

# Fundamental Analysis in Practice: A Study on Professional Accountants in Kolkata

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## ABSTRACT

**Fundamental analysis evaluates a security by using economic, financial, qualitative and quantitative factors to determine its intrinsic value. It is believed that macroeconomic and microeconomic factors can affect a security's value. These factors can be economic conditions, industry conditions, financial conditions and management's proficiency. The main motive while doing a fundamental analysis is to evaluate a security's intrinsic value and compare it with the current stock price of the security, thus determining if the security is undervalued or overvalued to decide upon the nature of transaction(purchase/sale) of the security concerned. This paper focuses on how in practice, professional accountants in Kolkata, perform fundamental analysis while making personal investment as well as in guiding their clients in making investment in shares.**

**Keywords:** Fundamental analysis, intrinsic value, nature of transaction, security, stock price.

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## INTRODUCTION

Fundamental analysis is a method of assessing the intrinsic value of a stock. It combines financial statements, external influences, events, and industry trends. This analysis helps to identify key attributes of the company and analyze its real worth, taking into account macro and microeconomic factors. Fundamental analysis is a method of evaluating the intrinsic value of an asset and analysing the factors that could influence its price in the future. This form of analysis is based on external events and influences, as well as financial statements and industry trends.

Fundamental analysis uses three sets of data:

- Historical data to check how things were in the past.
- Publicly known information about the company, including announcements made by the management and what others say about the company.
- Information that is not known publicly but is useful, i.e., how the leadership handles crises, situations, etc.

Before conducting fundamental analysis of a stock, we need to consider a few basic factors. These factors are –

- Company's structure and revenue.
- Company's profits over the years.
- Revenue growth over the years.
- Company's debt.
- Corporate governance.
- Rate of turnover.

## OBJECTIVES OF THE STUDY

The objective of the study is to focus on how in practice, professional accountants in Kolkata, perform fundamental analysis while making personal investment as well as in guiding their clients in making investment in shares. More specifically the objectives are:

1. To study the habit of the professional accountants in Kolkata to perform Fundamental Analysis while making personal investment in shares.
2. To study the habit of the professional accountants in Kolkata to perform Fundamental Analysis while guiding clients in making investment in shares.

## RESEARCH METHODOLOGY

The time frame of the study covered a period of three years from 2016-17 to 2018-19. The data are collected basically from the primary source. A questionnaire prepared to facilitate the field study was administered amongst the Professional Accountants i.e. Chartered Accountants and Cost Accountants, in Kolkata selected on random basis for the purpose of collecting their responses *vis-à-vis* the major issues/problems under consideration in the study.

The data was collected from 106 respondents from different locations of Kolkata. 'Z test' is used as statistical tools to arrange, analyze and interpret the data, so collected, for the purpose of drawing conclusion. Each question is of Yes/No-type. Thus, the theoretical probability is taken as  $\frac{1}{2}$  and accordingly the "Expected N" is generated. SPSS is used first to generate Chi-Square value. Z value is generated from the relation  $Z = \sqrt{\text{Chi} - \text{Square}}$ .

## HYPOTHESIS

**Objective 1:** *To study the habit of the professional accountants in Kolkata to perform Fundamental Analysis while making personal investment in shares.*

### Hypothesis 1

Null Hypothesis ( $H_{01}$ ): Majority of professional accountants in Kolkata does not perform Fundamental Analysis while making personal investment in shares.

Alternative Hypothesis ( $H_1$ ): Majority of professional accountants in Kolkata perform Fundamental Analysis while making personal investment in shares.

While (Performing) in the TABLE 1 below represents performance of fundamental analysis by the professional accountants in Kolkata while making personal investment in shares, (Not performing) represents non-performance of fundamental analysis by the professional accountants in Kolkata while making personal investment in shares. Out of 106 respondents 65 have the habit to invest in shares.

**Table 1:**  
**The Professional Accountants in Kolkata perform Fundamental Analysis while making personal investment in shares.**

	Observed N	Expected N	Residual
Performing	53	32.5	20.5
Not performing	12	32.5	-20.5
Total	65		

### Test Statistics

	The Professional Accountants in Kolkata perform Fundamental Analysis while making personal investment in shares.
Chi-Square	25.862 <sup>a</sup>
df	1
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 32.5.

### Interpretation:

$$Z = \sqrt{\text{Chi} - \text{Square}} = 5.085$$

$$p - \text{value} = 1/2 (\text{Asymp. Sig.}) = 1/2 (.000) = 0.000$$

Critical value at 5% level of significance for right-tailed test;  $Z = 1.645$

Observed value of  $Z = 5.085 > 1.645$  / ( $p\text{-value} = 0.000 < 0.05$ )

### Conclusion:

We are not in position to accept the null hypothesis.

Thus, at 5% level of significance, there is enough evidence to conclude that majority of professional accountants in Kolkata perform Fundamental Analysis while making personal investment in shares.

**Objective 2:** *To study the habit of the professional accountants in Kolkata to perform Fundamental Analysis while guiding clients in making investment in shares*

## Hypothesis 2

Null Hypothesis ( $H_{02}$ ): Majority of professional accountants in Kolkata does not perform Fundamental Analysis while guiding clients in making investment in shares.

Alternative Hypothesis ( $H_2$ ): Majority of professional accountants in Kolkata perform Fundamental Analysis while guiding clients in making investment in shares.

While (Performing) in the TABLE 2 below represents performance of fundamental analysis by the professional accountants in Kolkata while guiding clients in making investment in shares, (Not performing) represents non-performance of fundamental analysis by the professional accountants in Kolkata while guiding clients in making investment in shares. Out of 106 respondents 29 have the habit of guiding clients in making investment in shares.

**Table 2:**  
**The Professional Accountants in Kolkata perform Fundamental Analysis while guiding clients in making investment in shares**

	Observed N	Expected N	Residual
Performing	26	14.5	11.5
Not performing	3	14.5	-11.5
Total	29		

## Test Statistics

	The Professional Accountants in Kolkata perform Fundamental Analysis while guiding clients in making investment in shares
Chi-Square	18.241 <sup>a</sup>
df	1
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 14.5.

## Interpretation:

$$Z = \sqrt{\text{Chi-Square}} = 4.270$$

$$p\text{-value} = 1/2 (\text{Asymp. Sig.}) = 1/2 (.000) = 0.000$$

Critical value at 5% level of significance for right-tailed test;  $Z = 1.645$

Observed value of  $Z = 4.270 > 1.645$  / ( $p\text{-value} = 0.000 < 0.05$ )

## Conclusion:

We are not in position to accept the null hypothesis.

Thus, at 5% level of significance, there is enough evidence to conclude that majority of professional accountants in Kolkata perform Fundamental Analysis while guiding clients in making investment in share.

## FINDINGS

The findings from the analysis are:

- Majority of professional accountants in Kolkata perform Fundamental Analysis while making personal investment in shares.

- Majority of professional accountants in Kolkata perform Fundamental Analysis while guiding clients in making investment in share.
- Majority of professional accountants in Kolkata who have the habit to guide clients in making investment in shares are the professional accountants in Kolkata having the habit to make personal investment in shares and performing Fundamental Analysis.

### **CONCLUSION**

This paper provides an overview on the practice of fundamental analysis by professional accountants in Kolkata. The results of the statistical analysis drive us to the conclusion that majority of professional accountants in Kolkata performs fundamental analysis for the purpose of decision to make personal investment in shares as well as that for guiding the clients in making investment in shares. Fundamental analysis helps in predicting the long-term trends in the market and is generally used for long-term investments as it enables to understand the price that the stock should reach. It also allows in finding good companies for investment, such as those with strong growth potential.

### **LIMITATIONS OF THE STUDY**

There are certain limitations in the study. These are:

1. The study was conducted targeting the professional accountant in Kolkata only.
2. The sample size was restricted to 106 practicing professional accountants in Kolkata.
3. The survey period is 3 years only. A survey period of more than three years could generate more data for analysis and interpretation.
4. Information collected from the respondents is based on their opinions and knowledge which are subject to bias.

### **SCOPE FOR FURTHER RESEARCH**

The further research can be undertaken on the practice of all categories of the investment guides including the professional accountants on all India basis.

### **REFERENCES**

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