

Role of Financial Accounting in Business: A Study

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Abstract

Financial accounting is in charge of generating a company's financial statements, such as the income statement, the statement of owner's equity, the balance sheet, and the statement of cash flows, which summarise and analyse a company's previous performance. To make a choice, it must be founded on true accounting facts and statistics, and accounting information is essential for decision-making at

all levels of management. Accounting provides management with information on the company's financial position, such as profit and loss, cost and earnings, liabilities and assets, and so on. Accounting assists to boost the efficiency of overall management by preventing asset misuse, improving output and profit, controlling expenses, and preventing asset abuse. Internal and external consumers of financial accounting data rely on it for success, improved investment, and a secure future. Accounting is a continuous mechanism for displaying a company entity's financial situation by recognising economic events and documenting, analysing, and presenting them.

Introduction

Accounting is sometimes referred to as the "language of business" since it conveys so much information to owners, managers, and investors in order to assess a company's financial success. It provides financial information to stakeholders, allowing them to make better business decisions. It is the process of calculating and summarising company operations, evaluating financial data, and conveying the findings to management and other decision-makers. Financial accounting's main goal is to summarise financial activities in a company's profit and

loss statement, balance sheet, and cash flow statement. Accounting records and bookkeeping are the foundation of your company's financial accounting. When systems and processes are sound and contain adequate controls, the financial accounting of your company becomes more reliable.

Financial accounting is responsible for preparing the organisation's financial statements including the income statement, the statement of owner's equity, the balance sheet and the statement of cash flows that summarises a company's past performance and evaluate its current financial condition. In preparing financial statements, financial accountants adhere to a uniform set of rules called generally accepted accounting principles (GAAP) – the basic principles for financial reporting issued by an independent agency called the financial accounting standard board (FASB).

Role of Financial Accounting

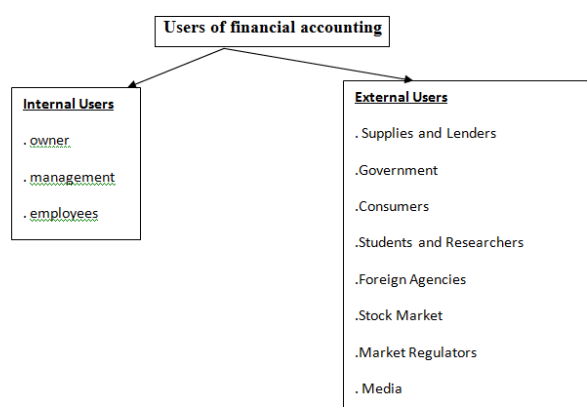
In a business, the financial accounting function is responsible for periodically reporting pecuniary information to business owners. Interested parties such as regulators, customers, investors and creditors often require this financial information. If banks refuse to rely on your accounting records, you will have trouble securing loans for your business. Financial accounting dictates the amounts you owe to suppliers, what customers owe you, operating costs, payroll costs and available cash. You can use financial accounting to analyse significant aspects of your business, such as monthly sales or the reasons for high expenses in one month

System of Control

Financial accounting forms a single set of financial controls for business. This requires adequate knowledge and understanding of financial accounting principles and conventions for assigning responsibilities, record financial information and divide duties among employees. Financial accounting, therefore, enables to monitor such duties and their results more closely. Sound financial records demonstrate financial controls and oversight that reduces the risk of fraud and theft, something that investors like to see.

Users of financial information

Accounting is the language of the business which conveys the financial health of the business. It is a vehicle which carries information for various interested parties who are to use information for various reasons



Internal Users

1. **Owners:** Accounting records provide them with the information regarding earnings, expenses, capital, assets, liabilities and other related information. With this owners can

assess their past performance and they can take decisions for improvement in future.

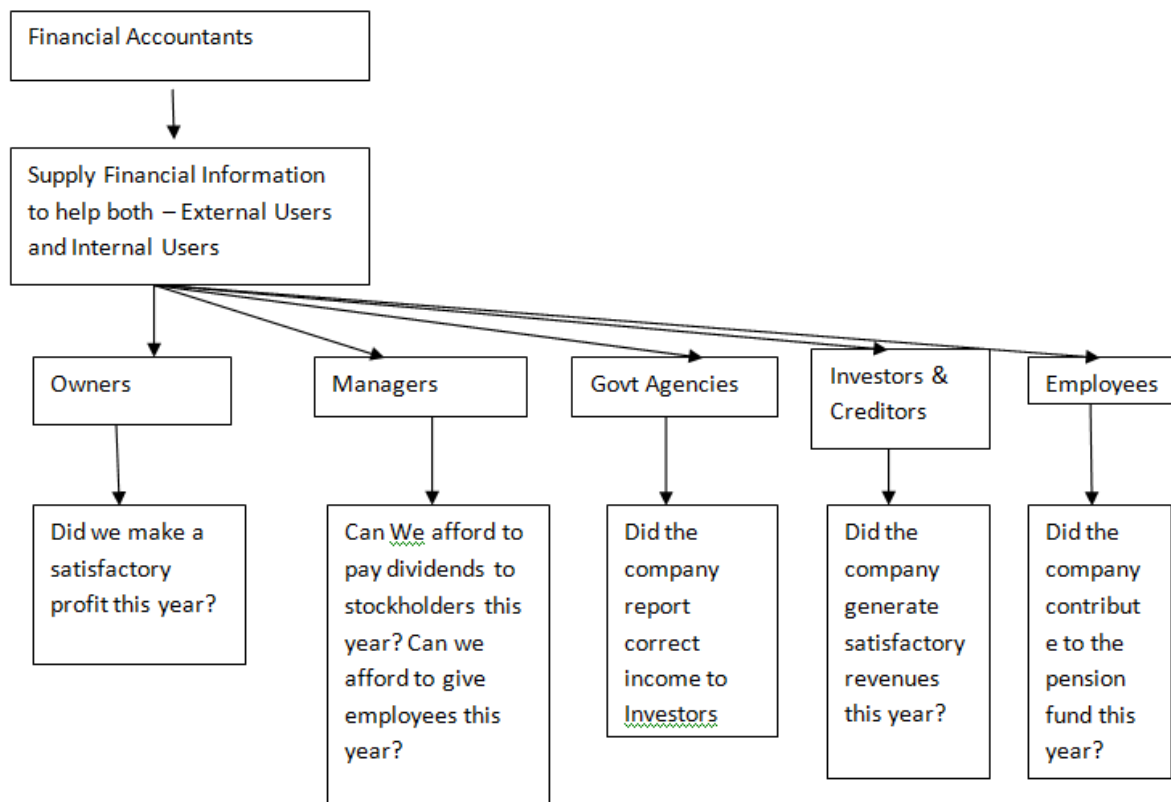
2. **Management:** Management is responsible for carrying on the business in efficient and profitable manner. They can do so only when they can take right decision at a right time and accounting information enables the management to do so.
3. **Employees:** Employees are interested in working conditions, wages, perquisites bonus, etc and accounting helps them in enabling their forecast about their bonus which is directly linked with the profits.

External Users

1. **Suppliers and Lenders:** Every business has to purchase goods and services on credit, take long term and short term loans and overdrafts. They generally provide this facility if liquidity position and solvency position of the business is sound and all this is evaluated with the help of financial accounting information.
2. **Government:** Government is interested to know whether business abides by all the rules and regulations, pays different taxes in time. Due to this interest, government wants the information regarding sales production, and income of the business.
3. **Consumers:** Whether a business is fulfilling its social responsibilities towards consumers or not? A consumer can judge it from accounting information. A consumer expects goods quality products at reasonable price and accounting information will enlighten this.
4. **Students and Researchers:** Annual reports of a business prepared from accounting information helps researchers in their projects and they can enhance their practical knowledge in accounting.

5. **Foreign Agencies:** Annual reports of a business prepared from accounting information helps researchers in their projects and they can enhance their practical knowledge in accounting.
6. **Stock Markets:** Accounting provides information about the performance and financial health of the business as well as information related to vital decisions taken or to be taken by the business concerns to stock markets where the shares of these companies are listed.
7. **Accounting Regulator:** Market regulator like securities and exchange board of India (SEBI) keeps a watch on the financial dealings of the companies in order to protect the interest of the investors who have invested their hard earned money in the companies. Accounting is the vehicle to provide the necessary information to the market regulator from time to time.
8. **Media:** Print media like financial newspapers and journals and electronic media like business channels need information about the performance, achievements and problems faced by the business firms. Accounting through published annual reports or web disclosures provide necessary information which is further analysed and published or presented for the general public

Financial Accounting Procedures



Importance of Accounting in Business

1. **Planning:** For the efficient execution of various management operations, proper planning is essential. Cash planning, sales planning, procurement planning, calculating stock amount, development planning, establishing goal profit, and so on are all heavily reliant on accounting data and information..
2. **Organisation:** Accounting is particularly useful in ensuring that the management organization's tasks are carried out properly. Accounting assists management and organisations by giving information such as profit margins over capital, capital investment position, management control efficiency, and so on.

3. **Motivation:** Employee motivation - Employees must be motivated to achieve desired results. One of the most important driving aspects at work is monetary compensation. Management must be informed of the company's financial situation in order to provide financial benefits. Accounting aids management by giving the data needed to make informed choices.
4. **Co-ordination:** To achieve the business's ultimate goal by coordinating the efforts of many departments. Accounting aids in the coordination of numerous operations among various company departments. It also aids management in reconciling purchases with sales, expenditures with income, and sales with debt receivable realisation, among other things.

5. **Media of Communication:** Accounting is an important medium for disseminating information from many departments, as well as business and management plans of action, to various departments. Accounting is often recognised as the most effective means of communicating information to management about purchases and stock, as well as the time of purchase, cost of buy, and sales price.
6. **Budgeting:** It is critical to prepare multiple budgets in order to manage a profitable firm. Accounting provides the historical data required for budget formulation.
7. **Professional Advice:** An efficient and trustworthy accountant provides vital professional guidance to management for the growth of the company. The intricacies of corporate management have likewise gotten more sophisticated in the current day. The effective utilisation of accounting data and information is critical to managerial efficiency. Accountants are engaged in the management committee of modern and large organisations.

Conclusion:

Planning, organisation, motivation, coordination, control, and budgeting are all aided by accounting. Accounting provides the financial and economic data required by an organization's management process. The internal use of accounting data is referred to as management. In today's competitive corporate environment, managers must make decisions quickly and deftly. Accounting provides managers with data that allows them to make critical business choices. Accounting is a crucial tool for management since it is known as the "Language of Business."

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