

The Impact of Accounting on Business Performance

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DESCRIPTION

Accounting is the process of recording, summarizing, and interpreting financial transactions of a business or organization. It is a crucial aspect of any organization, as it provides information that is used for decision-making and to measure performance. In this study, various aspects of accounting, including its importance, principles, and different types of financial statements are discussed.

Importance of accounting

Accounting is important because it provides information that is used to make decisions. Businesses use accounting information to determine the profitability and financial stability of the company. This information is then used to make decisions on investments, expansion, and borrowing. It also helps to identify potential problems or risks, which can be addressed in a timely manner. Furthermore, accounting information is used to comply with tax laws and regulations, and to provide financial statements to stakeholders such as investors, lenders, and regulators.

Principles of accounting

There are several principles that guide the accounting process. The first principle is the principle of objectivity, which means that transactions are recorded based on objective evidence, such as invoices, receipts, and bank statements. The second principle is the principle of consistency, which means that accounting methods are used consistently over time. This helps to ensure that financial statements are comparable from one period to the next. The third principle is the principle of relevance, which means that accounting information should be relevant to the users of the financial statements. The fourth principle is the principle of reliability, which means that accounting information should be reliable and free from bias. Finally, the principle of comparability means that financial statements should be prepared using the same accounting principles and methods as other organizations in the same industry.

Types of financial statements

Financial statements are prepared to provide information about the financial position, performance, and cash flows of an organization. There are three primary financial statements, including the balance sheet, income statement, and cash flow statement. The balance sheet is a snapshot of the financial position of the organization at a specific point in time. It shows the assets, liabilities, and equity of the organization.

Assets are resources that the organization owns, such as cash, inventory, and property. Liabilities are amounts owed to creditors, such as loans and accounts payable. Equity is the residual interest in the assets of the organization after deducting liabilities. The income statement shows the revenue, expenses, and net income of the organization over a period of time. Revenue is the amount earned from the sale of goods or services, while expenses are the costs associated with running the business. Net income is the difference between revenue and expenses and represents the profit or loss of the organization. The cash flow statement shows the inflows and outflows of cash for the organization over a period of time. It provides information about the sources of cash, such as sales and investments, and the uses of cash, such as payments to suppliers and lenders. The cash flow statement is important because it shows how the organization is generating and using cash, which is crucial for the organization's financial stability. Accounting is an essential aspect of any organization. It provides information that is used to make decisions and measure performance. The principles of accounting guide the accounting process and ensure that financial statements are prepared in a consistent and reliable manner. Finally, the three primary financial statements, including the balance sheet, income statement, and cash flow statement, provide information about the financial position, performance, and cash flows of the organization. It is important for businesses to have a thorough understanding of accounting principles and financial statements in order to make informed decisions and manage their finances effectively.

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