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The importance of financial accounting in business decision-making

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Annotation: Financial accounting is crucial for businesses as it enables them to make well-informed decisions that are aligned with their objectives. The accuracy of financial information is vital for budgeting, forecasting, and compliance with regulations. Furthermore, it aids in evaluating performance, identifying financial risks, and providing a foundation for decision-making. In essence, financial accounting is indispensable in ensuring that businesses make financially viable decisions that do not jeopardize their operations. Without accurate financial information, businesses may make decisions that put them at risk.

Keywords: financial information, budgeting, forecasting future financial performance, businesses, decision-making and financial risks.

The institutional and social aspects of financial accounting have not been thoroughly explored by scientists, partly due to the challenge of harmonizing accounting practices across different countries. This makes it difficult to make international business decisions. Lithuania has been working towards standardization of accounting in the EU, but frequent legislative changes can cause stress for accountants and lower the quality of financial accounting information. In fact, a study by the Authority of Audit, Accounting, Property Valuation and Insolvency Management found that the quality of financial statements in Lithuania is generally low, with only 59% of good quality statements prepared by accounting service companies and 50% by chief accountants.[1]

Financial accounting has been a challenge for scientists due to the need for harmonizing practices across countries. This has made it difficult for international businesses to make decisions. Lithuania has been working towards standardization, but frequent legislative changes have caused stress for accountants and lowered the quality of financial statements. A study found that the quality of financial statements in Lithuania is generally low. To stay competitive, business leaders need consistent, accurate data for real insight to improve performance. However, core financial processes consume the majority of the period end process, reducing the capability to add insight and value. To gain real insight, these core financial processes need to talk to each other and deliver ‘one version of the truth’. An integrated Financial Performance Management system can form the building blocks for modern business demands. The Financial Budgeting, Planning and Forecasting process can add the most value to an organization but is often under-developed due to high user participation and complexity. Despite this, organizations should tackle it as the rewards can provide a competitive advantage. Many organizations limit budgeting/planning to an annual budget supplemented by quarterly re-forecasts, extending into a future as far as year-end. As the year-end approaches, the forward outlook reduces, and the following year's budget is only agreed in Period 3, meaning the company is running “blind” for at least a quarter of the year.[2]

Financial accounting is a critical component of any business, as it provides a comprehensive view of the financial health of the organization. It is the process of recording, summarizing, and reporting financial transactions to external stakeholders, such as investors, creditors, and regulatory bodies. Financial accounting helps businesses evaluate their financial performance by providing information on revenue, expenses, profits,

[1] https://www.investopedia.com/terms/f/financialaccounting.asp
[2] https://hayne.co/a-guide-to-financial-budgeting-planning-forecasting/

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and other financial metrics. This information is used to assess the effectiveness of business strategies and make necessary adjustments. One of the primary benefits of financial accounting is that it provides a clear picture of a company's financial performance. By analyzing financial statements such as the income statement, balance sheet, and cash flow statement, businesses can determine their revenue, expenses, profits, and cash flow. This information is critical in evaluating the effectiveness of business strategies and making necessary adjustments. For example, if a company's revenue is declining, it may need to re-evaluate its marketing strategy or product offerings to increase sales. Financial accounting also helps businesses identify areas where they can reduce costs and improve profitability. By analyzing expenses, businesses can identify areas where they are overspending and take steps to reduce costs. For example, if a company's labor costs are high, it may need to consider outsourcing or automating certain tasks to reduce costs. Another benefit of financial accounting is that it helps businesses comply with regulatory requirements.

The concept of financial risk is a complex and multifaceted one that has been the subject of much debate and discussion in the academic literature. While there is no universally accepted definition of financial risk, the problem begins with the general definition of risk itself. There are two main conceptions of risk that have been put forward in the literature: the negative conception, which sees risk as a potential threat of loss, and the neutral conception, which views risk as both a threat and an opportunity, with the potential to yield results that are different from what was expected. The definition of financial risk ultimately depends on the approach taken towards risk, and this can result in different actions being taken by managers. If managers take a negative approach to risk, their primary aim will be to minimize potential losses and avoid risky actions in order to stabilize the situation of the company. On the other hand, if managers adopt a neutral approach, they will not only seek to minimize losses but also try to take advantage of the risks they undertake in order to improve the situation of the company. Financial risk, like any type of risk, can be analyzed from either a negative or neutral perspective. From a negative perspective, financial risk is seen as a potential threat to the stability and success of a company, and managers will seek to minimize this risk in order to protect their organization. This may involve avoiding risky investments, diversifying their portfolio, or hedging against potential losses. From a neutral perspective, financial risk is viewed as an opportunity for growth and improvement. In this case, managers may actively seek out risky investments in order to capitalize on potential gains. They may also use financial risk management techniques such as derivatives or insurance to hedge against potential losses while still pursuing opportunities for growth. Ultimately, the definition of financial risk will depend on the specific context in which it is being analyzed. Factors such as industry trends, market conditions, and organizational goals will all play a role in determining how financial risk is perceived and managed. As such, it is important for managers to have a nuanced understanding of financial risk and to be able to adapt their strategies accordingly.[3]

The concept of financial risk is a complex and multifaceted one that has been extensively debated and discussed in the academic literature. However, the definition of financial risk ultimately depends on the approach taken towards risk. There are two main conceptions of risk: the negative conception, which sees risk as a potential threat of loss, and the neutral conception, which views risk as both a threat and an opportunity. From a negative perspective, financial risk is seen as a potential threat to the stability and success of a company. In this case, managers will seek to minimize this risk in order to protect their organization. This may involve avoiding risky investments, diversifying their portfolio, or hedging against potential losses. From a neutral perspective, financial risk is viewed as an opportunity for growth and improvement. In this case, managers may actively seek out risky investments in order to capitalize on potential gains. Financial statements play a crucial role in decision making and improving the economy. They provide realistic and objective pictures of a company's business condition. Auditing financial statements ensures accuracy. However, different users must know how to interpret financial statements. Understanding the contents of financial statements provides various instruments and analysis procedures for understanding business. A well-

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established process of management based on financial statements and financial information is essential for quality business.[4]

Conclusion, Financial accounting plays a crucial role in providing accurate financial information, helping businesses in budgeting and forecasting, facilitating compliance with regulations, evaluating performance, communicating with stakeholders, identifying financial risks, and providing a basis for decision-making. Understanding financial risk is important for managers to adapt their strategies accordingly, while financial statements must be accurately audited and interpreted by different users to understand business. A well-established process of management based on financial statements and financial information is essential for quality business.

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