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Financial Statements and External Users' Wealth Related to Decision-Making

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Abstract: The corporation's financial statements comply with legislation and regulations. Financial statements provide information that is very essential to interested parties, such as shareholders, creditors, and financial institutions, for decision-making. Throughout the information, the interested parties will decide whether to invest or provide credit to increase their wealth. In addition, financial statements become tools for identifying the financial situation of the business, whether it is good or bad. The financial statements will show a company's ability to provide a better dividend that can increase shareholder wealth. Furthermore, creditors, and financial institutions may provide credit and loans to company if the financial statements show a better profit, which is linked to the capability of the company to settle all debts. Financial statement information can enhance the wealth of shareholders, creditors and financial institutions through improved decision-making.

Keywords: *Decision making, financial statement, wealth*

1. Introduction

Company`s priority is to gain better performance to ensure that the business can keep longer besides being able to attract potential investors and pay all obligations including loans. The company can increase interested party wealth via better performance such as dividend payments to shareholders, and faster repay debts to financial institutions and creditors on the obligation. Therefore, a company should have a better strategy and planning to lead the market and attract the customer. The interested party looks financial statement to identify either company has the strength or weakness to bring up more profit. [1] indicated that financial analysis has the full ability to guide the institution, especially in taking financial decisions, and avoid risks and obstacles

The financial statements provided is shown about company`s financial according to one-year period. The financial address is where the company gets money and spends it to generate profit for the year. Meaning that the business operation can be identified as either successful or vice versa during the accounting period. The company`s performance will give impact the interested party`s wealth. If the company cannot increase performance, the investor (shareholder) may not receive dividends. The borrower such as financial institutions and a creditor cannot get back their money. Therefore, financial statements are associated with the interested party wealth where the information can change their decision-making on the company. [2] concluded that the financial statements play a significant role in financial decision-making.

Financial statements provide information to SMEs so that they can manage their business with detailed and

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economically relevant information that is necessary to run a business efficiently and effectively [1]. This may enhance business performance, which shareholder, creditors, and financial institutions satisfied. Furthermore, the financial statements represent the company`s asset, liability, and equity for the one-year accounting period. If the financial statements indicate the position of company asset, liability, and equity are better, this may good for shareholders, creditors, and financial institutions to get back their money.

Nowadays the economy is very complex and competitive which puts pressure on companies to achieve better performance and satisfy the shareholders. Without better performance, it may affect shareholders and creditors wealth instead of dividend less and the amount of debt collected may be delayed. Therefore, objective companies and interested parties should be aligned as suggested by agency theory which maximizes wealth via better performance.

This study discuss regarding the decision-making base on financial statements to increase wealth among external user, such as shareholders, creditors, and financial institutions. The discussion emphasized the shareholder interest in financial statements to make sure the dividend paid is higher. In addition, the creditors, and financial institutions want their money back, so that the financial statements become a reference about the company financial position. Furthermore, the financial statements are to provide necessary information to enable the users to evaluate the earning performance of resources or managerial performance in forecasting the earning potentials of business [3].

2. Literature Review

The concept of going concern highlight that the company should be incorporated for long period without dissolving. This is challenging for the company to make sure performance keeps remaining and continues. The Board of directors has responsibilities coming with good strategies and planning to ensure that the wealth of the company increases. This situation required expertise, knowledge and experience from board of director. In addition, the shareholder, financial institutions and creditor gets benefit from that because the dividend declared should be higher and the company has the capability to repay all debts.

The financial statements as a tool for an interested parties such as shareholders, creditors, and financial institutions to gather information for decision-making. According to [4] defined it as *"a complete set of financial and accounting documents that allow a fair picture of the financial position, performance and treasury of the institutions at the end of the session"*

The financial statements are divided into several categories. The following is a review of the type of financial statements such as Income Statements, Statements of financial position, Statement of changes in equity, Statements of Cash Flows [5]. Furthermore, the financial statements elements can be categories into

The elements of the financial statements are divided into Assets, Liabilities, Equity, Profit, Expenses, Losses, Withdrawal, Net income and net loss [6]. The elements give information which is associate with decision-making. According to [7] the importance of financial statements as a communication tool, assessing performance and decision-making.

2.1. Shareholder and financial statement

How the financial statements are very essential for a shareholder, according to a wealth perspective? There is very important to identify mainly reason for investment made by shareholders. The shareholders possibility invests in shares which are to enhance their wealth via dividend paid by the company. Furthermore, the shareholders prefer to gain a better dividend when the company is better performance or vice versa.

Therefore, a shareholder needs a financial statement a tool as a reference to identify the strength and weaknesses of companies before making a decision. Why financial statements become reference to the shareholder? Financial statements indicate the company`s financial position such as assets, liability and equity. Throughout financial statements, shareholder can decide either to invest or vice-versa. Effective interpretation and use of financial statements are especially important because poor financial management is a leading cause of financial stress and failure [8], [9], [10] and [11].

In addition, shareholder an external party does not allow to involve in the company`s business. Even though their money will be used by a company to operate or make an investment but they do not have the authority to participate in the business. Unless they are the board of directors of the company. This situation applied to a family firm. This situation makes the uncertain situation for shareholder about their investment either it gives a better return or otherwise. Therefore, the performance of the company is mainly objective for shareholders because it is showing the ability company to pay a dividend. The Shareholders can refer to financial statements to know about the company performance. Firms should use the information contained in financial statements to evaluate and generate investment opportunities [12].

A Shareholder can identify the company`s investment throughout the asset owned. The more asset purchased is better rather seller because it shows the company may have a project to complete. The number project completed associated with better profit, which is also beneficial for the shareholder to increase their wealth. The shareholder can look at the statement of cash flow activities, especially in investment activities. In addition, the total asset also indicated in a financial position as references for shareholders. Previous study shows that any investment decision is based on a set of disclosures for accounting and financial information obtained through the financial statements [13].

Even though shareholder can refer to many sources to identify the company strength and weakness, the financial statement has its criteria where there have four elements in there. Elements of financial statements are consisting of statements of comprehensive income, statement of financial position, statements of changes in equity and a statement of cash flow. This gives a clear picture to the shareholder to decide because the company financial is indicated in the financial statements. This shows that Information forms the key elements in decision-making and forms a link between accounting and decision-making [14].

The shareholder has data and figure which can make a better decision to ensure its wealth can be increased. In addition, the financial statement is also important to the borrower such as financial institutions and creditors because they should decide whether to lend the money or vice versa to avoid from losses if company unable to repay the debt.

2.2. Creditor, financial institution and financial statement

The company`s should make sure the materials regarding to the production are enough. This is very essential to ensure that the customer receives goods on time because it the payment may use to repay the creditor who is supplying the material. Therefore, the cycle should work effectively to ensure that no parties are loss because of the transaction. A company needs credit from creditor to supply the material and get the money back from the debtors to repay the obligations to the creditor.

The objective of financial statements [2] is "Identify the assets and assets of the institution, whether long-term or short-term, and determine the value of changes in assets and liabilities and balance between them, and extract the most likely aspect, the expression of the assets of the institution and its obligations and representation in cash units in circulation".

The creditor does not simply decide to give the credit to the company which is less perform because it` may affect their wealth. Therefore, the creditor needs a financial statement as a reference to identify the company strength either they have the capability to pay back or vice versa. Throughout the financial statements, the creditor is able to see the company such as profit, return on asset, return on equity and earnings per share. This shows that the performance indicator is very useful to address the status of business progress either it able to keep going in the future or vice versa. According to [7] stated that trade creditors like suppliers and other short-term lenders are more interested in the firm's ability to meet their claims over a very short period of time.

If creditor allows the company to have financial problem to get credit without looking at the financial statements, it may cause creditor wealth affected where their credit unable to be collected. If the company has the financial problem possibility for them to repay is lower. Therefore, the creditor is less interested to provide credit for this type of company`s. The rule is simply for the company less perform the material should pay by cash. This is not good because may affect the company cash flow. The creditor decides to provide credit only to companies who have better performance because it links with capabilities to repay the credit.

Financial statements show the other elements which are very essential to the creditor, such as total asset and total liabilities [6]. The more specific is the current assets are bigger that current liabilities are better which shows the company does not have a problem paying their obligation. The cash flow statement as a reference for creditors to look how the company spent its cash such is operating activities, investment activities or financial activities. This indicates to a creditor to identify the strength of the company regarding to the cash activities.

This study emphasizes the essential of financial statements for creditors to ensure that their wealth does not affect them. The creditor uses the financial statement to make decisions and identify the capabilities of the company to settle their obligation. If company is able to pay its credit, it is good for a creditor to enhance wealth. Therefore, the creditor should make a better decision-making to provide credit without affecting wealth. Financial statement becomes a reference for the creditor to make effective decisions according to credit on materials.

Delay in payment by company makes change decision making towards credit provided by the creditor. The creditor may find a reason why the payment delays by companies throughout financial statement. The financial statements may indicate the financial position, including profit, assets, liabilities, equity and cash flow activities [5]. If the financial statement shows that the performance is better but credit payment is late, it is others reason rather than financial matter. Other approaches should be taken to ensure the company can settle the obligation. This situation makes changing the creditor decision either to remain the credit policy or vice versa.

The company should respond for its credit, which is provided by the creditor to settle as in the agreement. It is very essential for companies to ensure the creditor will not change the creditor policy which is affecting their production and making customers less satisfied. Therefore, the financial statement should address good financial for the year. This may influence the creditors decision-making regarding its credit policy. In addition, company also required extra financing to expand their business throughout the merger and investment. This shows that the importance of financial statements is decision-making [7].

Further discussion is about the financial institutions that is responsible to provide loans for the company. There many reasons why companies need extra money for their business such as developing new product for new markets, buying an asset for a new project, invest in shares in a potential company for a better dividend. However, there is difficult to decide to approve loans for the company without any references because the company should have the ability to repay the loans. If the company is unable to repay the loan, it may affect financial institutions wealth. The financial statements are used by financial institutions to recognize the capability of the company to their obligation.

The financial institution wants to protect their wealth because they owned by the public by issuing shares. If the loan does not pay back so this may have affected the profit as a result, dividend pay less. Therefore, the financial institutions should be selective in providing loans before deciding to reward the loan. Financial statements become a reference for financial institutions to decide. The financial statements are cover all financial aspects of the company which are ways for financial institutions to make decision-making.

The financial institutions are responsible to their shareholder to provide a better dividend. Therefore, the debt should be collected in order to show the performance is better. This may increase financial wealth and shareholder satisfaction. Decision-making should be linked with the capability of the company to settle their obligation. If not, the financial institutions have a problem paying better dividend to their shareholder because the profit is been affected.

The company investment may have been affected if the financial institution decides do not to approve the loan application. There is very essential to gain loan, especially related to investment in new projects. The loan is used to buy assets, such as machinery or equipment which is related to the project. Without strong financial such loan, it is may affect the projected either delayed or incomplete. Therefore, financial statements of the company are very essential for a loan application to indicate that the company can to repay the loan. Furthermore, the financial statements may influence the financial institution's decision because it will show the financial strength where they also gain the beneficial from approval the loan where their wealth will increase.

Financial institution needs financial statement to decide whether to provide loans or otherwise because they will show the financial position of the company. The decision-making may accurate because the elements of the financial statement link to the capability of the company to repay the loan. This shows that the financial statement is very associated with the decision-making of a loan provided which is affecting their wealth.

There are previous research and results study by [15] as stated at below:

Previous research	Results	Author (Year)
The Contribution of Financial Statements to Investment Decisions in the Stock Market: A Case Study of Investors in the Algiers Stock Exchange	-The financial statements have great importance in making investment decisions -The study also pointed out that there is a positive and statistically significant role between the financial statements and investment decisions in the stock market	Dabash and Khamily [13]
The Role of Financial Statements Analysis in MFI Investment Decisions	-Most of the organizations did not use the financial statement to make investment decisions, and almost all employees were aware of the role of financial reporting in investment decisions.	Peltoniemi, [16]
The Role of Financial Statements Analysis in Financial Decision Making: A Case Study of the Great Mills of the South Omash Corporation	-Financial statements have a big role in financial decision-making -The results also indicated that the financial statements presented at the Southern Mills Corporation provide comparable financial information, which helps its users to make their economic decision	Ahlam [2]
The Role of Financial Statements in the Financial Accounting System in Financial Decision Making: A Case Study of the Royal Mondial Foundation in the Valley (2013)	-The presentation of the financial statements facilitates the investor`s decision to invest or not -The decision to distribute dividends is one of the most important information that raise the price of the stock of the institution in the financial market	Ben Omar [17]
The Role of Financial Data in Investment Decision-Making	-Financial statements make the decision of investors more confident in their decision making, as well as the knowledge of the sample of the study of financial variables.	Nkuhi [18]

Table 1 Previous Research and results

Creditor prefers to give credit to companies for buying material for production and fulfil customer demand if the financing of the company is good. Therefore, a creditor uses the financial statement as a reference to identify the financial position of the company. The creditor wants its money back because it may influence their wealth. Therefore, financial statements will address the capability of the company to pay all their debts. This shows that the decision-making by creditor to provide credit to the company depends on the financial statements.

The company prefers to apply a loan to expand their business throughout the investment. The loan may use for a purchase asset, such as machinery or equipment. The financial institution needs to decide either to give or not is depends on the capability of the company to pay back. Therefore, the financial statements become a tool for financial institution to decide. The financial statements is a very useful for an interested parties to know more about the company`s financial because it may influence their wealth overall.

3. Conclusion

The company's intents are to enhance wealth which is beneficial for interested parties, such as shareholders, creditors, and financial institutions. The beneficial are associated with better dividends declaration and repaying all debts. The shareholder may able to increase their wealth through dividends. Similarly, with creditors, and the financial institution where their wealth increases via repay their debts. However, the decision to invest or give credit to the company should have a reference by the shareholder and creditor to ensure the return is higher and increase wealth.

The financial statement becomes a reference to the shareholder, creditor and financial institution to decide either to invest or provide credit and loan. The financial statement provided information regarding the company`s financial position, including profit, asset, equity and liability. There is very essential for interested in party to identify the strength and weakness of company`s financial which is related to the capabilities to give dividend or repay obligation.

The information of company financial is very essential because it may influence interested party decision-making. The shareholder may withdraw or do not interest to invest in the company have financial problem. This may affect their wealth because dividends may not pay. Profit may become an indicator to make decision-making because the ability to pay a dividend depends on the profitability of the company. If the profit shows lower, the possibility the dividend paid is less. This may affect the shareholder wealth.

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