ARABIAN GROUP OF JOURNALS
International Journal of Accounting Research (IJAR)
Vol. 2, No. 11, 2016

THE EFFECTIVENESS OF FINANCIAL STATEMENTS IN MANAGEMENT DECISION MAKING

Reza Malekinejad
Master of Business Management, Islamic Azad University, Rasht Branch, Rasht, Iran
E-mail: malekinejadr@gmail.com

Abstract

Reports and financial statements is an important component management information system. Existence of the financial information of transparent and comparable is one of the main pillars of accountability executives and the basic needs of decision-makers of economic. Although information can be extracted from various sources, but now the financial statements will form the core of financial information resources, so it should be has good quality. The objective of financial statements is to provide information about the financial condition, results of operations and financial compatibility of a business unit that is useful for a wide range of users in making economic decisions. Financial statements prepared for this purpose cover the public needs for the majority of users. Most of the financial information provided in the financial statements in addition to other organizational factors affects the decisions of senior managers. Some of them are more effective at a high level decision-making and some of them at lower levels. In this paper is investigated the effectiveness of the financial statements on the managers' decision making.

Keywords: Financial Statement, Decision-Making, Effectiveness, Management

1. Introduction

With the development of industrial and commercial organizations and institutions in various countries has significantly increased benefiting from a range of finance sciences (Rahmani & et al, 2014). Financial reporting in economic units reflects the needs and expectations of various groups of users of the financial statements, such as investors, creditors and others to make informed decisions of economic. Set of financial statements is most significant tool of providing information to outside economic entities. The information provided in this form are useful for users if be transparent. In this regard, reports and financial statements is an important component management information system. Existence of financial information of transparent and comparable is one of the main pillars of accountability executives and the basic needs of decision-makers of economic. Although information can be extracted from various sources, but now the financial statements will form the core of financial information resources, so it should be has good quality (Darabi & et al, 2012). Expansion of public ownership of economic entities that realized in the form of emergence of public companies is a major cause of fundamental changes in the economic environment of recent years. Whatever the quality of financial information provided in such an environment be more favorable, thus users are making economic decisions more effectively. As a result, the financial statements as much as possible should provide most reliable and most relevant information (Mojtahedzadeh & Moemeni, 2003).

2. Purpose of Financial Statements

The objective of financial statements is to provide information about the financial condition, results of operations and financial compatibility of a business unit that is useful for a wide range of users in making economic decisions. Financial statements prepared for this purpose cover the public needs for the majority of users. However, the financial statements may not provide all the information that users require for economic decision because financial statement provides largely the work of financial past events and does not necessarily provide non-financial information (Hemati & Mostafapour, 2015).

Information about the results of operations a business unit, in particular its profitability, to assess potential changes in the economic resources that exist likely to control them in the future, it is necessary that information about the results of operations is useful for predicting the entity's capacity to maintain cash flows from the entity's existing resources. This information is also useful as well as in forming judgments about the effectiveness that the unit may employ additional resources. In order to be useful information must be reliable. Reliable information is free from error and important bias tendencies and honestly it is what it is expressed claims or reasonably expected to express it (Rafiei & Safarzadeh, 2014). But in general objective of financial statements reporting provide information that expresses the financial effects of transactions, operations and financial events affecting financial condition and operations results of a profit unit and thereby it judge investors, donors of financial facilities and other external users and help to decisions to affairs of a profit unit (Farsa & Tirandaz, 2011).

3. The Quality and Importance of Financial Information

Today, providing management with a reliable information system that ability of management promote to make decisions about planning, organizing and controlling, has become an important necessity. This information can be processed and analyzed by different systems and help to management in the accurate identification of the problem and issue, set goals and evaluate solutions and selection of an optimal solution in implementation and its evaluation. In this regard, access to key information for decision-making and create a structured process to gain continuous financial information is the most effective part of the actions that will be considered in preparing the financial statements. So that in this connection financial information is the most important information that is presented in economic decision-making to company executives (Sadeghirad, 2015).

4. Influential Level of Financial Information on Decision Criteria

Decision-making in the context of organization is process that leads to select a string of actions among two or more selection. This means that actions operate for intended to help achieve organizational objectives by management in company. By this definition, a director of an organization based on financial information obtained designing and organizing the operation. Most of the financial information provided in the financial statements in addition to other organizational factors affects the decisions of senior managers. Some of them are more effective at a high level decision-making and some of them at lower levels (Sadeghrad, 2015).

Figures in the financial statements, in particular the interest rate have the financial effects. These figures are basis of the distribution of profits to shareholders, executive compensation calculation and payment of taxes. In addition, the financial statement information could affect the decisions of investors and creditors (Rafiei & Safarzadeh, 2014).

4. Classification of Financial Information in Financial Statements

Based on the classification conducted by International Accounting Standards Committee of Auditing Organization and Standard No. 1 financial statement components include: 1. The basic financial statements and 2- explanatory notes that basic financial statement items, as follows:

1. Balance Sheet: it reflects the financial situation of company about the assets and liabilities, and capital on a specified date.
2. Income Statement: it shows summary and conclusions of corporate performance in terms of revenues and expenses during a financial year.
3. Comprehensive income statement: it shows the increase or decrease in equity about different revenues and expenses identified including realized and unrealized.
4. Cash Flow Statements: it represents power of company in fulfilling timely obligations and how to enter and exit cash in company (Sadeghird, 2015).

5. The Role of the Financial Statements in Management Decision Making

In conditions of market economy, the success of an organization depends on the power of managers to understand the principles, methods and techniques of modern management. Quality of management is critical for companies to gain competitive advantage and resisting a challenging environment. As a practitioner of organization, he is responsible for decision-making at the executive level and strategic. How to use limited resources is under his control. He needs to information for the ability in foresight of act returns options (Alexandra, 2012). Management decision making in organizations is in fact something like a black box, most organizations have a decision-making process and usually this process starts after submitting proposals and suggestions by staff about status of organization and its strategy and considering the risks and potential consequences led to decision making. In the process of decision-making, employees who participate in the decision-making of organizations, they may accompanied by issues such as prejudice and considering self-interest decision, in this regard, accountants and financial managers with having reliable information, related and supporting documentation do necessary and sufficient analysis in the field of economic decision-making, investment, establishment of strategy, outlining objectives of the organization and also offer substantial and significant services to management for the quality of decision-making and modifying them and become strategies to profit and the monetary values and provides context of achieving the goals (Sari, 2015).

Although information can be extracted from various sources, but now the financial statements make up core of financial information resources, so it should be have good quality. Preparation of financial statements in accordance with accounting standards is as valid criteria, ensuring optimal quality of financial statements. Ruling spirit in codification of Accounting Standards is creation of requirements in order to provide transparent performance results of economic units in the form of financial information (Khoshmehr, 2009; Darabi & et al, 2012). Information is presented through financial reporting that its main product is the sum of the financial statements with explanatory notes. Information reflected in the financial statements when it is useful for users that have be the necessary quality characteristics. Information qualitative analysis must be done by someone independent of the producers and competent (Aghaei & et al, 2011; Fazly & Ahad, 2004). Studies conducted show that more disclosure and transparency for financial statements will follow numerous benefits for companies: long-term investment by the investors, improve access to new capital, less capital expenditures, credible and responsible management and ultimately higher stock prices (Nobakht, 2003).

6. Discussion and Conclusion

Set of financial statements is most significant tool of providing information to outside economic entities. The information provided in this form are useful for users if be transparent. In this regard, reports and financial statements is an important component management information system. Existence of financial information of transparent and comparable is one of the main pillars of accountability executives and the basic needs of decision-makers of economic. In conditions of market economy, the success of an organization depends on the power of managers to understand the principles, methods and techniques of modern management. Most organizations have a decision-making process and usually this process starts after submitting proposals and suggestions by staff about status of organization and its strategy and considering the risks and potential consequences led to decision making. In the process of decision-making, employees who participate in the decision-making of organizations, they may accompanied by issues such as prejudice and considering self-interest decision, In this regard, accountants and financial managers with having reliable information, related and supporting documentation do necessary and sufficient analysis in the field of economic decision-making, investment, establishment of strategy, outlining objectives of the organization and also offer substantial and significant services to management for the quality of decision-making and modifying them and become strategies to profit and the monetary values and provides context of achieving the goals.

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