Research Article

Investigating the effects of Financial Accounting Reports on Managerial Decision Making in Small and Medium-sized Enterprises

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Article History Received: 10 January 2021; Revised: 12 February 2021; Accepted: 27 March 2021; Published online: 28 April 2021

Abstract: Financial accounting reports plays a major role in keeping track of all financial transactions. The management decision-making relies on accounting information, including the income statement, and cash flow statement reports recorded in corporate financial statements. Each financial statement for publicly traded companies shall be created and reported to the Securities and Exchange Commission following the financial accounting standards established by the Financial Accounting Standard Board. This current study examines the impacts of financial accounting reporting on management decision-making in small and medium-sized companies in Iraq. The study also investigates the management's attitude towards capital allocation to identify whether it maximizes the effectiveness of the decision. For this purpose, cross-sectional data analysis was used, and the data was collected from 250 respondents from managers and employees working in SMEs through a structured questionnaire. The study indicates the effectiveness of managerial decisions is substantially influenced by the financial statement report. The other operational considerations such as company records, understandability of reports, and quality of the data have a major impact on the managerial decision of the SME firms. The study identified understandability, relevance, and quality of the financial reports mediates a positive correlation between financial accounting reports and managerial decisions.

Keywords: Financial Reports, Financial Accounting Reporting, Managerial Decision, Management Decision Making

1. Introduction

The dynamic existence of today's corporate landscape and the turn of the whole world into a globalized world have been of considerable concern to business managers of all sorts. Thus, according to Liesen, Figge, Hahn, and Hahn (2013), managers' challenges are diverse because of inefficiencies in managing their organization's poor decision-making performance. The controllable and uncontrollable forces affect all decisions although they are different from a sector to another sector; thus, inevitably contribute to the achievement of the organizational goal (Ahmed & Al-Kake, 2019). For this purpose, managers to make decisions are required to have accurate, authentic, transparent, and relevant data to support their management decision (Abdullah & Rahman, 2015). The most effective data that ensures managerial decision is financial reports which maximize the accuracy of the decision and avoids major errors.

It should be remembered that one of the key priorities of corporations is profit-making. The push for profitability is also a driver in any enterprise, and management must ensure the obtainment of such a goal (Al-Kake, et al., 2019). To this end, the facts available from organizations' financial accounts must be analyzed, evaluated, and utilized as a framework for making decisions (Needham & Dransfield, 2007).

Business reports offer a snapshot of short-term and long-term market profitability and financial conditions, which have beneficial effects and helps the accumulation of knowledge on accounting for a broad range of consumers (Sultan et al., 2020). There are knowledge needs in any sector to support the performance of the organization such as marketing and manufacturing industry performance (Gardi, et al., 2020; Prabhu, Abdullah, Ahmed, 2020). In general, the broader the company, the stronger the need for knowledge for management. Financial statements play an integrated position in corporate entities' decision-making processes. The primary aim of the financial statement is to include financial statements as a record. It is therefore important to conclude that the capacity to implement accounting expertise is key to business performance.

At the close of each fiscal year, a company prepares different statements. These statements summarize the improvements throughout the time. To be helpful in this financial report, the data should be interpreted in a manner where the consumer recognizes the similarities, discrepancies, and patterns between periods to allow them to make decisions. When analyzed, the accounting facts in the financial report allow managers to make choices more educated (Jaf, et al., 2019). Financial statement review is also used as a critical method for determining an organization's efficiency and making sure judgments are made on evidence and not on a rule of thumb.

A financial analyst reviews businesses' financial records so that organizational and financial issues that could impact companies may be detected (Bousfield, 2016). Anyone that analyses companies' financial accounts should also determine the source and impact of these companies' financial and operational issues.

An incident that has a consequence is the source of some financial or operational issue (the problem). However, the mechanism which is a predictor of the issue can be observed to determine the cause and effect financial or operational issue. This method is called perception (Moynihan, Pandey, & Theory, 2005) which helps the financial records to include sufficient detail about any field of organization and economic activity, which allows the essence and consistency of the accounts of the expenditure to be reported clearly. This can also be assessed by the company's real and its equitable financial status.

1.1 Background

Financial reports offer an assessment of short and long-term market profitability and financial conditions. They are the beneficial effects of accounting information for a broad range of consumers in any company. These requirements vary from financial, manufacturing, marketing, etc. In general, the bigger the organization size is, the larger knowledge technology needed. Financial statements play an important function in corporate decision-making processes, especially when making an investment decision that provides a clear understanding of decision implications (Pazhani & Abdullah, 2019) The primary aim of financial reporting is to include records of financial details. It was mentioned which reporting is the language of the company. Besides, it can be claimed that the ability to extend accounting skills is key to company success; an entity generates various records at the end of a fiscal year. This study summarizes the improvements throughout the time. For this financial analysis to be meaningful, the details can be interpreted to allow users to understand the similarities, variations, and patterns shape from time to time such that judgments can be made. The financial report's accounting knowledge allows administrators to make choices more informed. Adequate reports should be provided in all fields of organization and economic activities; the existence and precise accounts of expenditures should be accurately disclosed to the degree that the organization may determine its real and equal financial status. Financial results are valuable to various customers, including owners, creditors, banks, officials, staff, prospective buyers, and the entity's leadership. The above categories of individuals depend on details supplied by the company financial reports to determine the status of the entity, which is a vital guide to determine the extent of funds contribution. This includes the sharing of financial details which is useful for decision-making, such as savings, credit, and other corporate decisions.

2. Literature Review

In the mid-1990s, value-based management methods for shareholders found a significant, not to say dominant, role among and in practice managers and accounting scholars. Key elements in these management methods are management accounting strategies developed to guide management decision-making to optimize an organization's value. Having said that, the principle that the only social obligations of corporations are to raise income, as suggested in Friedman (2020), and that maximization of the company worth to the investor is the only important target for SME firms (Cooper & Morgan, 2008; Neimark & Tinker, 2011; Othman et al., 2016). More recent trends have contributed to substantial growth in funding for stakeholder advocates. This is followed by appeals for transparency structures which is very important for the decision-making process (Sundin, Granlund, & Brown, 2010; Abdullah & Rahman, 20152). Scholars have identified discrepancies and commonalities in accounting knowledge to contribute to the management of managerial-value decisions versus managerial-value management, from a comparative viewpoint (Jaff, et al., 2021). In this way, we aim to apply from a more philosophical viewpoint to management accounting. The functions and conditions of management accounting, in particular, are explained, based on the goals sought.

With the growth of commercial and industrial companies and entities in different countries, a spectrum of financial sciences has expanded considerably (Rahmani & Pedram, 2014). Financial reporting of economic units represents desires and aspirations of diverse consumer classes such as owners, borrowers, and others to take responsible economic decisions. The set of financial statements is the most important method for informing external economic institutions (Pankaj, et al., 2019). The information given in this form is helpful if it is straightforward for users. Reporting and financial statements are an essential part of the information framework for management in this respect. Open and comparative financial statements are one of the core foundations of transparency and the fundamental needs of economic decision-makers. Although details may be derived from other outlets, the financial statements already constitute the central financial information tools. Thus, high quality must be achieved (Hasanzade, Darabi, Mahfoozi, & Proceedings, 2014). The expansion of public participation in the form of public corporations is a significant trigger of shifts in the past years' economic climate. Regardless of the accuracy of financial details presented in this context, consumers make economic decisions more efficiently. The financial report can also have the most accurate and valid facts (Malekinejad, 2016).

2.1 Significance of Financial Statements

The significance of the financial statement is to include the financial status, operational results, and financial consistency details for a business entity which is useful to a wide variety of consumers for economic decision-making. For this reason, the financial results prepared to cover the public interests of most people. However, all information required by consumers to make financial decisions is not available in the financial report because financial statements largely include the analysis of historical financial activities and do not generally provide detail on non-financial matters (Hemati & Mostafapour, 2015).

Information on the business results of a company unit, in particular its performance, to determine the possible shifts in the financial resources that would undoubtedly govern them in the future, the information on operating results needs to help forecast the capacity of the enterprise to retain cash flows from current resources of the organization. This knowledge is often helpful in making decisions about the usefulness of external services accessible to the unit. For valuable material, it must be trustworthy. Trustworthy material is free of error and important prejudice and honestly communicates or fairly intends to communicate it (Malekinejad, 2016). However, the overall purpose of the financial statements filing is to include facts expressing the financial implications of sales, activities, and financial incidents impacting the financial conditions and operations of a profit unit, thereupon assessing clients, financial institution contributors, and other external consumers and assisting in decision making for a profit unit (Malekinejad, 2016).

2.2 The role of accounting knowledge in Management Decision-making

The records may play two roles in decision-making, according to Demski and Feltham (1976). Facilitating judgment knowledge is intended to reduce the decision-uncertainty maker's before making choices; thus, increasing the probability of making educated decisions about the target targets. Decision-friendly material is often a direct component of policymaking that will improve decision-making experiences and viewpoints. More clearly, decision-making material is used for revision of the conviction during a decision process (Baiman & Society, 2011). For example, the position of sales manager in promoting decision making could enable the accounting knowledge regarding contribution margins to make profitable price choices and relative contribution margins (per ability unit) could be used in circumstances where capacity bottlenecks occur in order to find the optimum development program. Furthermore, past period accounting details may encourage (future) decisions: For example, the expense disparities recorded in a previous cycle provide administrators with an insight on how to take corrective action to accomplish targets. While also for individual decisions, the deciding position of evidence is essential, the decision-making aspect is only important in multi-person situations. Decision-influent knowledge is meant to impact (other) persons' actions and in particular, to influence management decision-making in the management sense. Decision-impacting knowledge encloses the consequences by activity monitoring, output assessment, and appraisal and enhances or penalizes performance. A precondition, of course, would be that the individual whose actions may be affected understands the usage of the knowledge that affects the judgment. For example, in an attempt to incentivize cost-conscious decision-making, the management needs to realize in advance that ex-post anomalies from the real cost are identified and impair payments.

While technically separable, the two functions in reporting are often not distinct in reality. Certain accounting evidence should be used for decision-making. For instance, a price decision-maker uses the previous period's price and income to revise his/her expectations of demand and hence obtains better decision-making details. However, rates and revenue details of the prior cycle may still be used to protect the sales manager's results for this period and the difference between decision-making and affecting information is generally agreed throughout the discipline of accounting, it seems quite grossly dependent on financial reports in management, as outlined in a review by Mosendz et al. (2010). So, with regard to the Accounting Records' decision-making function, Hall (2010) claims that, of course, the balance sheet is used as an input for particular judgments, but this may not be the most important application, according to analytical studies, of decision-making. Instead, administrators may gain awareness of their general working climate by decision-making accounting details to better consider the contexts of potential decisions. Thus, information collection is more investment in a knowledge inventory than a contribution to practical decisions (Baier, March, & Saetren, 2006; Hall, Daneke, & Lenox, 2010). Another qualification in accounting knowledge is that it constitutes only one aspect of administrators' information base. The importance of accounting knowledge is also relative, given that the decision-maker often has other forms of information that, for instance, provide direct process observation, gossip, or insight. However, the simplified type is used by simplifying correspondence as a special strength in accounting knowledge (Rowe, Birnberg & Shields, 2008).

Besides, with their integrated decision-making knowledge, management control systems are ways not only to influence the decision-making of managers but also to affect the wishes of managers (Ahrens & Chapman, 2007). We, therefore, stick to the wide difference between decision-making. That said, we take into consideration the above factors that define the roles of management decision-making accounts.

In terms of the business economy, a company's performance relies on managers' power to consider new management concepts, strategies, and techniques. Management quality is essential to businesses gaining the strategic edge and resisting a demanding climate (Ganeshkumar, Prabhu, & Abdullah, 2019). As an agency practitioner, the manager is accountable for executive decision management and strategic decision-making. It is under manager authority how to utilize scarce capital. He requires details on the predictability of return choices (Hill, 2012). Management decision-making in organizations is like a black box, with most companies using a decision-making mechanism, typically starting with recommendations and feedback by personnel on the status of the institution and its policy and considering the risks and future implications leading to decision-making. Many who participate in the decision-making process of organizations, such as prejudice and consideration of self-interest decisions, in this respect investors and financial managers with reliable information, relevant and supporting documentation can undertake the necessary and sufficient analyses in the form of business decision making, investments in the decision-making process (Sari & Accounting, 2015; Abdullah, 2016).

While details may be collected from other outlets, the financial results now form the basis of the financial information services, and they can also be of a high standard. As a relevant criterion, filing financial statements in compliance with accounting principles guarantees the optimum consistency of financial statements. The spirit of codification of accounting principles is the establishment of guidelines to ensure transparent financial information output of economic units (Darabi, Rad, Heidaribali, & Commerce, 2012; Malekinejad, 2016). The financial reporting submits knowledge that the key product is an introductory notice sum of financial results. The information expressed in the financial statements where it is helpful for consumers whose quality characteristics are needed. Studies have shown that more openness and accountability of accounts can bring several benefits to companies: buyers' long-term investments, improved access to foreign funds, less capital spending, credible and accountable administration, and eventually higher equity values (Nobakht, Janani, & Goodarzi, 2014).

2.3 Influential Level of Financial Information on Decision Criteria

Decisive decision-making is a mechanism that contributes to the selection of a string of decisions between two or more selections. This indicates the decisions are expected to enable corporate management to accomplish operational goals. By this concept, the director of a company focused on financial reports, designed and organized the business. And addition to other corporate considerations, much of the financial details contained in the financial report have an effect on senior managers' decisions. Some are more involved in decision-making on a high level and some at a lower level (Nobakht et al., 2014). The numbers, especially the interest rate, in the financial results have a substantial financial impact. These estimates shape the foundation for the allocation of income to owners, the estimation of employee salaries, and tax payments. Moreover, the financial statement details may influence investors' and creditors' decisions (Nobakht et al., 2014).

2.4 Quality of Financial Reporting

Today, it has become essential to provide management with a transparent information system that allows management to decide on strategy, Organization, and tracking. This information is processed and evaluated across various processes and helps managers accurately identify the challenge and problem, set targets, assess strategies, and choose the best approach in their execution and assessment. In this respect, the most effective aspect of the activities to be considered in the preparation of the financial report is access to crucial decision management details and creating a systematic mechanism to obtain financial information continuously (Sorguli & Al-Kake, 2020). In this sense, financial knowledge is the most relevant information provided to managers in economic decision-making (Hadiyanto, Puspitasari, Ghani, & Management, 2018).

The previous literature stresses the value of a precise and quality financial statement for financial management, feasibility review, and comprehension. For example, according to Kaliski (2001), a successful financial report emphasizes and etches relations between financial components so that the customer can evaluate them easily and make fair decisions. It also emphasizes the company's historical and current financial statements, allowing users to predict its financial success. Many studies have been undertaken to evaluate the size, dimensions, and variables that affect financial reporting performance (Daske & Gebhardt, 2006; Hopkins et al., 2008). Other studies, such as those by Biddle, Hilary, Verdi, and economics (2009) and Garcia-Sanchez, Martínez-Ferrero, and García-Meca (2017), focus on the effect and exchange of information between financial reporting performance and other considerations such as bribery, profit fraud, sales, internal control, oversight, and corporate governance. Management accounting is a form of reporting a company's financial activities design. Any rival in the industry regarded it as a valuable resource. It also reduces the mystery and conflicts of opinion among all stakeholders, including management, clients, regulators, the general public, and all other parties involved. Every operation associated with the procedure, in particular the declaration method, all transactions, accounting practices, and all judgments and views made by the staff involved in the procedure, should be carefully presented to all participants in the procedure (Gaynor, Kelton, Mercer, Yohn, & Theory, 2016). Some of the recent and past reports investigate the accuracy and quality of financial results and how it impacts a company's future performance. Researchers like Al-Dmour, Abbod, and Al-Balqa (2018), and Rahman, Sulaiman, Fadel, & Kazemian (2016) found that financial statement quality has a direct effect on a company's overall performance.

Since the consistency of the financial results ensures and enforces the firm's disclosure of accurate and reliable facts, the uncertainty and ambiguity of knowledge provided to clients, consumers, and other institutional investors interested in this study is reduced. Not only for reliable financial reporting but also for the growth and overall success of an organization, the quality, and reliability of data generated by corporate data systems are critical (Krishnan, Wen, & Zhao, 2011). Access to accurate information; the use of the information to enhance management standards; and maintaining the quality, validity, and confidentiality of the information are all part of efficient financial reporting (Barrett, 2004).

A variety of other advantages of heavy cash reporting data are described by Lambert, Leuz, and Verrecchia (2007). He is unequivocal in his claim that high-quality data eliminates volatility and liquidity. Chen, Hope, Li, and Wang (2011) give the following additional perspectives: It takes away managers' influence and leverage of their goals, guiding them to make effective and productive investment decisions as a result. Effective financial statements, according to Rajgopal & Venkatachalam (2011), reduces the absence of equivalence and asymmetrical knowledge that emerges from opposing entities. It also facilitates business investors in obtaining a clearer understanding of all organization procedures and activities by reducing the volume of uncertainty around those occurrences. The accuracy of accounting skills, according to Lambert et al. (2007), has a direct effect on business holders' expectations for execution and possible industry cash flow decisions. High-quality financial reporting, on the other side, helps both banks and the government, according to Chen et al., since it boosts private companies' spending efficiency and financial results, which boosts tax payments and bank lending.

According to a Mohammadi (2014) analysis of 93 companies listed on the Tehran Stock Exchange, the standard of financial reporting has a strong positive association with acquisition performance. Furthermore, there was a strong connection between the scale of the com

2.5 Conceptual Framework

Based on previous reports, financial statements should be valid and accurate for decision-making purposes. Relevant details should be collected and sent promptly. In addition, they must've been predictable and contain input. Trustworthiness requires honesty, verification, and impartiality (ZarifFard, 2008). The suggested structure here has an impact on management decision-making by financial statements.

This study uses analytical foundations from the existing financial reporting literature to describe the connections between financial reporting characteristics and management decision-making. Figure 1 gives the projected partnership between financial statements and management decision-making. In this analysis, our dependent variable is managerial decision making, while a predictor variable is financial accounting, which mediates through many mediators, including financial reporting consistency, comprehensibility, and significance. Our platform looks like these variables:

$$\begin{aligned} &Managerial\ Decision\ Making \\ &\qquad = \alpha_0 + \alpha_{financial\ acounting\ reporting} + \alpha_{quality\ of\ report} + \alpha_{relevence} + \alpha_{understandability} \\ &\qquad + \epsilon_R \end{aligned}$$

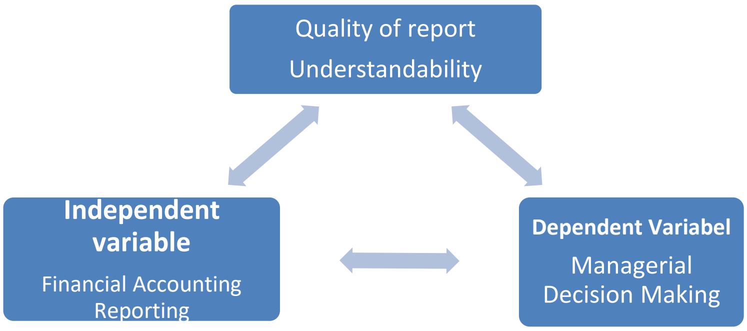

Figure 1: **Research Framework**

3. Methodology and Findings

Several tools and methodologies are available to construct and prove a model in social sciences. Specifically, in our study, we choose to generate a structured questionnaire to collect data to evaluate the relationship between dependent and independent variables mediating through the mediator variable. This study's population selection is managers and employees of small and medium enterprises employees and managers to know the possible impact of reporting financial accounting effect on the managerial decision-making process in the firms. The selection of the SMEs is based on the study by Abdullah and Othman (2019) whose classified SMEs based on the number of employees and sales turnover. The authors identified that organizations with 75<200 are within the medium-sized enterprises, while small-sized firms are those that have 5 to 75 employees and Micro-sized firms with only 5 employees. Accordingly, this study collected data concerning this classification. The study selected different dimensions for each variable, as can be seen in the theoretical model. In total, the respondents received 250 self-administered questionnaires via e-mail or hand and the response rate was 73%. The service industry accounts for 80 percent of respondents. At first, research assistants requested appointments from businesses to distribute their companies' versions of the questionnaire. After the questions were addressed, the assistants gathered copies. In this sample, some parameters are factual (e.g., company population facts including the industry sort, market years and employee numbers) while others are perceptive (finance reporting consistency, recipients, and comprehensibility) as independent variables, and the questionnaire contains dependent variable (managerial decision making). The response ratio of respondents is given in table 1.

Table 1: Response Rate

Sectors	Companies (n)	Respondents (n)	%
Service Industries	104	98	0.41
SMEs	146	141	0.45
Total	250	239	0.86

3.1 Demographics of the respondents

The study is involved the following respondent demographics given in table 2. Gender and age. Percentages of the demographics are concluding from the actual responses. At the same time, factor analysis and reliabilities of dependent, independent, and mediating variables are given in table 3.

Table 2: Demographics of respondents

Variables	Dimension	Frequency	Percentage%
Gender	Male	129	0.54
	Female	110	0.46
Total		239	100.00
Age Group	18-25	74	0.31
	26-35	45	0.19
	36-50	21	0.09
	Above 50	99	0.41
Total	0	239	100.00

3.2 Testing the relationship of financial accounting reporting and managerial decision making

After computing the variables, Pearson Correlation analysis is performed using SPSS for windows, the values for which are reported in table 4. The correlation shows the positive relationship between financial accounting and managerial decision-making with r=0.49 at a significance of 0.00 which represents a significant relationship between both variables. It can be concluded that providing financial accounting reports can enhance managers' decision-making powers, as well as strategies. It can be seen in table 4 that the understandability of accounting reports, relevance, and quality of the report also positively affects managerial decision making, and can add up to the strategies of making decisions based on the values, beneficiaries, and losses detailed by the finance reports.

Table 3: Reliability and Factor Analysis of variables

Independent Variable	**KMO and Bartlett's Test**	**Sig.**	**Cronbach's Alpha**	**N of Items**
Financial Accounting Reporting	0.78	0.001	0.801	7
Dependent Variable				
Managerial Decision Making	0.71	0.00	0.73	4
Mediating Variable				
Understandability	0.73	0.00	0.701	3
Relevance	0.689	0.04	0.69	3
Quality of Reports	0.709	0.00	0.71	3

Furthermore, to know the effect size, and prove the role of mediating variable regression analysis is done using Process in the SPSS, reported in table 4.

Table 4: Reliability and Factor Analysis of variables

Variables	Financial Accounting Reporting	Managerial Decision Making	Understan dability	Relevance	Quality of Reports
Financial Accounting Reporting	1				
Managerial Decision Making	0.49	1			
Understandability	0.15	0.20	1		
Relevance	0.18	0.17	0.43	1	
Quality of Reports	0.25	0.22	0.56	0.34	1

The R square for the above model values 0.4387 with significance $p<0.05$ which represents the effect size, direct and indirect effect on independent variable on the dependent variable can be seen in table 5. It clear from the regression results that financial accounting reporting has a significant positive effect on the firms' managerial decision-making. Besides financial reporting, the quality of reports, relevance, and understandability mediate the relationship of both dependent and independent variables.

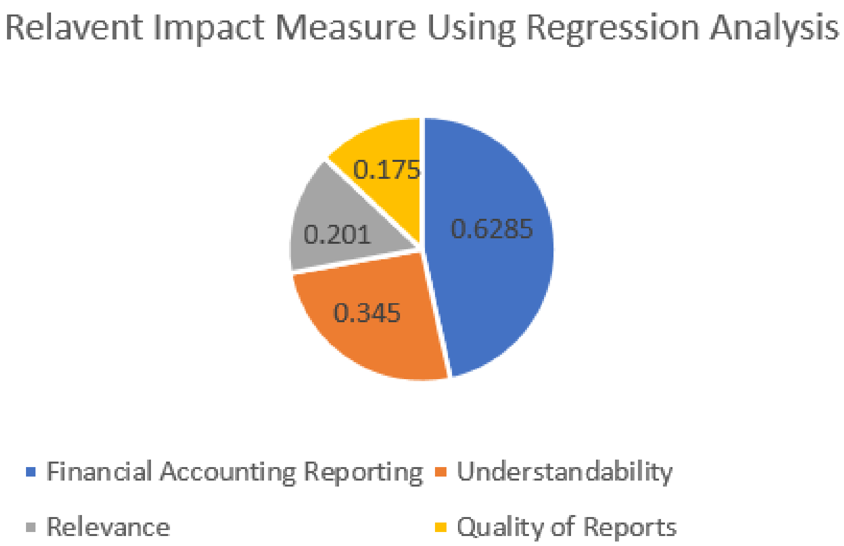

Figure 2: **Relevant impact measure**

The above results state that there is a positive relationship between the independent variable (financial accounting reporting) and the independent variable (managerial decision making) as shown in Figure 2 where the obtained value of r-square is (0.6285). The figure also shows that understandability, relevance, and quality of financial reports positively mediates the relationship between the predictor and the dependent variable.

4. Discussion and Conclusion

The findings of the analysis have shown that the importance, understandability, and accuracy of financial statements are true predictors of management decision-making. Previous research results are supported (Beest, Braam, & Boelens, 2009; Beuselinck & Manigart, 2007; Murphy, O'Connell, 2013). The results show that the consistency characteristics of financial statements are important for management decision-making purposes. The findings revealed that the importance, reflection of confidence, and understandable qualitative features of financial statements are the most significant qualitative features in closely related management decision making. This finding has never before been tested to the best understanding of the researchers. Theory indicates that most research that has used accounting as a statistical framework in their computational models has confirmed management decision-making as an important element affected by financial efficiency (Al-Damour et al., 2018). Besides, the study further offers analytical proof that changes in the standard of financial statements by publicly recognized firms in Iraq could be attributed to their scale and market background but not due to their business styles. Many researches confirm this finding (Chalaki, Didar, Riahinezhad , 2012; Huang, Rose-Green, & Lee, 2012).

This current study concluded the financial statement is the most important method for informing external economic institutions. The information given in this form is helpful if it is straightforward for users. Documents and financial statements are an essential part of the information framework for management in this respect. Open and comparative financial statements are one of the core foundations of transparency and the fundamental needs of economic decision-makers. In terms of the business economy, a company's performance relies on managers' power to consider new management concepts, strategies, and techniques. Most organizations have decision-making processes, and this phase normally begins after personnel recommendations and feedback regarding the state of the Organization and its strategies have been submitted, and threats and possible effects have been taken into account. Employees that share in the decision-making phase will be accompanied by questions such as bias and consideration of self-interest decisions, Management consultants and accounting managers with accurate statistics, related and supportive data render appropriate and adequate research in the field of financial decision, acquisition, strategic establishment, identifying the organization's goals and even include essential management resources for consistency and adjustment of decision-making.

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