 outlines the responses received from each of the two mailings. Of the sample size of 500 some 270 responses were received, but only 239 were useable for the purpose of the study. This represents a response rate of 47.8 percent and compares favourably to previous similar studies as referred to in the earlier chapter.

TABLE 3.1
ANALYSIS OF RESPONSES

	RESPONSES RECEIVED	USEABLE RESPONSES
FIRST MAILING	174	154
SECOND MAILING	96	85
TOTAL	270	239

3.5 THE CHARACTERISTICS OF THE RESPONDENTS

The questionnaire sought to obtain background information on individual investors concerning their personal characteristics, educational background and investment activity. The shareholders were asked to supply personal information on their age and the highest level of education they had completed. They were further asked to provide information on the amount they have invested in ordinary shares, whether they had completed a formal course of study in accounting and whether they had any practical work experience in accounting.

The responses of individual investors are summarised in Tables 3.2 to 3.7.

Table 3.2 summarises the age grouping of respondents to the questionnaire. It can be seen from the Table that 68.6 percent of respondents to the questionnaire are aged fifty years or more.

TABLE 3.2
AGE OF RESPONDENTS

AGE	NUMBER	PERCENT OF TOTAL %
Under 30 years	10	4.2
30 - 39	24	10.0
40 - 49	41	17.2
50 - 59	42	17.6
Over 60	122	51.0
Total	239	100.0

Table 3.3 classifies the respondents according to gender. No question was asked on this characteristic, it was determined through the coding of questionnaires.

TABLE 3.3
CLASSIFICATION ACCORDING TO GENDER

GENDER	NUMBER	PERCENT OF TOTAL
MALE	143	59.8
FEMALE	96	40.2
TOTAL	239	100

Table 3.4 shows the respondents level of education. The shareholders were asked to indicate the highest level of education that they have completed. From the table it can be seen that more than half of the respondents had completed tertiary education.

TABLE 3.4
RESPONDENTS LEVEL OF EDUCATION COMPLETED

EDUCATION LEVEL COMPLETED	NUMBER	PERCENT OF TOTAL %
PRIMARY SCHOOL	6	2.5
SECONDARY SCHOOL(YEARS 7 TO 10)	37	15.5
SECONDARY SCHOOL(YEARS 11 TO 12)	54	22.6
TERTIARY EDUCATION	133	55.6
TECHNICAL COLLEGE	9	3.8
TOTAL	239	100.0

Table 3.5 summarises the responses to the question of whether respondents had ever completed a formal course of study in accounting.

TABLE 3.5
RESPONDENTS FORMAL EDUCATIONAL TRAINING IN ACCOUNTING

FORMAL STUDIES COMPLETED	NUMBER	PERCENT OF TOTAL %
YES	41	17.2
NO	198	82.8
TOTAL	239	100.0

It can be seen from Table 3.5 that 17.2 percent of respondents indicated that they had completed a formal course of study in accounting whereas 82.8 percent of respondents had no such training.

Furthermore, the respondents were asked to indicate whether they had any practical work experience in accounting. The responses to this question are presented in Table 3.6

TABLE 3.6

RESPONDENTS WORK EXPERIENCE IN ACCOUNTING

WORK EXPERIENCE	NUMBER	PERCENT OF TOTAL
YES	71	29.7
NO	168	70.3
TOTAL	239	100.0

It was indicated by 71 respondents that they had gained knowledge in accounting through employment, whilst the other 168 respondents lacked any job experience in accounting.

Table 3.7 shows the market value of investment in ordinary shares held by the respondents surveyed.

TABLE 3.7
MARKET VALUE OF INVESTMENT IN ORDINARY SHARES

MARKET VALUE	NUMBER	PERCENT OF TOTAL
UNDER \$2,000	24	10.0
\$2,000 - \$9,999	21	8.8
\$10,000 - \$19,999	20	8.4
\$20,000 - \$49,999	35	14.7
\$50,000 - \$99,999	46	19.2
\$100,000 - \$500,000	65	27.2
OVER \$500,000	20	8.4
NO INFORMATION GIVEN	8	3.3
TOTAL	239	100.0

The responses in Table 3.7 show that 35.6 percent of the respondents held a portfolio of ordinary shares with a market value of \$100,000 or more, whereas 61.1 percent held shares with a market value below this amount, whilst eight investors failed to give a response to this question.

3.6 CONCLUSION

To summarise, this chapter examined the research methodology used in the survey which involved a mail questionnaire being sent to a random sample of 500 private investors of two public listed companies. Of the total sample size, 239 responses were useable for the purpose of the study.

An investigation of shareholder's personal attributes showed that 68.6 percent of the respondents were aged 50 years or more and that 55.6 percent had completed tertiary studies. It was also found that 17.2 percent had completed a formal course of study in accounting and 29.7 percent had work experience in accounting. The market value of the respondents portfolio of ordinary shares was distributed within all the groupings. In the next chapter the data collected will be analysed further to determine the extent to which shareholders read and use annual report items.

CHAPTER 4

RESULTS OF INVESTIGATION

4.1 INTRODUCTION

This chapter will investigate the extent to which shareholders read the various sections contained in the annual report and the reasons why shareholders fail to read these sections, furthermore, it will report on which items investors had difficulty understanding, and further analyse the extent to which annual report items are found useful by shareholders for investment decision making. In addition, the effect of investor personal attributes on the readability and usefulness of annual report items will be tested to see whether any significant relationship exists between the shareholder's personal characteristics and the extent to which they read and use annual report items.

4.2 READERSHIP OF CORPORATE ANNUAL REPORTS BY SHAREHOLDERS

The investors to the survey were asked the following question: "How thoroughly do you usually read the following items in an annual report?" The annual report was divided into eight major sections and respondents were asked to indicate on a three point scale whether they read these sections thoroughly, briefly or not at all. The responses to this question are summarised in Table 4.1.

From Table 4.1 it can be seen that mean values were used to rank the annual report items in respect to readability. This mean score was calculated in accordance with the scale used in the questionnaire, where one denoted not read and three read thoroughly. Based on the mean values the director's report and the reviews on operations were the most widely read sections of the annual report followed by the profit and loss statement, balance sheet, statistical review, notes to the accounts, statement of sources and application of funds and the auditor's report.

Table 4.1 further indicates, that the most thoroughly read sections were the director's report, followed by the profit and loss statement, reviews of operations, and the balance sheet. The least thoroughly read sections of the annual report were the auditor's report and the statement of sources and application of funds with 15.1 and 16.7 percent of respondents respectively claiming to read it thoroughly and further, 42.7 and 41.4 percent respectively did not read these sections. Similarly Lee & Tweedie (1975), Wilton & Tabb (1978) and Epstein (1975), found that the auditor's report was the least read section of the annual report.

TABLE 4.1

INVESTOR READERSHIP OF CORPORATE ANNUAL REPORTS

SECTION	DO NOT READ		READ BRIEFLY		READ THOROUGHLY		TOTAL		MEAN
	NO.	%	NO.	%	NO.	%	NO.	%	
DIRECTORS REPORT	23	9.6	106	44.4	110	46.0	239	100	2.36
REVIEWS ON OPERATIONS	30	12.6	140	58.6	69	28.8	239	100	2.16
STATISTICAL REVIEW	76	31.8	123	51.5	40	16.7	239	100	1.85
AUDITORS REPORT	102	42.7	101	42.3	36	15.1	239	100	1.72
PROFIT & LOSS STATEMENT	53	22.2	108	45.2	78	32.6	239	100	2.10
BALANCE SHEET	64	26.8	111	46.4	64	26.8	239	100	2.00
NOTES TO ACCOUNTS	89	37.2	104	43.5	46	19.2	239	100	1.82
STATEMENT OF S&A OF FUNDS	99	41.4	100	41.8	40	16.7	239	100	1.75

4.3 REASONS FOR LACK OF READERSHIP OF CORPORATE ANNUAL REPORTS

In order to determine the reasons why investors did not read the different sections of the annual report very thoroughly, the shareholders were asked the following question: "The reason that you do not read some items very carefully is mainly due to:" and were further given the following options: a lack of time, a lack of understanding, a lack of interest and a lack of usefulness. Shareholders had the opportunity to select either one or more of the listed reasons.

The responses to the above question are summarised in Table 4.2. It should be noted that the percentages add up to more than 100 since some respondents stated more than one reason that caused them not to read some items of the annual report very carefully.

TABLE 4.2
REASONS FOR LACK OF READERSHIP

REASON	NUMBER	% OF TOTAL
A LACK OF TIME	104	43.5
A LACK OF UNDERSTANDING	104	43.5
A LACK OF INTEREST	64	26.8
A LACK OF USEFULNESS	95	39.7
NO RESPONSE	9	3.8

It can be seen from the Table 4.2 that 104 or 43.5 percent of respondents failed to read carefully the annual report items due to a lack of time and a lack of understanding, a further 26.8 percent said it was due to a lack of interest whilst 39.7 percent attributed it to a lack of usefulness. The nine shareholders who failed to respond to the question were generally thorough readers of all the annual report items.

4.4 INVESTOR DIFFICULTY IN UNDERSTANDING ANNUAL REPORT ITEMS

In order to determine which sections of the annual report investors experience difficulty understanding, the following question was asked: "Which of the following do you often have difficulty understanding?" Respondents had the opportunity to select one or more of the listed items. The reader should note that in Table 4.3 the percentages do not add to 100 since many shareholders had difficulty understanding more than one item in the annual report. The responses to this question are summarised in Table 4.3.

TABLE 4.3**INVESTOR'S DIFFICULTY IN UNDERSTANDING ANNUAL REPORT ITEMS**

SECTION	NUMBER	% OF TOTAL
DIRECTORS REPORT	10	4.2
REVIEWS ON OPERATIONS	14	5.9
STATISTICAL REVIEW	67	28.0
AUDITORS REPORT	64	26.8
PROFIT AND LOSS STATEMENT	73	30.8
BALANCE SHEET	90	37.7
NOTES TO FINANCIAL STATEMENTS	82	34.3
STATEMENT OF S&A OF FUNDS	87	36.4
NONE OF THE ABOVE	75	31.4
NO RESPONSE	7	2.9

From Table 4.3 it can be seen that the respondents found the less technical items of the annual report, the director's report and the reviews on operations, the least difficult to understand, with only 4.2 and 5.9 percent of respondents respectively claiming difficulty in understanding these sections. This result is consistent with the fact that these items were the most widely read, given that if you understand an item you are more likely to read it.

It can be further seen from Table 4.3, that many more investors indicated difficulty in understanding some of the more technical sections. The item rated by the most shareholders as difficult to understand was the balance sheet, followed by the statement of sources and application of funds, notes to financial statements, profit and loss statement, statistical review and auditor's report. These results are generally consistent with the study by Epstein (1975), which found that the respondents considered the technical sections more difficult to understand than the non-technical items.

4.5 SHAREHOLDER UTILISATION OF ANNUAL REPORTS FOR INVESTMENT DECISION MAKING.

Investors were asked to rate the overall usefulness of the annual report in making their investment decisions. The respondents were presented with a choice outlined in Table 4.4. From the table it can be seen that 37.2 percent of respondents found no use for annual reports in their investment decision making and a further 10.5 percent found them to be of little use, whilst 39.3 percent found the annual report of moderate use and 13 percent very useful. These results are supported by a recent Australian stock exchange survey (Australian shareownership survey 1991),

which indicates that a large number of investors rely on professional services, such as a stockbrokers, for their investment advise and as a result place little, or no emphasis on the annual report for their information requirements.

TABLE 4.4
THE USEFULNESS OF ANNUAL REPORTS TO INVESTORS FOR
INVESTMENT DECISION MAKING.

USEFULNESS	NUMBER	% OF TOTAL
VERY USEFUL	31	13.0
OF MODERATE USE	94	39.3
OF LITTLE USE	25	10.5
OF NO USE	89	37.2

The respondents who found some use for the annual report in their investment decision making, were then asked to rank each section of the annual report in terms of usefulness. The investors were asked to rank them on a three point scale, where scale one means not useful and three very useful. The shareholders who found no use for the annual report for their decision making were instructed not to answer this question. The responses to this question are summarised in Table 4.5.

TABLE 4.5
THE USEFULNESS OF ANNUAL REPORT ITEMS TO INVESTORS

FOR INVESTMENT DECISION MAKING.

SECTION	NOT USEFUL		MODERATELY USEFUL		VERY USEFUL		TOTAL		MEAN
	NO.	%	NO.	%	NO.	%	NO.	%	
DIRECTORS REPORT	21	14.0	81	54.0	48	32.0	150	100	2.18
REVIEW OF OPERATIONS	29	19.3	92	61.3	29	19.3	150	100	2.00
STATISTICAL REVIEW	36	24.0	85	56.7	29	19.3	150	100	1.95
AUDITORS REPORT	72	48.0	58	38.7	20	13.3	150	100	1.65
PROFIT AND LOSS STATEMENT	19	12.7	68	45.3	63	42.0	150	100	2.29
BALANCE SHEET	27	18.0	67	44.7	56	37.3	150	100	2.19
NOTES TO ACCOUNTS	48	32.0	71	47.3	31	20.7	150	100	1.89
STATEMENT OF S&A OF FUNDS	57	38.0	62	41.3	31	20.7	150	100	1.83

From Table 4.5 it can be seen that investors consider the profit and loss statement and the balance sheet as the most useful items for investment decision making. These results are consistent with the findings of Lee & Tweedie (1975), Epstein (1975), and Anderson (1979). The directors report was the next most useful section with a mean value of 2.19, followed by the review of operations, statistical review, notes to accounts and statement of sources and applications of funds. The least useful section of the annual report was the auditor's report, with 13.3 percent of respondents considering it very useful and 48 percent not useful. This finding is consistent with the Lee & Tweedie (1975), Wilton & Tabb (1978) and Epstein (1975) studies.

4.6 THE EFFECT OF PERSONAL ATTRIBUTES ON THE READABILITY OF ANNUAL REPORT ITEMS.

Information was requested from the investors in relation to their age group, level of education, level of investment in ordinary shares, whether they had completed a formal course of study in accounting and whether they had any practical experience in accounting, as reported in Chapter 3. This information was then cross - tabulated with their responses on readability of the eight items in the annual report. Chi-square tests of independence, was then used to establish any significant relationship between the shareholder's personal attributes and the extent to which they read annual report items. Five criteria of shareholder attributes were developed and tested to determine any significant relationship to readability of annual report items.

These five criteria of shareholder attributes are:

1. Whether the respondent was over 50 years old.
2. Whether the respondent had completed tertiary studies.
3. Whether the respondent had any formal course of study in accounting.
4. Whether the respondent had any formal work experience in accounting.
5. Whether the respondent had over \$100,000 invested in ordinary shares.

Table 4.6 summarises the chi-square tests of independence in relation to readability of annual report items. Age was the first shareholder characteristic tested for a dependence relationship. The only statistical dependence relationship found in the results was that, shareholders over the age of 50 were likely to read more thoroughly the director's report.

Education was the second shareholder characteristic tested for a dependence relationship. The results indicate that shareholders with tertiary education are likely to read more thoroughly the notes to accounts. Indicating that the more educated shareholders may tend to seek further explanation, rather than rely entirely upon the balance sheet and the profit and loss statement.

As expected some of the more technical items such as the balance sheet, profit and loss statement and notes to accounts, were read more thoroughly by shareholders with formal education and work experience in accounting. Furthermore, those shareholders holding over \$100,000 in ordinary shares are likely to read more thoroughly the director's report, profit and loss statement and the balance sheet.

TABLE 4.6

CHI - SQUARE VALUES FOR TEST OF INDEPENDENCE OF READABILITY

OF ITEMS FROM CRITERIA OF INVESTOR ATTRIBUTES

SECTION	AGE	EDUCATION	ACCOUNTING QUALIFICATION	EXPERIENCE IN ACCOUNTING	AMOUNT INVESTED
DIRECTORS REPORT	10.396**	0.513	0.318	8.203*	15.193**
REVIEW OF OPERATIONS	2.158	0.679	2.772	9.522**	2.687
STATISTICAL REVIEW	1.763	2.129	5.588	5.588	2.887
AUDITORS REPORT	4.271	0.219	1.183	3.328	2.920
PROFIT AND LOSS STATEMENT	5.416	0.317	10.316**	19.795**	10.540**
BALANCE SHEET	1.308	2.519	16.015**	18.107**	6.564**
NOTES TO ACCOUNTS	2.250	8.540*	7.189*	18.841**	1.056
STATEMENT OF S&A OF FUNDS	1.291	2.399	5.922	9.718**	1.529

** Significant at the one percent level.
* Significant at the five percent level.

4.7 THE DEGREE OF ASSOCIATION BETWEEN READERSHIP OF ANNUAL REPORT ITEMS AND INVESTOR ATTRIBUTES

In the last section chi-square tests of independence established 14 items for which a statistical dependence relationship was found. This section will now look at the degree of association between the readership of annual reports and investor attributes of those 14 items. Cramer's-V statistic was used to measure this relationship. It should be noted that this statistic has a maximum value of 1 indicating a perfect relationship and a value of 0 representing no relationship. Table 4.7 summarises the Cramer's-V statistic for all the items for which a dependence relationship was found.

It can be seen from Table 4.7 that the highest degree of association was between whether a shareholder had work experience in accounting and the readability of both the profit & loss statement and balance sheet with a value of 0.287. The lowest degree of association was between the amount the shareholder had invested in ordinary shares and the extent to which they read the balance sheet with a value of 0.166.

TABLE 4.7
CRAMER'S-V STATISTICS FOR THE DEGREE OF ASSOCIATION BETWEEN READERSHIP OF

ANNUAL REPORT ITEMS AND INVESTOR ATTRIBUTES

SECTION	AGE	EDUCATION	ACCOUNTING QUALIFICATION	EXPERIENCE IN ACCOUNTING	AMOUNT INVESTED
DIRECTORS REPORT	0.208	-	-	0.185	0.252
REVIEW OF OPERATIONS	-	-	-	0.200	-
STATISTICAL REVIEW	-	-	-	-	-
AUDITORS REPORT	-	-	-	-	-
PROFIT AND LOSS STATEMENT	-	-	0.208	0.287	0.210
BALANCE SHEET	-	-	0.259	0.287	0.166
NOTES TO ACCOUNTS	-	0.189	0.173	0.273	-
STATEMENT OF S&A OF FUNDS	-	-	-	0.202	-

- = Not significant at one or five percent level.

4.8 THE DIRECTION OF ASSOCIATION BETWEEN READERSHIP OF ANNUAL REPORT ITEMS AND INVESTOR ATTRIBUTES

This section will use a variation of the general Goodman - Kruskal index of predictive association, used by Epstein (1975) to establish the direction of the relationship between the usefulness of annual reports and investor characteristics. For the 14 items for which chi - square tests established a dependence relationship will now be expressed in terms of probabilities. For technical details on the way the following numbers were obtained, the reader is referred to Appendix C.

Table 4.8 records the measure of dependence relating to the readability of the director’s report with the shareholder attribute based on age. From the information displayed in Table 4.8 we can see that the probability of a shareholder over the age of 50 reading the directors report more thoroughly than a shareholder under the age of 50 is 41.4 percent. It also shows that the probability of shareholder over the age of 50 reading less thoroughly the director’s report than a shareholder under 50 is 19.3 percent. If we disregard ties in the readership level (P_B), from the information displayed, a shareholder over the age of 50 is 2.145 times likely to read more thoroughly the director’s report than a shareholder under the age of 50.

TABLE 4.8

THE EXTENT TO WHICH A SHAREHOLDER OVER THE AGE OF 50 AFFECTS
READABILITY OF ANNUAL REPORT ITEMS TO THEM

SECTION	PA	PB	PC	PC/A
DIRECTORS REPORT	0.193	0.393	0.414	2.145

PA = Probability that shareholder over the age of 50 reads the section less thoroughly than one under the age of 50.

PB = Probability that shareholder over the age of 50 reads the section to the same extent as one under the age of 50.

PC = Probability that shareholder over the age 50 reads the section more thoroughly than one under the age of 50.

Table 4.9 summarises the measure of dependence relating to the readability of the notes to accounts with the shareholder attribute based on education. From the Table it can be seen that the probability of a shareholder with tertiary education reading the notes to accounts more thoroughly is 31.3 percent, whilst the probability of that shareholder reading less thoroughly the notes to accounts is 33.1 percent. If we dismiss from the Table ties in the readership level (PB), a shareholder with tertiary education is 0.946 times likely to read more thoroughly the notes to accounts.

TABLE 4.9

THE EXTENT TO WHICH A SHAREHOLDER WITH TERTIARY EDUCATION
AFFECTS THE READABILITY OF ANNUAL REPORT ITEMS TO THEM

SECTION	PA	PB	PC	PC/A
NOTES TO ACCOUNTS	0.331	0.356	0.313	0.946

PA = Probability that shareholder with tertiary education reads the section less thoroughly than one without tertiary education.

PB = Probability that shareholder with tertiary education reads the section to the same extent as one without tertiary education.

PC = Probability that shareholder with tertiary education reads the section more thoroughly than one without tertiary education.

Table 4.10 summarises the measure of dependence relating to the readability of annual report items with the shareholder attribute based on whether the shareholder had formal qualifications in accounting. If we disregard ties in the readership level (PB), from the information displayed in the Table, a shareholder with formal qualifications in accounting is 3.48 times likely to read more thoroughly the balance sheet than a shareholder with no such qualification and 2.70 times likely to read more thoroughly the profit and loss statement and 2.14 times likely to read more thoroughly the notes to accounts.

TABLE 4.10

THE EXTENT TO WHICH A SHAREHOLDER WITH FORMAL QUALIFICATIONS
IN ACCOUNTING AFFECTS THE READABILITY OF ANNUAL REPORT
ITEMS TO THEM

SECTION	PA	PB	PC	PC/A
PROFIT AND LOSS STATEMENT	0.174	0.356	0.470	2.70
BALANCE SHEET	0.148	0.337	0.515	3.48
NOTES TO ACCOUNTS	0.210	0.340	0.450	2.14

PA = Probability that shareholder with formal qualifications in accounting reads the section less thoroughly than one without formal qualifications.

PB = Probability that shareholder with formal qualifications in accounting reads the section to the same extent as one without formal qualifications.

PC = Probability that a shareholder with tertiary education reads the section more thoroughly than one without formal qualifications.

Table 4.11 summarises the measure of dependence relating to the readability of annual report items with the shareholder attribute based on whether the shareholder had any formal work experience in accounting. From the numbers in the Table we can see that the relationship between the extent to which a section is read and a shareholder having work experience in accounting is strongest for the more technical items such as the profit and loss statement, notes to accounts,

balance sheet and the statement of sources and application of funds. The relationship between less technical items, the director's report and the review on operations was weaker.

TABLE 4.11

THE EXTENT TO WHICH A SHAREHOLDER WITH WORK EXPERIENCE IN
ACCOUNTING AFFECTS THE READABILITY OF ANNUAL REPORT
ITEMS TO THEM

SECTION	PA	PB	PC	PC/A
DIRECTORS REPORT	0.185	0.419	0.396	2.14
REVIEW OF OPERATIONS	0.225	0.460	0.315	1.40
PROFIT AND LOSS STATEMENT	0.164	0.338	0.498	3.04
BALANCE SHEET	0.169	0.339	0.492	2.91
NOTES TO ACCOUNTS	0.175	0.332	0.493	2.82
STATEMENT OF S&A OF FUNDS	0.208	0.351	0.441	2.12

PA = Probability that shareholder with formal work experience in accounting reads the section less thoroughly than one without such experience.

PB = Probability that shareholder with formal work experience in accounting reads the section to the same extent as one without such experience.

PC = Probability that shareholder with formal work experience in accounting reads the section more thoroughly than one without such experience.

Table 4.12 presents the measures of dependence relating to whether a shareholder had invested \$100,000 in ordinary shares. If we disregard ties in the readership level (PB), from the information displayed, a shareholder with over \$100,000 invested in ordinary shares is 2.74 times likely to read more thoroughly the director's report than a shareholder with an investment of under \$100,000, and 2.14 times likely to read more thoroughly the profit and loss statement, and 1.81 times more likely to read more thoroughly the balance sheet.

TABLE 4.12
THE EXTENT TO WHICH A SHAREHOLDER WITH OVER \$100,000 INVESTED
IN ORDINARY SHARES AFFECTS THE READABILITY OF ANNUAL
REPORT ITEMS TO THEM

SECTION	PA	PB	PC	PC/A
DIRECTORS REPORT	0.159	0.406	0.435	2.74
PROFIT AND LOSS STATEMENT	0.205	0.356	0.439	2.14
BALANCE SHEET	0.231	0.351	0.418	1.81

PA = Probability that shareholder with over \$100,000 invested in ordinary shares reads the section less thoroughly than one with a lower investment.

PB = Probability that shareholder with over \$100,000 invested in ordinary shares reads the section to the same extent as one with a lower investment.

PC = Probability that a shareholder with over \$100,00 invested in ordinary shares reads the section more thoroughly than one with a lower investment.

4.9 THE EFFECT OF PERSONAL ATTRIBUTES ON THE USEFULNESS OF ANNUAL REPORT ITEMS.

The information collected from respondents in relation to their personal characteristics was cross - tabulated with their responses on the usefulness of the eight items in the annual report, and chi-square tests of independence, was then used to establish any significant relationship between the shareholder's personal attributes and the extent to which they found the annual report items useful for investment decision making. Five criteria of shareholder attributes were developed and tested to determine any significant relationship to the usefulness found in annual report items. These five criteria of shareholder attributes are:

1. Whether the respondent was over 50 years old.
2. Whether the respondent had completed tertiary studies.
3. Whether the respondent had any formal course of study in accounting.
4. Whether the respondent had any formal work experience in accounting.
5. Whether the respondent had over \$100,000 invested in ordinary shares.

Table 4.13 contains the chi-square values for the 40 comparisons relating to the test of independence of usefulness of report items from investor attributes. From the Table it can be seen that the level of usefulness found in an item by a shareholder does not seem to depend upon the investor's education, or the dollar amount invested in ordinary shares. Moreover, the extent to which the director's report is used will be dependent upon the shareholder's age.

TABLE 4.13

CHI-SQUARE VALUES FOR TEST OF INDEPENDENCE OF USEFULNESS

OF ITEMS FROM CRITERIA OF INVESTOR ATTRIBUTES

SECTION	AGE	EDUCATION	ACCOUNTING QUALIFICATION	EXPERIENCE IN ACCOUNTING	AMOUNT INVESTED
DIRECTORS REPORT	7.080*	1.934	2.284	2.115	2.495
REVIEW OF OPERATIONS	1.932	0.638	0.912	3.191	3.504
STATISTICAL REVIEW	1.357	1.494	6.432*	2.556	0.301
AUDITORS REPORT	1.948	0.959	0.061	0.812	0.180
PROFIT AND LOSS STATEMENT	1.158	3.867	2.213	4.314	2.416
BALANCE SHEET	0.726	0.398	7.516*	9.190*	0.456
NOTES TO ACCOUNTS	0.641	0.478	3.088	13.827**	0.097
STATEMENT OF S&A OF FUNDS	1.615	3.471	0.387	4.098	2.411

** Significant at the one percent level.

* Significant at the five percent level.

Formal training and work experience in accounting appeared to affect the level of usefulness found in some of the more technical items, as was the case with readability. For decision making purposes shareholders with formal training in accounting made more use of the statistical review and the balance sheet, whereas investors with work experience in accounting found the balance sheet and the notes to the accounts to be more useful.

4.10 THE DEGREE OF ASSOCIATION BETWEEN USEFULNESS OF ANNUAL REPORT ITEMS AND INVESTOR ATTRIBUTES.

In the last section chi-square tests of independence established 5 items for which a statistical dependence relationship was found. This section will now look at the degree of association between the usefulness found in the annual report and investor attributes of those 5 items. Cramer’s-V statistic was used to measure strength of this relationship. It should be noted once again that this statistic has a maximum value of 1 indicating a perfect relationship and a value of 0 representing no relationship.

Table 4.14 summarises the Cramer’s-V statistic for all the items for which a dependence relationship was found. It can be seen from the Table that the strongest relationship existed between formal work experience in accounting and the usefulness found in the notes to accounts with a value of 0.241 and the weakest relationship was between the shareholder having a formal qualification in accounting and the usefulness found in the statistical review with a value of 0.164.

TABLE 4.14

CRAMER'S-V STATISTIC FOR THE DEGREE OF ASSOCIATION BETWEEN USEFULNESS OF

ANNUAL REPORT ITEMS AND INVESTOR ATTRIBUTES

SECTION	AGE	EDUCATION	ACCOUNTING QUALIFICATION	EXPERIENCE IN ACCOUNTING	AMOUNT INVESTED
DIRECTORS REPORT	0.172	-	-	-	-
REVIEW OF OPERATIONS	-	-	-	-	-
STATISTICAL REVIEW	-	-	0.164	-	-
AUDITORS REPORT	-	-	-	-	-
PROFIT AND LOSS STATEMENT	-	-	-	-	-
BALANCE SHEET	-	-	0.177	0.196	-
NOTES TO ACCOUNTS	-	-	-	0.241	-
STATEMENT OF S&A OF FUNDS	-	-	-	-	-

- = Not significant at one or five percent level.

4.11 THE DIRECTION OF ASSOCIATION BETWEEN USEFULNESS OF ANNUAL REPORT ITEMS AND INVESTOR ATTRIBUTES.

This section will again use a variation of the general Goodman - Kruskal index of predictive association, used by Epstein (1975), to establish the direction of the relationship between the usefulness of annual reports and investor characteristics. For the 5 items for which chi - square analysis tests established a dependence relationship will now be expressed in terms of probabilities. For technical details on the way the following numbers were obtained, the reader is referred to Appendix C.

In Table 4.15 are recorded the measures of dependence relating to the usefulness found in the director's report with the shareholder attribute based on age. From the information displayed in the Table we can see that the probability of a shareholder over the age of 50 finding the director's report more useful than does a shareholder under the age of 50 is 38.6 percent and the probability that a shareholder over the age of 50 finding the director's report useful to the same extent as a shareholder under the of age 50 is 37.2 percent. The probability that a shareholder over the age of 50 finding the director's report less useful than a shareholder under the age of 50 is 24.2 percent.

TABLE 4.15

THE EXTENT TO WHICH A SHAREHOLDER OVER THE AGE OF 50 AFFECTS
THE USEFULNESS OF ANNUAL REPORT ITEMS TO THEM

SECTION	PA	PB	PC	PC/A
DIRECTORS REPORT	0.242	0.372	0.386	1.60

PA = Probability that shareholder over the age of 50 finds section less useful than one under the age of 50.

PB = Probability that shareholder over the age of 50 finds section useful to the same extent as one under the age of 50.

PC = Probability that a shareholder over the age of 50 finds section more useful than one under the age of 50.

Table 4.16 summarises the measure of dependence relating to the usefulness of annual report items with the shareholder attribute based on whether the shareholder had formal qualifications in accounting. If we disregard ties in the usefulness level (PB), from the information in the Table, a shareholder with a formal qualifications in accounting is 2.30 times likely to find more useful the balance sheet than a shareholder without such a qualification, and 1.97 times likely to find more useful the statistical review.

TABLE 4.16

THE EXTENT TO WHICH A SHAREHOLDER WITH FORMAL QUALIFICATIONS
IN ACCOUNTING AFFECTS THE USEFULNESS OF ANNUAL REPORT
ITEMS TO THEM

SECTION	PA	PB	PC	PC/A
STATISTICAL REVIEW	0.199	0.408	0.393	1.97
BALANCE SHEET	0.187	0.382	0.431	2.30

PA = Probability that shareholder with formal qualifications in accounting finds section less useful than one without formal qualifications.

PB = Probability that shareholder with formal qualifications in accounting finds section useful to the same extent as one without formal qualifications.

PC = Probability that shareholder with formal qualifications in accounting find section more useful than one without formal qualifications.

Table 4.17 summarises the measure of dependence relating to the usefulness of annual report items with the shareholder attribute based on whether the shareholder had any formal work experience in accounting. If we disregard ties in the usefulness level (PB), from the information displayed in the Table, a shareholder with formal work experience in accounting is 2.32 times likely to find more useful the balance sheet than a shareholder with no such training, and 2.14 times likely to find more useful the notes to accounts.

TABLE 4.17

THE EXTENT TO WHICH A SHAREHOLDER WITH WORK EXPERIENCE IN
ACCOUNTING AFFECTS THE USEFULNESS OF ANNUAL REPORT
ITEMS TO THEM

SECTION	PA	PB	PC	PC/A
BALANCE SHEET	0.192	0.362	0.446	2.32
NOTES TO ACCOUNTS	0.210	0.340	0.450	2.14

PA = Probability that shareholder with formal work experience in accounting finds section less useful than one without such experience.

PB = Probability that shareholder with formal work experience in accounting finds section to the same extent as one without such experience.

PC = Probability that shareholder with formal work experience in accounting finds section more useful than one without such experience.

4.12 CONCLUSION

This chapter investigated the extent to which shareholders read and use the annual report items, it further examined the reasons why investors did not read very carefully these items, and also investigated which sections they had most difficulty understanding. It concluded by analysing the relationship between readership, usefulness and investor attributes.

It was found that the most thoroughly read sections were the director's report and review on operations. The balance sheet and statement of sources and applications of funds were rated by respondents as the most difficult to understand. Chi-square tests of independence revealed that the most thorough readers of annual report items were shareholders with formal education and work experience in accounting and investors with over \$100,000 invested in ordinary shares. It was also found that the profit and loss statement and balance sheet were considered by respondents as the most useful items for investment decision making. Furthermore, chi-square tests of independence established that shareholders with formal qualifications and work experience in accounting found the technical annual report items more useful.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The primary objective of this thesis was to examine the usefulness to shareholders of information contained within corporate annual reports. In this chapter we will summarise the findings of the study, document conclusions, make recommendations for future research and state any limitations of the study.

5.2 SUMMARY AND CONCLUSIONS

The corporate financial reporting environment has significantly altered over recent years due to changes in legal, professional and stock exchange requirements. The accounting profession both in Australia and overseas have in recent years made concerted efforts to determine a relevant set of objectives for financial reporting. The Trueblood report in the U.S. and the Corporate report in the U.K. have been the impetus for further work in this area. In Australia, the Australian Accounting Research Foundation and the Australian Accounting Standards Board were responsible for a conceptual framework for general purpose financial reporting and consequently a Statement of Accounting Concepts 2, "Objective of General Purpose Financial Reporting."

A review of related literature looked at both Australian and overseas studies which endeavoured to establish the extent to which corporate annual reports were read and used by private shareholders. It was evident from the review that annual reports were read and used, but not to any substantial degree. It was obvious

from the studies conducted that the less technical section of the annual report, the chairman's report, was the most thoroughly read. When it came to investment decision making the profit and loss statement was in most surveys the most useful section.

The study investigated the extent to which Australian private shareholders read and use annual report items. The sample population comprised 500 individual investors whose names were taken from the share registers of two public listed companies. The names and address of individual investors were selected at random. A mail questionnaire was prepared and mailed to the sample population. Two hundred and thirty nine useable questionnaires were returned, representing a response rate of 48 percent.

The background information on individual investors concerning their personal characteristics, demonstrated that at least 68.6 percent of respondents were aged 50 years or more and 59.8 percent were male. Fifty five percent of investors surveyed indicated that they had completed tertiary studies, however, only 17.2 percent had a formal education in accounting, while a further 29.7 percent had gained knowledge of accounting through work experience. The market value of ordinary shares owned by the shareholders ranged from under \$2,000 to over \$500,000 with at least 61.1 percent of respondents having a portfolio valued below \$100,000.

In order to determine what parts of the annual report are read by individual investors, the report was divided into 8 parts and respondents were asked to indicate on a three point scale, the extent to which they read each section. The director's report and review of operations were the most thoroughly read followed by the profit and loss statement, balance sheet and statistical review.

Investors were then asked to indicate the reasons why they would not read thoroughly the contents of the annual report. It was found that the two main reasons was due to: a lack of time and a lack of understanding followed by a lack of usefulness and a lack of time.

The next section of the study investigated which sections of the annual report investors experienced difficulty understanding. The respondents indicated that the less technical items, the director's report and the review of operations, to be the least difficult to understand. Many more shareholders indicated difficulty understanding the more technical items. The items considered by many respondents as difficult to understand were the balance sheet, statement of sources and applications of funds and profit and loss statement.

Investors were also asked to indicate the overall usefulness of the annual report in making their investment decisions. The responses indicated that 37.2 percent of respondents found no use for annual reports and a further 10.5 percent found them to be of little use, whilst 39.3 percent found it of moderate use and only 13 percent found them to be very useful.

Investors were then asked to rank the usefulness of the various sections in the annual report for investment decision making. It was found that shareholders consider the profit and loss statement and balance sheet as the most useful items, followed by the director's report, review of operations, statistical review, notes to accounts, statement of sources and applications of funds and the auditor's report.

The study also investigated the relationship between investor attributes and the readership and use of annual reports. Chi-square tests of independence were initially used to establish any significant relationship between shareholder characteristics and the extent to which they read and used annual report items. When significant relationships were established a variation of the Goodman-Kruskal index was then used to establish the direction of the relationship. It was found that shareholders who possess formal qualifications or work experience in accounting and hold a considerable investment in ordinary shares are likely to read more thoroughly the more technical items of the annual report. Formal training and work experience in accounting appeared to affect the level of usefulness found in some of the more technical items, as was the case with readability.

Finally, given the findings revealed by the survey it would be useful to extend the research performed to cover a wider group of shareholders and companies, given the increase in participation of individual investors in shareownership within Australia.

5.3 LIMITATIONS OF THE STUDY

The mail questionnaire approach to collecting data was used in this survey. The choice of using this method was made after consideration of the following factors; the cost effectiveness of using a mail questionnaire, the volume of information required and the large geographically dispersed population.

This method has limitations like all methods of data collection. For example, there is always the issue as to whether the respondents are representative of the entire population. The question arises as to whether those who did not respond to the questionnaire have different opinions from those who did respond. Bailey (1987), states that:

"the respondents who do not answer are generally not a random sample but have some biasing characteristics."

Chi-square analysis was used to identify significant response biases. This was achieved by separating the first responses from the responses received after the reminder was sent out. The responses in each category were then compared for significant differences. The chi-square tests indicated significant non-response biases with respect to five items of the questionnaire. These results appear in Appendix D.

Further investigation indicated that the significant response bias present in some items was a result of the latter respondents being less educated, held a lower level of investment in ordinary shares, found the annual report less useful in their investment decision making and had different reasons for not reading the annual report items carefully. Despite the statistical evidence the response rate is acceptable and sufficient to draw conclusions for further analysis and examination.

Another limitation of the mail questionnaire is the concern over response bias. This occurs when a respondent's replies differ from their actual opinion. Courtis (1989), explains that response bias can arise because of:

"...artificiality in the task setting, or because respondents misunderstand items through wording ambiguity and omitted definitional direction. Respondents may mistakenly enter their ratings on the questionnaire, they may be careless or cavalier, they may be inconsistent and thoughtless, they may lack judgement and genuine evaluative skills and they may answer in order to appear knowledgeable."

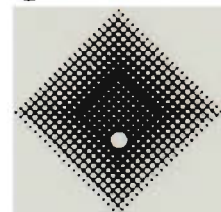
APPENDIX A

This appendix contains the questionnaire and accompanying letters.

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**VICTORIA
UNIVERSITY**



OF
TECHNOLOGY

7th September, 1992

Dear Sir/Madam,

I am currently undertaking a masters degree in Accounting and Finance at Victoria University of Technology. As part of my degree I am presently engaged in a study to determine to what extent shareholders read and use information contained in company annual reports, when making their investment decisions.

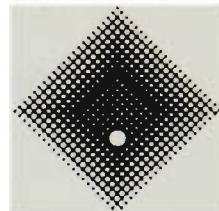
You have been randomly selected from a company share register as a representative shareholder. It is important to note that as a representative shareholder your response to this survey will be invaluable and will greatly contribute to the overall success of this project. A questionnaire on the study is enclosed.

I would appreciate very much if you would kindly take time to complete the questionnaire and return it at your earliest convenience. A self - addressed, stamped envelope is enclosed for your convenience. Please note that your answers will in no way identify you, nor will anything specifically on your responses be revealed to anyone. Should you be interested in a copy of the results, I would be pleased to make them available to you.

Thank you very much for your co-operation and I am looking forward to receiving your responses.

Yours faithfully,

MICHAEL NTALIANIS
LECTURER IN ACCOUNTING



8th October, 1992

Dear Sir/Madam,

Have you returned the questionnaire I sent out recently regarding your opinion on the usefulness of financial statements? If you have, please disregard this letter. If not, I would appreciate very much your co-operation in completing this questionnaire. It is important to note that your response to this survey will greatly contribute to the overall success of this project. Please remember that your answers will in no way identify you, nor will anything specifically on your responses be revealed to anyone.

In case you have mislaid the original questionnaire, I am enclosing another copy and a stamped, self-addressed envelope for your use.

Thank you very much for your co-operation.

Yours faithfully,

MICHAEL NTALIANIS
LECTURER IN ACCOUNTING

Questionnaire on Usefulness of Financial Statements

1. How thoroughly do you usually read the following items in an annual report? (*Please circle the number on the scale which best reflects your response.*)

	<i>Not Read</i>	<i>Read Briefly</i>	<i>Read Thoroughly</i>
Directors Report	1	2	3
Review and Pictorial on Operations	1	2	3
Statistical Review	1	2	3
Auditors Report	1	2	3
Profit & Loss Statement	1	2	3
Balance Sheet	1	2	3
Notes on Financial Statements	1	2	3
Statement of Sources and Applications of Funds	1	2	3

2. The reason that you do not read some items very carefully is mainly due to : (*Tick as many as apply.*)

a lack of time.	<input type="checkbox"/>
a lack of understanding.	<input type="checkbox"/>
a lack of interest.	<input type="checkbox"/>
a lack of usefulness.	<input type="checkbox"/>

3. Which of the following do you often have difficulty understanding? (*Tick as many as apply.*)

Directors Report

☐

Review and Pictorial of Operations

☐

Statistical Review

☐

Auditors Report

☐

Profit & Loss Statement

☐

Balance Sheet

☐

Notes on Financial Statements

☐

Statement of Sources and Applications of Funds

☐

None of the above

☐

4. If you use annual reports in your investment decision-making, which of the following states their usefulness? (*Please tick only one.*)

Very useful.

☐

Of moderate use.

☐

Of little use.

☐

Of no use.

☐

If you ticked of no use, do not answer question 5, proceed to question 6.

5. In making your investment decisions, how useful did you find the following items in the annual report? *(Please circle the number on the scale which best reflects your response.)*

	<i>Not Useful</i>	<i>Moderately Useful</i>	<i>Very Useful</i>
Directors Report	1	2	3
Review and Pictorial on Operations	1	2	3
Statistical Review	1	2	3
Auditors Report	1	2	3
Profit & Loss Statement	1	2	3
Balance Sheet	1	2	3
Notes on Financial Statements	1	2	3
Statement of Sources and Applications of Funds	1	2	3

6. What is your age group? *(Please tick.)*

Under 30	<input type="checkbox"/>
30 - 39	<input type="checkbox"/>
40 - 49	<input type="checkbox"/>
50 - 59	<input type="checkbox"/>
Over 60	<input type="checkbox"/>

7. What is the highest level of Education you have completed? *(Please tick one.)*

Primary School	<input type="checkbox"/>
Secondary School (years 7 to 10)	<input type="checkbox"/>
Secondary School (years 11 to 12)	<input type="checkbox"/>
Tertiary Education	<input type="checkbox"/>
Other	<input type="checkbox"/>

please specify

8. Have you completed a formal course of study in Accounting?

Yes ☐

please specify

No ☐

9. Have you had any practical work experience in Accounting?

Yes ☐

describe the nature

No ☐

10. How much do you presently have invested in ordinary shares? Base your response on current market value. *(Please tick.)*

Under \$2,000 ☐

\$2,000 - \$9,999 ☐

\$10,000 - \$19,999 ☐

\$20,000 - \$49,999 ☐

\$50,000 - \$99,999 ☐

\$100,000 - \$500,000 ☐

Over \$500,000 ☐

Thank you very much for completing this questionnaire. Should you be interested in a copy of the results, leave your name and address in the space provided below.

.....
.....

APPENDIX B

This appendix contains the chi-square tests of independence and Cramer’s-V statistics.

EXPLANATION OF CRAMER’S-V STATISTIC

The Cramer’s-V statistic is a measure of the degree of association between two sets of variables. In the context of this study one set of variables was the investor attributes and the other related to the extent to which a shareholder read and used annual report items. Chi-square analysis was initially used to establish any dependence relationship between the two variables. As Book (1975), points out the chi-square statistic is not a true measure of the degree of association between two variables. The Cramer’s-V statistic was used to measure the strength of any significant relationship. It must be noted that this statistic has a maximum value of 1 indicating a perfect relationship and a minimum value of 0 representing no relationship. The Cramer’s-V statistic can be calculated using the following formula: (Siegel & Castellan, 1988)

$$C = \sqrt{\frac{X^2}{N(L-1)}}$$

Where;

X^2 = the chi-square statistic

N = the sample size

L = the minimum of the number of rows or columns in the contingency table

Tables on Question 1: Readability of the items

Readability according to age group

Item	How Read	Age Group					Row Total
		Un 30	30-39	40-49	50-59	Ov 60	
Director's Report	Not Read	1	4	4	8	6	23
	Read Briefly	7	12	24	19	44	106
	Read Thoroughly	2	8	13	15	72	110
Rev & Pict on Ops	Not Read	1	5	5	7	12	30
	Read Briefly	8	12	27	23	70	140
	Read Thoroughly	1	7	9	12	40	69
Statistical Review	Not Read	2	8	15	17	34	76
	Read Briefly	7	13	21	20	62	123
	Read Thoroughly	1	3	5	5	26	40
Auditor's Report	Not Read	2	13	20	22	45	102
	Read Briefly	5	9	20	14	53	101
	Read Thoroughly	3	2	1	6	24	36
Prof & Loss Statement	Not Read	1	8	12	11	21	53
	Read Briefly	6	12	19	20	51	108
	Read Thoroughly	3	4	10	11	50	78
Balance Sheet	Not Read	1	10	12	10	31	64
	Read Briefly	6	10	19	23	53	111
	Read Thoroughly	3	4	10	9	38	64
Notes on Fin State.	Not Read	3	14	16	18	38	89
	Read Briefly	6	4	20	17	57	104
	Read Thoroughly	1	6	5	7	27	46
State. of Source. & App. of funds	Not Read	2	13	20	19	45	99
	Read Briefly	7	7	14	18	54	100
	Read Thoroughly	1	4	7	5	23	40
Col Total		10	24	41	42	122	239

Readability according to age group - collapsed

Item	How Read	Age Group		Row Total	Chi-square	Sig level	Cramer's V-stat
		Under 50	Over 50				
Director's Report	Not Read	9	14	23	10.396	0.01	0.208
	Read Briefly	43	63	106			
	Read Thoroughly	23	87	110			
Rev & Pict on Ops	Not Read	11	19	30	2.1582	n.s	
	Read Briefly	47	93	140			
	Read Thoroughly	17	52	69			
Statistical Review	Not Read	25	51	76	1.7637	n.s	
	Read Briefly	41	82	123			
	Read Thoroughly	9	31	40			
Auditor's Report	Not Read	35	67	102	4.2714	n.s	
	Read Briefly	34	67	101			
	Read Thoroughly	6	30	36			
Prof & Loss Statement	Not Read	21	32	53	5.416	0.1	0.15
	Read Briefly	37	71	108			
	Read Thoroughly	17	61	78			
Balance Sheet	Not Read	23	41	64	1.3083	n.s	
	Read Briefly	35	76	111			
	Read Thoroughly	17	47	64			
Notes on Fin State.	Not Read	33	56	89	2.2508	n.s	
	Read Briefly	30	74	104			
	Read Thoroughly	12	34	46			
State. of Source. & App. of funds	Not Read	35	64	99	1.2918	n.s	
	Read Briefly	28	72	100			
	Read Thoroughly	12	28	40			
Col Total		75	164	239			

Readability according to level of education

Item	How Read	Level of Education						Row Total
		Pri Sch	7-10	11-12	Tech	Tert	P.Grad	
Director's Report	Not Read	1	0	9	1	11	1	23
	Read Briefly	2	17	23	4	59	1	106
	Read Thoroughly	3	20	22	4	56	5	110
Rev & Pict on Ops	Not Read	1	3	9	1	15	1	30
	Read Briefly	2	20	31	6	78	3	140
	Read Thoroughly	3	14	14	2	33	3	69
Statistical Review	Not Read	1	8	21	1	43	2	76
	Read Briefly	3	25	26	6	62	1	123
	Read Thoroughly	2	4	7	2	21	4	40
Auditor's Report	Not Read	2	12	30	2	54	2	102
	Read Briefly	2	19	18	6	52	4	101
	Read Thoroughly	2	6	6	1	20	1	36
Prof & Loss Statement	Not Read	0	6	15	2	28	2	53
	Read Briefly	5	17	24	4	58	0	108
	Read Thoroughly	1	14	15	3	40	5	78
Balance Sheet	Not Read	1	10	17	2	33	1	64
	Read Briefly	4	18	25	6	56	2	111
	Read Thoroughly	1	9	12	1	37	4	64
Notes on Fin State.	Not Read	3	9	19	3	52	3	89
	Read Briefly	3	19	30	5	46	1	104
	Read Thoroughly	0	9	5	1	28	3	46
State. of Source. & App. of funds	Not Read	2	13	25	1	55	3	99
	Read Briefly	4	16	25	5	50	0	100
	Read Thoroughly	0	8	4	3	21	4	40
Col Total		6	37	54	9	126	7	239

Readability according to level of education - collapsed

		Education		Row Total	Chi- square	Sig Cramer's level	V-stat
Item	How Read	Below 12 yrs	Tertiary & above				
Director's Report	Not Read	11	12	23	0.1533	n.s	
	Read Briefly	46	60	106			
	Read Thoroughly	49	61	110			
Rev & Pict on Ops	Not Read	14	16	30	0.6794	n.s	
	Read Briefly	59	81	140			
	Read Thoroughly	33	36	69			
Statistical Review	Not Read	31	45	76	2.129	n.s	
	Read Briefly	60	63	123			
	Read Thoroughly	15	25	40			
Auditor's Report	Not Read	46	56	102	0.1299	n.s	
	Read Briefly	45	56	101			
	Read Thoroughly	15	21	36			
Prof & Loss Statement	Not Read	23	30	53	0.3171	n.s	
	Read Briefly	50	58	108			
	Read Thoroughly	33	45	78			
Balance Sheet	Not Read	30	34	64	2.519	n.s	
	Read Briefly	53	58	111			
	Read Thoroughly	23	41	64			
Notes on Fin State.	Not Read	34	55	89	8.54	0.05	0.189
	Read Briefly	57	47	104			
	Read Thoroughly	15	31	46			
State. of Source. & App. of funds	Not Read	41	58	99	2.3996	n.s	
	Read Briefly	50	50	100			
	Read Thoroughly	15	25	40			
Col Total		106	133	239			

Readability according to knowledge in accounting

Item	How Read	Accounting Knowledge		Row Total	Chi-square	Sig level	Cramer's V-stat
		Yes	No				
Director's Report	Not Read	3	20	23	0.3188	n.s	
	Read Briefly	19	87	106			
	Read Thoroughly	19	91	110			
Rev & Pict on Ops	Not Read	2	28	30	2.772	n.s	
	Read Briefly	27	113	140			
	Read Thoroughly	12	57	69			
Statistical Review	Not Read	7	69	76	5.5881	0.1	0.153
	Read Briefly	24	99	123			
	Read Thoroughly	10	30	40			
Auditor's Report	Not Read	16	86	102	1.1836	n.s	
	Read Briefly	16	85	101			
	Read Thoroughly	9	27	36			
Prof & Loss Statement	Not Read	3	50	53	10.316	0.01	0.208
	Read Briefly	17	91	108			
	Read Thoroughly	21	57	78			
Balance Sheet	Not Read	3	61	64	16.015	0.01	0.259
	Read Briefly	18	93	111			
	Read Thoroughly	20	44	64			
Notes on Fin State.	Not Read	9	80	89	7.189	0.05	0.173
	Read Briefly	19	85	104			
	Read Thoroughly	13	33	46			
State. of Source. & App. of funds	Not Read	10	89	99	5.922	0.1	0.157
	Read Briefly	22	78	100			
	Read Thoroughly	9	31	40			
Col Total		41	198	239			

Readability according to experience in accounting

Item	How Read	Accounting Experience		Row Total	Chi-square	Sig level	Cramer's V-stat
		Yes	No				
Director's Report	Not Read	3	20	23	8.203	0.05	0.185
	Read Briefly	26	80	106			
	Read Thoroughly	42	68	110			
Rev & Pict on Ops	Not Read	2	28	30	9.522	0.01	0.2
	Read Briefly	49	91	140			
	Read Thoroughly	20	49	69			
Statistical Review	Not Read	11	65	76	5.5881	0.1	0.153
	Read Briefly	43	80	123			
	Read Thoroughly	17	23	40			
Auditor's Report	Not Read	24	78	102	3.328	n.s	
	Read Briefly	34	67	101			
	Read Thoroughly	13	23	36			
Prof & Loss Statement	Not Read	7	46	53	19.7958	0.01	0.287
	Read Briefly	27	81	108			
	Read Thoroughly	37	41	78			
Balance Sheet	Not Read	8	56	64	18.1077	0.01	0.287
	Read Briefly	33	78	111			
	Read Thoroughly	30	34	64			
Notes on Fin State.	Not Read	14	75	89	17.8411	0.01	0.273
	Read Briefly	34	70	104			
	Read Thoroughly	23	23	46			
State. of Source. & App. of funds	Not Read	19	80	99	9.7185	0.01	0.202
	Read Briefly	35	65	100			
	Read Thoroughly	17	23	40			
Col Total		71	168	239			

Readability according to amount invested

Item	How Read	Amount invested							Row Total
		U 2K	2-9K	10-19K	20-49K	50-99K	100-500K	Over 500K	
Director's Report	Not Read	6	3	3	3	5	2	1	23
	Read Briefly	13	14	11	23	10	22	7	100
	Read Thoroughly	5	4	6	9	31	41	12	108
Rev & Pict on Ops	Not Read	8	3	3	4	5	4	3	30
	Read Briefly	9	14	14	21	24	39	13	134
	Read Thoroughly	7	4	3	10	17	22	4	67
Statistical Review	Not Read	12	5	7	12	14	15	9	74
	Read Briefly	10	15	10	19	23	35	8	120
	Read Thoroughly	2	1	3	4	9	15	3	37
Auditor's Report	Not Read	13	7	10	16	21	22	8	97
	Read Briefly	8	13	7	12	20	29	10	99
	Read Thoroughly	3	1	3	7	5	14	2	35
Prof & Loss Statement	Not Read	8	6	2	11	13	7	3	50
	Read Briefly	12	13	12	15	16	31	8	107
	Read Thoroughly	4	2	6	9	17	27	9	74
Balance Sheet	Not Read	9	6	2	13	17	13	3	63
	Read Briefly	12	13	12	14	16	31	9	107
	Read Thoroughly	3	2	6	8	13	21	8	61
Notes on Fin State.	Not Read	10	10	8	13	17	21	9	88
	Read Briefly	11	10	6	15	21	27	9	99
	Read Thoroughly	3	1	6	7	8	17	2	44
State. of Source. & App. of funds	Not Read	11	7	11	16	19	21	11	96
	Read Briefly	9	12	6	15	19	29	7	97
	Read Thoroughly	4	2	3	4	8	15	2	38
Col Total		24	21	20	35	46	65	20	231

Readability according to amount invested - collapsed

		Amount invested					
Item	How Read	Under 100K	Over 100K	Row Total	Chi-square	Sig level	Cramer's V-stat
Director's Report	Not Read	20	3	23	15.1935	0.01	0.252
	Read Briefly	71	29	100			
	Read Thoroughly	55	53	108			
Rev & Pict on Ops	Not Read	23	7	30	2.687	n.s	
	Read Briefly	82	52	134			
	Read Thoroughly	41	26	67			
Statistical Review	Not Read	50	24	74	2.887	n.s	
	Read Briefly	77	43	120			
	Read Thoroughly	19	18	37			
Auditor's Report	Not Read	67	30	97	2.92	n.s	
	Read Briefly	60	39	99			
	Read Thoroughly	19	16	35			
Prof & Loss Statement	Not Read	40	10	50	10.54	0.01	0.21
	Read Briefly	68	39	107			
	Read Thoroughly	38	36	74			
Balance Sheet	Not Read	47	16	63	6.564	0.01	0.166
	Read Briefly	67	40	107			
	Read Thoroughly	32	29	61			
Notes on Fin State.	Not Read	58	30	88	1.056	n.s	
	Read Briefly	63	36	99			
	Read Thoroughly	25	19	44			
State. of Source. & App. of funds	Not Read	64	32	96	1.5294	n.s	
	Read Briefly	61	36	97			
	Read Thoroughly	21	17	38			
Col Total		146	85	231			

Tables on Question 5: Usefulness of the items

Usefulness According to Age

Item	How Useful	Age Group					Row Total
		Un 30	30-39	40-49	50-59	Ov 60	
Director's Report	Not useful	2	2	6	5	6	21
	Mod. useful	1	6	9	18	47	81
	Very useful	1	3	7	5	32	48
Rev & Pict on Ops	Not useful	2	2	6	5	14	29
	Mod. useful	1	6	13	17	55	92
	Very useful	1	3	3	6	16	29
Statistical Review	Not useful	1	2	4	9	20	36
	Mod. useful	3	7	14	13	48	85
	Very useful	0	2	4	6	17	29
Auditor's Report	Not useful	1	6	14	15	36	72
	Mod. useful	1	5	7	9	36	58
	Very useful	2	0	1	4	13	20
Prof & Loss Statement	Not useful	0	3	3	2	11	19
	Mod. useful	3	4	11	17	33	68
	Very useful	1	4	8	9	41	63
Balance Sheet	Not useful	0	1	4	6	16	27
	Mod. useful	3	6	9	14	35	67
	Very useful	1	4	9	8	34	56
Notes on Fin State.	Not useful	1	4	7	11	25	48
	Mod. useful	3	5	11	11	41	71
	Very useful	0	2	4	6	19	31
State. of Source. & App. of funds	Not useful	2	5	9	12	29	57
	Mod. useful	1	4	7	11	39	62
	Very useful	1	2	6	5	17	31
Column Total		4	11	22	28	85	150

Usefulness According to Age group - Collapsed

Item	How Useful	Age Group		Row Total	Chi-square	Sig level	Cramer's V-stat
		Un 50	Ov 50				
Director's Report	Not useful	10	11	21	7.08	0.05	0.172
	Mod. useful	16	65	81			
	Very useful	11	37	48			
Rev & Pict on Ops	Not useful	10	19	29	1.932	n.s	
	Mod. useful	20	72	92			
	Very useful	7	22	29			
Statistical Review	Not useful	7	29	36	1.357	n.s	
	Mod. useful	24	61	85			
	Very useful	6	23	29			
Auditor's Report	Not useful	21	51	72	1.948	n.s	
	Mod. useful	13	45	58			
	Very useful	3	17	20			
Prof & Loss Statement	Not useful	6	13	19	1.158	n.s	
	Mod. useful	18	50	68			
	Very useful	13	50	63			
Balance Sheet	Not useful	5	22	27	0.7269	n.s	
	Mod. useful	18	49	67			
	Very useful	14	42	56			
Notes on Fin State.	Not useful	12	36	48	0.6411	n.s	
	Mod. useful	19	52	71			
	Very useful	6	25	31			
State. of Source. & App. of funds	Not useful	16	41	57	1.615	n.s	
	Mod. useful	12	50	62			
	Very useful	9	22	31			
Column Total		37	113	150			

Usefulness According to Level of Education

Item	How Useful	Level of Education						Row Total
		Pri Sch	7-10	11-12	Tech	Tert	P.Grad	
Director's Report	Not useful	1	2	3	0	14	1	21
	Mod. useful	2	9	22	3	43	2	81
	Very useful	1	10	6	1	27	3	48
Rev & Pict on Ops	Not useful	1	5	4	0	18	1	29
	Mod. useful	3	10	23	3	49	4	92
	Very useful	0	6	4	1	17	1	29
Statistical Review	Not useful	1	2	8	1	23	1	36
	Mod. useful	2	14	16	2	49	2	85
	Very useful	1	5	7	1	12	3	29
Auditor's Report	Not useful	1	10	15	1	41	4	72
	Mod. useful	3	7	13	3	31	1	58
	Very useful	0	4	3	0	12	1	20
Prof & Loss Statement	Not useful	1	1	3	1	13	0	19
	Mod. useful	1	5	16	1	44	1	68
	Very useful	2	15	12	2	27	5	63
Balance Sheet	Not useful	1	5	4	1	16	0	27
	Mod. useful	1	6	16	2	42	0	67
	Very useful	2	10	11	1	26	6	56
Notes on Fin State.	Not useful	2	7	7	2	28	2	48
	Mod. useful	1	6	19	2	42	1	71
	Very useful	1	8	5	0	14	3	31
State. of Source. & App. of funds	Not useful	2	6	10	1	36	2	57
	Mod. useful	2	9	17	3	31	0	62
	Very useful	0	6	4	4	17	0	31
Column Total		4	21	31	4	84	6	150

Usefulness According to level of education - Collapsed

Item	How Useful	Level of Education		Row Total	Chi-square	Sig level	Cramer's V-stat
		Un 12	Ov 12				
Director's Report	Not useful	6	15	21	1.934	n.s	
	Mod. useful	36	45	81			
	Very useful	18	30	48			
Rev & Pict on Ops	Not useful	10	19	29	0.6387	n.s	
	Mod. useful	39	53	92			
	Very useful	11	18	29			
Statistical Review	Not useful	12	24	36	1.494	n.s	
	Mod. useful	34	51	85			
	Very useful	14	15	29			
Auditor's Report	Not useful	27	45	72	0.959	n.s	
	Mod. useful	26	32	58			
	Very useful	7	13	20			
Prof & Loss Statement	Not useful	6	13	19	3.867	n.s	
	Mod. useful	23	45	68			
	Very useful	31	32	63			
Balance Sheet	Not useful	11	16	27	0.398	n.s	
	Mod. useful	25	42	67			
	Very useful	24	32	56			
Notes on Fin State.	Not useful	18	30	48	0.4784	n.s	
	Mod. useful	28	43	71			
	Very useful	14	17	31			
State. of Source. & App. of funds	Not useful	19	38	57	3.471	n.s	
	Mod. useful	31	31	62			
	Very useful	14	17	31			
Column Total		60	90	150			

Usefulness according to knowledge of accounting

Item	How Useful	Accounting Knowledge		Row Total	Chi-square	Sig Level	Cramer's V-stat
		Yes	No				
Director's Report	Not useful	6	15	21	2.284	n.s	
	Mod. useful	15	66	81			
	Very useful	14	34	48			
Rev & Pict on Ops	Not useful	5	24	29	0.9121	n.s	
	Mod. useful	22	70	92			
	Very useful	8	21	29			
Statistical Review	Not useful	5	31	36	6.4321	0.05	0.164
	Mod. useful	20	65	85			
	Very useful	10	19	29			
Auditor's Report	Not useful	17	55	72	0.0616	n.s	
	Mod. useful	13	45	58			
	Very useful	5	15	20			
Prof & Loss Statement	Not useful	2	17	19	2.213	n.s	
	Mod. useful	16	52	68			
	Very useful	17	46	63			
Balance Sheet	Not useful	1	26	27	7.516	0.05	0.177
	Mod. useful	17	50	67			
	Very useful	17	39	56			
Notes on Fin State.	Not useful	7	41	48	3.088	n.s	
	Mod. useful	20	51	71			
	Very useful	8	23	31			
State. of Source. & App. of funds	Not useful	12	45	57	0.3875	n.s	
	Mod. useful	16	46	62			
	Very useful	7	24	31			
Column Total		35	115	150			

Usefulness according to experience in accounting

Item	How Useful	Accounting Experience		Row Total	Chi- square	Sig Cramer's level V-stat	
		Yes	No				
Director's Report	Not useful	7	14	21	2.115	n.s	
	Mod. useful	32	49	81			
	Very useful	24	24	48			
Rev & Pict on Ops	Not useful	8	21	29	3.191	n.s	
	Mod. useful	41	51	92			
	Very useful	14	15	29			
Statistical Review	Not useful	11	25	36	2.556	n.s	
	Mod. useful	39	46	85			
	Very useful	13	16	29			
Auditor's Report	Not useful	28	44	72	0.812	n.s	
	Mod. useful	27	31	58			
	Very useful	8	12	20			
Prof & Loss Statement	Not useful	5	14	19	4.314	n.s	
	Mod. useful	26	42	68			
	Very useful	32	31	63			
Balance Sheet	Not useful	5	22	27	9.1906	0.05	0.196
	Mod. useful	28	39	67			
	Very useful	30	26	56			
Notes on Fin State.	Not useful	10	38	48	13.827	0.01	0.241
	Mod. useful	39	32	71			
	Very useful	14	17	31			
State. of Source. & App. of funds	Not useful	18	39	57	4.098	n.s	
	Mod. useful	30	32	62			
	Very useful	15	16	31			
Column Total		63	87	150			

Usefulness according to amount invested

Item	How Useful	Amount invested							Row Total
		U 2K	2-9K	10-19K	20-49K	50-99K	100-500K	Over 500K	
Director's Report	Not useful	3	2	4	4	0	6	0	19
	Mod. useful	3	6	4	11	14	30	8	76
	Very useful	1	1	4	7	10	17	8	48
Rev & Pict on Ops	Not useful	2	0	2	6	1	12	5	28
	Mod. useful	3	8	6	11	17	32	10	87
	Very useful	2	1	4	5	6	9	1	28
Statistical Review	Not useful	2	2	4	4	5	10	7	34
	Mod. useful	3	7	4	17	13	34	4	82
	Very useful	2	0	4	1	6	9	5	27
Auditor's Report	Not useful	3	6	7	9	12	23	10	70
	Mod. useful	2	3	5	11	7	23	3	54
	Very useful	2	0	0	2	5	7	3	19
Prof & Loss Statement	Not useful	1	2	2	3	2	7	1	18
	Mod. useful	4	5	4	13	11	20	7	64
	Very useful	2	2	6	6	11	26	8	61
Balance Sheet	Not useful	1	3	2	6	3	10	1	26
	Mod. useful	5	4	4	10	10	26	6	65
	Very useful	1	2	6	6	11	17	9	52
Notes on Fin State.	Not useful	1	5	2	7	9	16	8	48
	Mod. useful	4	3	9	11	7	26	5	65
	Very useful	2	1	1	4	8	11	3	30
State. of Source. & App. of funds	Not useful	3	4	7	9	8	17	7	55
	Mod. useful	2	5	3	9	7	26	7	59
	Very useful	2	0	2	4	9	10	2	29
Column Total		7	9	12	22	24	53	16	143

Usefulness according to amount invested - Collapsed

Item	How Useful	Amount invested		Row Total	Chi- square	Sig level	Cramer's V-stat
		Under 100 K	Over 100 K				
Director's Report	Not useful	13	6	19	2.4955	n.s	
	Mod. useful	38	38	76			
	Very useful	23	25	48			
Rev & Pict on Ops	Not useful	11	17	28	3.504	n.s	
	Mod. useful	45	42	87			
	Very useful	18	10	28			
Statistical Review	Not useful	17	17	34	0.3016	n.s	
	Mod. useful	44	38	82			
	Very useful	13	14	27			
Auditor's Report	Not useful	37	33	70	0.1806	n.s	
	Mod. useful	28	26	54			
	Very useful	9	10	19			
Prof & Loss Statement	Not useful	10	8	18	2.416	n.s	
	Mod. useful	37	27	64			
	Very useful	27	34	61			
Balance Sheet	Not useful	15	11	26	0.4565	n.s	
	Mod. useful	33	32	65			
	Very useful	26	26	52			
Notes on Fin State.	Not useful	24	24	48	0.0978	n.s	
	Mod. useful	34	31	65			
	Very useful	16	14	30			
State. of Source. & App. of funds	Not useful	31	24	55	2.4116	n.s	
	Mod. useful	26	33	59			
	Very useful	17	12	29			
Column Total		74	69	143			

APPENDIX C

This appendix contains calculations of the Goodman-Kruskal indices

EXPLANATION OF THE GOODMAN-KRUSKAL STATISTIC

Using the chi-square statistic and the Cramer’s-V statistic we were able to establish the existence of a dependence relationship and the strength of that relationship, but not the direction. Book (1975), developed a simplified variant of the general Goodman-Kruskal index of predictive association to establish the direction of a dependence relationship. This variation of the Goodman-Kruskal index was used by Epstein (1975), to establish the direction of relationship between shareholder attributes and the usefulness of annual report items. The contingency table presented below can be used to classify data in the present study. For the purpose of this study A classifications relate to the level of readership and usefulness. For example A1 stands for "not read", A2 "read briefly", and A3 "read thoroughly", while the B classifications relate to the investor’s personal attributes.

The General Contingency Table

	B1	B2	...	Bm	Row Sums
A1	f11	f12	...	f1m	r1
A2	f21	f22	...	f2m	r2
:	:	:	:	:	:
An	fn1	fn2	...	fnm	rm
Column Sums	C1	C2	...	Cm	T

Book (1975), defined three conditional probabilities, which provide a precise answer in terms of direction of the relationship. Epstein (1975), defined those probabilities as follows:

$$P_A = P(A_1 > A_2 | B_1 > B_2)$$

$$P_B = P(A_1 = A_2 | B_1 > B_2)$$

$$P_C = P(A_1 < A_2 | B_1 > B_2)$$

In words, we can express these quantities as follows:

P_A = conditional probability that shareholder 1 has a higher A-value than shareholder 2, given that shareholder 1 has a higher B-value.

P_B = conditional probability that shareholder 1 has the same A-value as shareholder 2, given that shareholder 1 has a higher B-value.

P_C = conditional probability that shareholder 1 has a lower A-value than shareholder 2, given that shareholder 1 has a higher B-value.

$P_{C/A}$ = the odds disregarding ties, favouring shareholder 1 having a higher B-value rather than a lower A-value than shareholder 2, given that shareholder 1 has a higher B-value.

The formulas for computing the conditional probabilities using the contingency tables are as follows. (Epstein, 1975).

$$D = \frac{\sum_{j=2}^m c_j \sum_{i=1}^{j-1} c_i}{\dots}$$

$$PA = \frac{\sum_{k=1}^{n-1} \sum_{j=1}^{m-1} f_{kj} \left(\sum_{h=k+1}^n \sum_{i=j+1}^m f_{hi} \right)}{D}$$

$$PB = \frac{\sum_{k=1}^n \sum_{j=1}^{m-1} f_{kj} \left(\sum_{i=j+1}^m f_{ki} \right)}{D}$$

$$PC = \frac{\sum_{k=2}^n \sum_{j=1}^{m-1} f_{kj} \left(\sum_{h=1}^{k-1} \sum_{i=j+1}^m f_{hi} \right)}{D}$$

Readability according to age group

DIRECTORS REPORT	OVER 50	UNDER 50	ROW TOTALS
DO NOT READ	14	9	23
READ BRIEFLY	63	43	106
READ THOROUGHLY	87	23	110
TOTAL	164	75	239

$PA = 14(23 + 23) + 63(23) / 164(75) = 0.193$

$PB = (9 \times 14) + (43 \times 63) + (23 \times 87) / 164(75) = 0.393$

$Pc = 9(63 + 87) + 43(87) / 164(75) = 0.414$

Readability according to level of education

NOTES TO ACCOUNTS	TERTIARY EDUCATION	NO TERTIARY EDUCATION	ROW TOTALS
DO NOT READ	55	34	89
READ BRIEFLY	47	57	104
READ THOROUGHLY	31	15	46
TOTAL	133	106	239

$PA = 55(57 + 15) + 47(15) / 133(106) = 0.331$

$PB = (55 \times 34) + (47 \times 57) + (31 \times 15) / 133(106) = 0.356$

$Pc = 34(47 + 31) + 57(31) / 133(106) = 0.313$

Readability according to formal qualifications in accounting

PROFIT & LOSS STATEMENT	YES	NO	ROW TOTALS
DO NOT READ	3	50	53
READ BRIEFLY	17	91	108
READ THOROUGHLY	21	57	78
TOTAL	41	198	239

$PA = 3(91 + 57) + 17(57) / 41(198) = 0.174$

$PB = (3 \times 50) + (17 \times 91) + (21 \times 57) / 41(198) = 0.356$

$Pc = 50(17 + 21) + 91(21) / 41(198) = 0.470$

Readability according to formal qualifications in accounting

BALANCE SHEET	YES	NO	ROW TOTALS
DO NOT READ	3	61	64
READ BRIEFLY	18	93	111
READ THOROUGHLY	20	44	64
TOTAL	41	198	239

$PA = 3(93 + 44) + 18(44) / 41(198) = 0.148$

$PB = (3 \times 61) + (18 \times 93) + (20 \times 44) / 41(198) = 0.337$

$Pc = 61(18 + 20) + 93(20) / 41(198) = 0.515$

Readability according to formal qualifications in accounting

NOTES TO ACCOUNT	YES	NO	ROW TOTALS
DO NOT READ	9	80	89
READ BRIEFLY	19	85	104
READ THOROUGHLY	13	33	46
TOTAL	41	198	239

$PA = 9(85 + 33) + 19(33) / 41(198) = 0.210$

$PB = (9 \times 80) + (19 \times 85) + (13 \times 33) / 41(198) = 0.340$

$PC = 80(19 + 13) + 85(13) / 41(198) = 0.450$

Readability according to formal work experience in accounting

DIRECTORS REPORT	YES	NO	ROW TOTALS
DO NOT READ	3	20	23
READ BRIEFLY	26	80	106
READ THOROUGHLY	42	68	110
TOTAL	71	168	239

$PA = 3(80 + 68) + 26(68) / 71(168) = 0.185$

$PB = (3 \times 20) + (26 \times 80) + (42 \times 68) / 71(168) = 0.419$

$PC = 20(26 + 42) + 80(42) / 71(168) = 0.396$

Readability according to formal work experience in accounting

REVIEW ON OPERATIONS	YES	NO	ROW TOTALS
DO NOT READ	2	28	30
READ BRIEFLY	49	91	140
READ THOROUGHLY	20	49	69
TOTAL	71	168	239

$PA = 2(91 + 49) + 49(49) / 71(168) = 0.225$

$PB = (2 \times 28) + (49 \times 91) + (20 \times 49) / 71(168) = 0.460$

$PC = 28(49 + 20) + 91(20) / 71(168) = 0.315$

Readability according to formal work experience in accounting

PROFIT & LOSS STATEMENT	YES	NO	ROW TOTALS
DO NOT READ	7	46	53
READ BRIEFLY	27	81	108
READ THOROUGHLY	37	41	78
TOTAL	71	168	239

$PA = 7(81 + 41) + 27(41) / 71(168) = 0.164$

$PB = (7 \times 46) + (27 \times 81) + (37 \times 41) / 71(168) = 0.338$

$PC = 46(27 + 37) + 81(37) / 71(168) = 0.498$

Readability according to formal work experience in accounting

BALANCE SHEET	YES	NO	ROW TOTALS
DO NOT READ	8	56	64
READ BRIEFLY	33	78	111
READ THOROUGHLY	30	34	64
TOTAL	71	168	239

$PA = 8(78 + 34) + 33(34) / 71(168) = 0.169$

$PB = (8 \times 56) + (33 \times 78) + (30 \times 34) / 71(168) = 0.339$

$Pc = 56(33 + 30) + 78(30) / 71(168) = 0.492$

Readability according to formal work experience in accounting

NOTES TO ACCOUNTS	YES	NO	ROW TOTALS
DO NOT READ	14	75	89
READ BRIEFLY	34	70	104
READ THOROUGHLY	23	23	46
TOTAL	71	168	239

$PA = 14(70 + 23) + 34(23) / 71(168) = 0.175$

$PB = (14 \times 75) + (34 \times 70) + (23 \times 23) / 71(168) = 0.332$

$Pc = 75(34 + 23) + 70(23) / 71(168) = 0.493$

Readability according to formal work experience in accounting

STATEMENT OF S&A OF FUNDS	YES	NO	ROW TOTALS
DO NOT READ	19	80	99
READ BRIEFLY	35	65	100
READ THOROUGHLY	17	23	40
TOTAL	71	168	239

$PA = 19(65 + 23) + 35(23) / 71(168) = 0.208$

$PB = (19 \times 80) + (35 \times 65) + (17 \times 23) / 71(168) = 0.351$

$PC = 80(35 + 17) + 65(17) / 71(168) = 0.441$

Readability according to amount invested in ordinary shares

DIRECTORS REPORT	OVER \$100,000	UNDER \$100,000	ROW TOTALS
DO NOT READ	3	20	23
READ BRIEFLY	29	71	100
READ THOROUGHLY	53	55	108
TOTAL	85	146	231

$PA = 3(71 + 55) + 29(55) / 85(146) = 0.159$

$PB = (3 \times 20) + (29 \times 71) + (53 \times 55) / 85(146) = 0.406$

$PC = 20(29 + 53) + 71(53) / 85(146) = 0.435$

Readability according to amount invested in ordinary shares

PROFIT & LOSS STATEMENT	OVER \$100,000	UNDER \$100,000	ROW TOTALS
DO NOT READ	10	40	50
READ BRIEFLY	39	68	107
READ THOROUGHLY	36	38	74
TOTAL	85	146	231

$PA = 10(68 + 38) + 39(38) / 85(146) = 0.205$

$PB = (10 \times 40) + (39 \times 68) + (36 \times 38) / 85(146) = 0.356$

$PC = 40(39 + 36) + 68(36) / 85(146) = 0.439$

Readability according to amount invested in ordinary shares

BALANCE SHEET	OVER \$100,000	UNDER \$100,000	ROW TOTALS
DO NOT READ	16	47	63
READ BRIEFLY	40	67	107
READ THOROUGHLY	29	32	61
TOTAL	85	146	231

$PA = 16(67 + 32) + 40(32) / 85(146) = 0.231$

$PB = (16 \times 47) + (40 \times 67) + (29 \times 32) / 85(146) = 0.351$

$PC = 47(40 + 29) + 67(29) / 85(146) = 0.418$

Usefulness according to age group

DIRECTORS REPORT	OVER 50	UNDER 50	ROW TOTALS
NOT USEFUL	11	10	21
MODERATELY USEFUL	65	16	81
VERY USEFUL	37	11	48
TOTAL	113	37	150

$PA = 11(16+11) + 65(11) / 113(37) = 0.242$

$PB = (11X10) + (65X16) + (37X11) / 113(37) = 0.372$

$Pc = 10(65+37) + 16(37) / 113(37) = 0.386$

Usefulness according to formal qualifications in accounting

STATISTICAL REVIEW	YES	NO	ROW TOTALS
NOT USEFUL	5	31	36
MODERATELY USEFUL	20	65	85
VERY USEFUL	10	19	29
TOTAL	35	115	150

$PA = 5(65+19) + 20(19) / 35(115) = 0.199$

$PB = (5X31) + (20X65) + (10X19) / 35(115) = 0.408$

$Pc = 31(20+10) + 65(10) / 35(115) = 0.393$

Usefulness according to formal qualifications in accounting

BALANCE SHEET	YES	NO	ROW TOTALS
NOT USEFUL	1	26	27
MODERATELY USEFUL	17	50	67
VERY USEFUL	17	39	56
TOTAL	35	115	150

$PA = 1(50 + 39) + 17(39) / 35(115) = 0.187$

$PB = (1 \times 26) + (17 \times 56) + (17 \times 39) / 35(115) = 0.382$

$PC = 26(17 + 17) + 50(17) / 35(115) = 0.431$

Usefulness according to formal work experience in accounting

BALANCE SHEET	YES	NO	ROW TOTALS
NOT USEFUL	5	22	27
MODERATELY USEFUL	28	39	67
VERY USEFUL	30	26	56
TOTAL	63	87	150

$PA = 5(39 + 26) + 28(26) / 63(87) = 0.192$

$PB = (5 \times 22) + (28 \times 39) + (30 \times 26) / 63(87) = 0.362$

$PC = 22(28 + 30) + 39(30) / 63(87) = 0.446$

Usefulness according to formal work experience in accounting

NOTES TO ACCOUNTS	YES	NO	ROW TOTALS
NOT USEFUL	10	38	48
MODERATELY USEFUL	39	32	71
VERY USEFUL	14	17	31
TOTAL	63	87	150

$PA = 10(32 + 17) + 39(17) / 63(87) = 0.210$

$PB = (10 \times 38) + (39 \times 32) + (14 \times 17) / 63(87) = 0.340$

$PC = 38(39 + 14) + 32(14) / 63(87) = 0.450$

APPENDIX D

This appendix contains the chi-square values for non-response bias.

Chi-square values for non-response bias

Quest	Chi.Sq	d.f	Table value		Sig dep
			p=.05	p=.01	

1 a	12.0640	2	5.9914	9.2103	Y (.01)
b	4.0330	2	5.9914	9.2103	N
c	3.9400	2	5.9914	9.2103	N
d	0.5550	2	5.9914	9.2103	N
e	2.9440	2	5.9914	9.2103	N
f	0.5014	2	5.9914	9.2103	N
g	2.2430	2	5.9914	9.2103	N
h	1.4869	2	5.9914	9.2103	N
2	11.7780	3	7.8147	11.3449	Y (.01)
3	4.7537	8	15.5073	20.0902	N
4	16.0470	3	7.8147	11.3449	Y (.01)
5 a	0.5682	2	5.9914	9.2103	N
b	0.3935	2	5.9914	9.2103	N
c	0.2529	2	5.9914	9.2103	N
d	0.9027	2	5.9914	9.2103	N
e	3.3636	2	5.9914	9.2103	N
f	1.8327	2	5.9914	9.2103	N
g	2.9870	2	5.9914	9.2103	N
h	0.3400	2	5.9914	9.2103	N
6	6.6758	4	9.4877	13.2767	N
7	14.7081	5	11.0705	15.0863	Y (.05)
8	0.1503	1	3.8414	6.6349	N
9	2.8918	1	3.8414	6.6349	N
10	20.2689	6	12.5916	16.8119	Y (.01)

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