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Assessing The Areas Of Financial Accounting Information Used In The Decision-Making Process Of Business Management

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ABSTRACT

For this reason, accounting information is regarded as the "language of business" since it is essential for keeping track of financial transactions, analysing their impact on company, and documenting them for future reference. It compiles all financial information pertaining to a company's operations, including revenue, expenses, costs, and capital expenditures. It provides financial information to both internal and external customers, including as directors, investors, and others. The financial statements of a particular firm must provide a genuine and impartial depiction of the company's current business situation. There are several ways to assure accounting correctness, such as via auditing. In the context of decision making, it is vital to underline that various user need to be able to "read" financial figures in a different way. When it comes to deciphering financial documents, there are a plethora of tools and methods at our disposal.

Keywords: Accounting, Financial, Realistic, Fundamental, Auditing

INTRODUCTION

Making business choices today need access to fast, accurate, and complete information, particularly in light of the globalisation of the market and its rapid evolution. Qualitative and quantitative information may both be employed in the corporate decision-making process. Non-financial and financial quantitative information are both possible. Non-financial information may be obtained from any area of a firm, industry, or economy, as long as the information is not financial. The accounting system, on the other hand, is the primary source of financial data. The costs of direct materials, direct manufacturing labour, and marketing are examples of quantitative financial elements. They can be quantified quantitatively, but these other quantitative characteristics do not have monetary value. Quantitative non-financial considerations include the time it takes to produce new products and the proportion of flights that arrive on time. It is difficult to correctly quantify qualitative elements, which are results that can't be measured numerically.

In accounting, "quantitative information, especially financial information, is employed in a corporate decision-making process". To aid in decision-making, financial data is gathered. Identify, document, and convey the economic activities of an organisation to interested parties via accounting". "Management accounting measures, analyses, and reports financial and non-financial information that assists managers in making choices to achieve the objectives of a company. In order to design, discuss, and execute a plan, managers employ management accounting information. Accounting data is also used to coordinate product development, manufacturing, and marketing choices, as well as to assess performance."

Literature review

Erika Besusparienė (2018) About half of useful information comes from financial accounting. Businesses may utilise this data to help in decision-making. Although it's unfortunate, this current circumstance demonstrates the need for better financial reporting. Eventually, business owners and workers may lose confidence in financial accounting data and stop using it to guide their decisions. A primary goal of this investigation, therefore, will be determining how Lithuanian businesses utilise financial accounting information for decision-making in their businesses. Analytical systems and synthesis were used to examine the theoretical aspects of financial accounting information's significance for corporate management. A questionnaire study of Lithuanian businesses yielded the empirical data for these findings.

Ana Ježovita (2015) According to this study, the relevance of financial statements and their analysis in the company decision-making process will be examined. Data from accounting and yearly financial statements are examined to see how often they are utilised in company decision-making, according to empirical study. We can conclude, based on the results, than 60% of the participants regularly use accounting data and information from annual financial statements in their decision-making processes, and they are familiar with techniques for analysing financial statements in order to assess a company's fiscal position and operational effectiveness.

Alexandra-Daniela Socea (2012) Decision-making and information utilisation are discussed in a broad variety of areas, each with a unique viewpoint. Our inability to find consensus in this area is understandable. Financial accounting information is the subject of our article since it has a significant impact on management decision-making. According to the findings of our paper, financial accounting information aids managers in understanding what has happened in the past and where the company stands right now, enables them to see events that are otherwise invisible to their day-to-day activities, and gives them a quantitative picture of the business. Financial accounting information must be intangible, relevant, trustworthy, and comparative in order to be helpful in making decisions. Making judgments is dependent on more than just knowledge and the current quo; it's a reflection of one's own ideas and representations of what the world looks like.

Shazalina Mohamed Shuhidan (2015) This study investigates the alignment between the characteristics of decision-useful information requirements and AIS capacity in the decision-making process among Malaysian Higher Education Heads of Department and its impact on cost-conscious strategy in Malaysian Higher Education Institutions (HEIs). Using a survey, the features of decision-useful information were gathered from 11 public universities in Malaysia. According to this research, there is a discrepancy between the features of information needs and the processing capability of information systems. Organizational features of information processing capacity must be aligned with the needs of a cost-conscious approach in order to have a substantial influence on the organization's performance. AIS deployment will be evaluated for its success based on the alignment of information needs with processing capability, as well as the link between AIS success and business performance.

Nexhmie Berisha Vokshi (2018) In addition, the country's overall economic growth need trustworthy and crucial information from investors, managers, administrators of the state, and so on. Development and administration of an accounting system capable of providing the required information as well as being trustworthy in making decisions is essential. The availability of quality and trustworthy financial information is critical to the decision-making process, and it is of particular relevance to corporate management and the general public. Foreign investors and major companies may benefit from this data, but so can small and medium-sized firms since it gives details on various decision-making processes, such as planning, monitoring, and evaluating. Our goal is to provide a comprehensive picture of the state of accounting information and how it affects decision-making, as well as a look at the information needs of management and the methods by which they are currently met, so that accounting information can be seen as an important avenue for improving the decision-making efficiency at the top of economic units. The significance of high-quality accounting information and the influence it has on decision-making will be shown via descriptive statistical analysis. We conclude that information is critical to the success and efficiency of every firm. For accounting users, the information it provides is critical since it may influence a company's financial decisions. We must be accurate, legitimate, and helpful in order for people to put their faith in the information's quality and validity. To improve the financial condition of the company, detect and handle risks promptly, and attract investments, accurate information must be included in trustworthy financial reporting. Only then can sound economic choices be made based on this reliable data.

Process of preparing financial information

Financial and non-financial facts must be considered while making a decision. Accounting provides the most critical financial data for making company decisions. As a result, accounting might be considered a support role for management. Data mining is the process of transforming raw data into information that can be used to make informed decisions. There are various stages to the accounting process. Data input is transformed into output information in the process. As illustrated in Figure 1, the data processing may be broken down into many stages if we concentrate on the most important component of accounting (bookkeeping). The initial step in data processing is to gather information about business events that have happened. Accountants must analyse company events when they have gathered all the data necessary to do so. The next step is to make entries in a diary and general ledger. We need to verify the correctness of the data in the books at the conclusion of the accounting period before creating basic financial statements. As a result, we'll set up a trial balance. It is a summary of all financial transactions and ledger accounts. Accounting's last step involves creating financial statements once all records have been integrated and verified as correct. Financial statements, as previously said, must meet the needs of a variety of accounting (financial) information consumers.

Decision making on the basis of financial information

We must examine financial statements in order to enhance the decision-making process's use of financial information. A financial statement analysis is the act of transforming data from financial statements into useful information for company quality evaluation using various analytical methodologies, which is critical in the process of rational management. " Consequently, it is important to know the existing quality level of the business in order for us to assure the company's future growth and presence on the market. Before the management process begins, financial statements are analysed. Planning is a component of the management process. Good management relies heavily on careful planning. A sound financial strategy must take into account the company's strengths and disadvantages. Identifying the company's strengths and shortcomings is an important part of financial statement analysis, which helps us make the most of the company's resources. Thus, we may conclude that management of a business is the primary user of financial statement analysis.

Analysis of financial accounts may make use of a wide variety of tools and processes. Prior to any structural financial statements or vertical analysis, it takes into account comparison financial statements and the horizontal analysis technique. We want to investigate the trend and dynamics of changes in certain fundamental financial statement positions via horizontal analysis based on comparative financial statements. On the basis of observed changes, we assess the company's efficiency and security. Vertical analysis, on the other hand, relies on structural financial statements as a starting point for understanding the underlying structure of financial statements. The layout of financial statements has a considerable impact on the quality of a company. It is possible to learn about the business's quality via financial statement analysis, but the issues raised by this analysis are not answered by horizontal and vertical methods of balance sheet, profit and loss account, or cash flow statement. A number of distinct financial measures, derived from a company's financial records, play an important role in determining business quality.

Ratios of financial statement analysis and the business decision

Ratio is a rational or relative number that signifies the comparison of one economic worth to another. We may talk about the preconditions of a ratio's correctness since there is no need to link two economic values. Financial ratios may be split into two broad categories based on how they change over time. Companies' operations during a certain period of time are included in one set of financial ratios (usually a year). Profit and loss account and cash flow statement data are used to form this category. These financial measures, on the other hand, focus on the company's financial condition at a certain point in time, which is the date of the balance sheet. As a company quality assessment and decision-making tool, ratios provide a focused source of information. Financial statements use ratios to assess the specific economic phenomenon' quality. If we look at the revenue-to-cost ratio, the lower quality level is represented by a ratio of 1, indicating that sales completely offset costs. A ratio greater than 1 indicates a better-quality level since we utilise less income to cover expenditures and this tendency indicates a bigger profit. When data from the balance sheet are placed into correlation, the same thing happens. As an example, the ideal current ratio is 2. A liquidity ratio above or below 2 indicates varying levels of company quality when it comes to paying off due obligations.

Security and efficiency are two of the most important aspects of excellent management (profitability). By meeting these standards, we assure the quality of our company. Accordingly, liquidity and leverage ratios are the two most important corporate security ratios. Profitability, revenue, and investment ability all fall under the umbrella of efficiency ratios for businesses. When it comes to activities, on the other hand, they might be either security- or efficiency-based. In other words, the assets turning ratio has an influence on liquidity and financial stability, but it also has an impact on the profitability of a company. Figure 3 depicts the relationship between ratio groupings and quality business fundamental criteria (QBC). As a general rule, short-term considerations of security and efficiency are at odds. Although security and efficiency are intertwined in the long run, this is not always the case.

Accounting for cash flow is just as important as calculating financial ratios based on balance sheet and profit and loss. When the economy is insolvent, it is critical to include the gap between revenues and costs, as well as cash flows, in calculating these ratios. The fact is that a profit made does not signify that a firm has enough cash on hand to cover all of its debt obligations, just as a loss does not indicate that a corporation has no cash on hand. As a result, while assessing the health of a firm, we should look at the balance sheet and profit and loss account, as well as cash flow statement and cash flow statement-based ratios, when comparing them. Four categories of financial ratios based on cash flow statements are used:

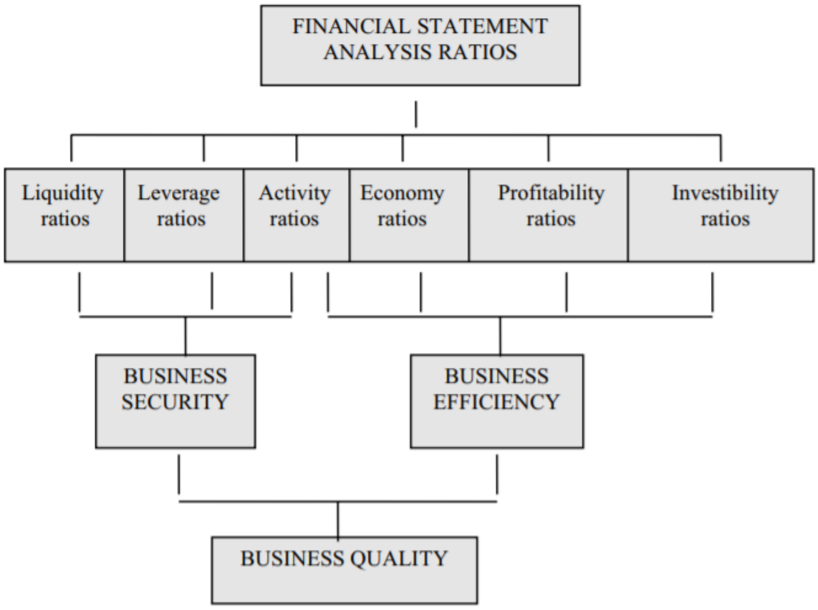

Fig. 1. Correlation between financial statement analysis ratios

The decision-making process

Before discussing the decision-making process, it is necessary to define what a decision is: A decision is a choice that leads to a certain goal. 36 The following question arises: who makes the final decision? Decision makers may be a single person or a group of people who are active in making decisions. An individual choice may be made by a computer, while the multi-party decision makers can be separated into unilateral and negotiated decision-making processes A participant in the first kind of decision-making, known as a "team decision," has the last say. Others, on the other hand, might have a significant impact on the final outcome. Participants in a negotiated decision-making process participate in the decision-making power. Choices where the participants have almost equal authority and share their differing opinions in various meeting and organisational decisions fall under this category. According to the organization's hierarchy, decision-making power is unevenly distributed, and the coordination between decision participants is very organised. You can learn more about the different categories of decision makers in the following table:

Table 1: adapted from Holsapple, C.W., Whinston, A.B. (1996)

Distinguishing traits	**Individual**	**Team**	**Group**	**Organization**
Paricipants	One	Multiple	Multiple	Multiple
Authority	Vested in one person	Vested in one person (deciding participant)	More or less equally shared by all participants	Can be distributed unequally among participants
Formal communication among participations	None	Relatively structured	Relatively few restrictions	Can be quite structured

There are instances when a choice is made and no one knows who made it. Several experts were hired by a prominent vehicle manufacturer to find out who decided to release a new model – and it didn't work! Anarchical procedures approach choices more like a chaotic process and a mix of the two is dubbed the Iterative Sequence in literature. Literature differentiates between sequential, anarchical, and the Iterative Sequence. It was decided to use Drury's decision-making model, which may be arranged in a sequential fashion.

An individual's ability to make a choice in a given situation may have a significant impact. There are several common phases that may be found in practically every decision in sequential models. It doesn't matter what sort of choice you're making or who made it; these stages may be used as a foundation for the process. Drury's concept has seven phases that are sequentially linked. In the decision-making process, which this model refers to as "making choices amongst alternatives," there are five steps. Finally, after making a choice, he adds two phases termed the control process to assess and adjust the actual performance of the options selected.

Table 2: Type and form of accounting information and their purpose within business decision making process

		NUMBER OF RESPONDS	%
Within business decision making process, accounting information are usually used for:			
SVR1	Preparing business plans (annual, quarterly, monthly)	190	59%
SVR2	Conducting analysis of archived business results	203	63%
SVR3	Conducting comparative analysis related to competitors	84	26%
SVR4	Reporting board of directors about achieved results of certain department	132	41%
	TOTAL	**609**	/
Form in which examinees uses available accounting information for business decision making purposes:			
OBL1	Raw data from accounting system (absolute numbers)	105	33%
OBL2	Annual financial statements	252	79%
OBL3	Financial ratios defined in advance (relative numbers)	72	23%
	TOTAL	**429**	/
Analysis of accounting data is usually conducted with purpose to provide:			
ANA1	Comparison with previous accounting periods	287	90%
ANA2	Comparison with planned values	147	46%
ANA3	Comparison with competition	59	18%
ANA4	Comparison with industry	22	7%
	TOTAL	**515**	/

It is possible for test takers to pick from a list of statements on how accounting information is used to make business decisions (Table 2). Examinees are more likely to make use of accounting data while delving into actual company outcomes (203 out of 63 percent) and when putting up business strategies (190; 59 percent). They mostly utilise yearly financial statements for this reason (252; 79 percent). The vast majority of participants (289 out of a possible total of responses) are making comparisons with prior accounting periods before moving on to comparisons with projected values (147; 46 percent from total number of respondents). External influences (59; 16% of the total number of respondents) and comparisons with industry make up a smaller portion of the overall number of participants in the study (22; 7 percent from total number of respondents).

No matter how different examinees' answers are from board of directors to accounting and finance departments, the main results are still similar. Despite that. It can be concluded that more than 60% of examinees frequently use accounting information and information from annual financial statements (balance sheet and income statement) within the business decision making process, and that they are familiar with methods of using financial statements analysis for purposes of evaluating financial position and business efficiency. According to the examinees, the availability of the model for evaluating company quality and the usual values of financial ratios would make it easier to analyse financial situation and business efficiency, and enhance the frequency with which financial ratios are used to make business choices. Results from this study show that accounting data, which contains typical values for determining a company's business quality based on its features, may be used to make significant business decisions.

Conclusion

The ability to make sound financial choices relies on having accurate and up-to-date information on financial accounting. The benefits of financial accounting information range depending on whether the company is small or huge. The relevance of financial accounting information was shown via Porter's five forces, according to literature study. Financial accounting data may be utilised to monitor and reduce the risk of debt for purchasers. In addition, the amount of the resources of the key operations or investments, finance planning, assuring cash flow, and strategic planning were shown in the financial statement. Synthetic ratios in the form of complicated functions, in addition to individual financial ratios, play a vital part in the process of assessing business quality or forecasting firm failure. The frequency with which accounting information is used in the company decision-making process is an important issue. In addition, a questionnaire-based study was done in Croatia's business sector. A survey of 320 participants found that information based on accounting data for which there are typical values that may be used to establish business quality is critical in making business decisions based on a company's characteristics. In and of itself, the decision-making process is a complicated one. This process was shown using the Drury model, which consists of a series of sequential phases. However, we realised that this model could not accommodate all of our selections. When it comes to Wexiödisk's position, it may be difficult to tell who is ultimately responsible for the outcome. There are usually more individuals and departments engaged, who gather in the cafeteria often to talk informally. As a result, it might be difficult, if not impossible, to arrive at a final decision point. Wexiödisk's decision-making process could be broken down into many parts, and the accounting software played an important role in this. In spite of this, Drury's model provides evidence for numerous opponents, as noted in the analysis.

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