

**THE IMPORTANCE OF PREPARATION OF FINANCIAL STATEMENTS IN THE
PROCESS OF MAKING SIGNIFICANT MANAGEMENT DECISIONS BY TOP
MANAGEMENT IN ENTERPRISES**

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Abstract

The preparation of financial statements is of great importance for the normal operation of heterogeneous enterprises. Financial reporting can contribute to the improvement of the overall business of the company by enabling the improvement of crucial business decisions made by the top manager.

Financial reports that present the company's business in a realistic way can enable top management to better manage the company, because business decisions are made in such a timely manner and with a greater dose of security. At the same time, making new business decisions is safer if the financial statements reflect the real business of the company from the previous business period.

In this way, financial reporting can improve and modernize the overall management of companies, which is of great importance in the business of companies in transition countries. Initiating a change in the substance of financial reporting can be very different.

The authors point out that in the event of a change in the financial reporting framework, the key role can be played by internal auditors' reports received by top management in the form of internal auditors' recommendations, but also by internal control reports submitted to top management.

The processes of establishing internal control and internal audit mechanisms are aimed at substantially improving the overall management of the company.

Keywords: *valid financial statements, decision, internal control and audit.*

Classification JEL: *G20, M41, M42.*

1. Introductory notes regarding the significance of forming financial statements in enterprises

Financial statements can help top management in the sense that their introduction can improve the flow of valid business decisions, and thus achieve new innovative approaches to corporate governance.

All activities to improve the financial reports of top management are carried out on the basis of several initiatives in the company, which is in line with the already published views of the authors [1-8].

The authors will mention on this occasion only some such as:

- Autonomous decisions of top management,
- At the proposal of the internal auditor,
- At the proposal of the external auditor,
- At the proposal of the state audit institution,
- At the suggestion of the internal control that was formed in the company, etc.

All activities of the initiative for the introduction of better financial statements are aimed at making good and valid business decisions by top management in companies [9-12], which can contribute to the creation of numerous business benefits [13-15] by top management, which can change the overall climate in the business of the economy as a whole.

The goal of financial real reporting and improvements that arise on the basis of top management decisions aimed at raising business security by obtaining realistic financial reports are based on the application of various analyzes that occur mainly in the accounting and financial sector in the company.

With such an approach, it is possible to achieve a general improvement of the overall performance, i.e. it is possible to raise only the overall business of the entire company, because through timely reporting, primarily by obtaining reports from the sectors in the company,

2. Forms of the most commonly used financial statements in the business operations of the company

Financial statements are part of the direct reporting of the accounting and financial sector, which in their essence and purpose reflect the performance of the company for a certain period of time.

In addition, through the financial statements it is possible to see its financial and structural position, as well as the position of liquidity on the selected balance sheet date when the reports themselves are submitted to top management which makes valid business decisions based on the received reports.

The main purpose of compiling financial statements in the company's operations is to obtain valid business information about the events arising from the company's operations.

Financial reports in the company's operations can be mandatory at the end of the business year, with the possibility that they can be semi-annual or even quarterly reports that are submitted to top management and through which it makes valid business decisions.

The financial reporting system includes all business events that occur within the company, but also those that occurred as a result of the relationship between the company's business and the environment (or their interaction).

According to the above data, the set of financial statements includes:

- Balance Sheet
- Income statement (income statement / profit or loss account)
- Cash flow statement
- Statement of changes in equity
- Notes to the financial statements.

The balance sheet is the basic financial report within which they are presented on one side of the assets (balance sheet assets), and on the other side of the liabilities (sources of financing of those assets) on the selected balance sheet date. At the same time, it presents an overview of available assets and used sources of financing in real time.

International Accounting Standards do not explicitly prescribe the content, structure and form of any financial statements or balance sheets. IAS-1 (Presentation of Financial Statements) prescribes the minimum information that should be contained in the balance sheet prepared by an enterprise in its business reporting to government and management bodies.

The balance sheet includes: It includes the following parts which are used to describe nominally:

- fixed assets;
- goodwill; intangible assets;
- real estate, plant and equipment;
- long-term financial investments;
- current or current assets; capital;
- share capital;
- unpaid subscribed capital;
- emission premium;
- retained earnings;
- reserves;
- long-term provisions;
- obligations.

The income statement is a financial report in which, according to pre-established rules, income and expenses are compared in order to determine the success, ie profit or loss of the company in the selected accounting period.

This accounting period is usually related to the business year, although the income statement can be compiled for shorter time intervals. The content of each income statement consists of income, expenses and gains or losses that must be classified and systematized in a way that allows the high expressive power of this basic financial statement.

Therefore, revenues, expenditures and even results must be minimally broken down into business and financial.

The cash flow statement or cash flow statement is an accounting report that aims to present all cash inflows and outflows during the reporting period. With this report, top management can gather information related to the assessment of the company's cash needs and to the assessment of the company's ability to generate cash in accordance with the stated needs.

The statement of changes in equity is an integral part of the annual report. This report presents any increase or decrease in the net assets of the enterprise in real time for which such reporting was compiled by the said report.

The notes to the financial statements contain key information that this report should contain such as:

- Information on applied accounting policies
- Information whose disclosure is required by the standards and which is not already presented in the financial statements
- Additional information that is not presented in the financial statements, but is necessary for their understanding

3. Modeling of financial reporting first intended for the top management of the company

The authors presented possible financial reporting primarily intended for top management of the company in the form of Figure 1, where they presented the most important driving incentives for compiling realistic financial reports in the company's operations, which can be used by top management.

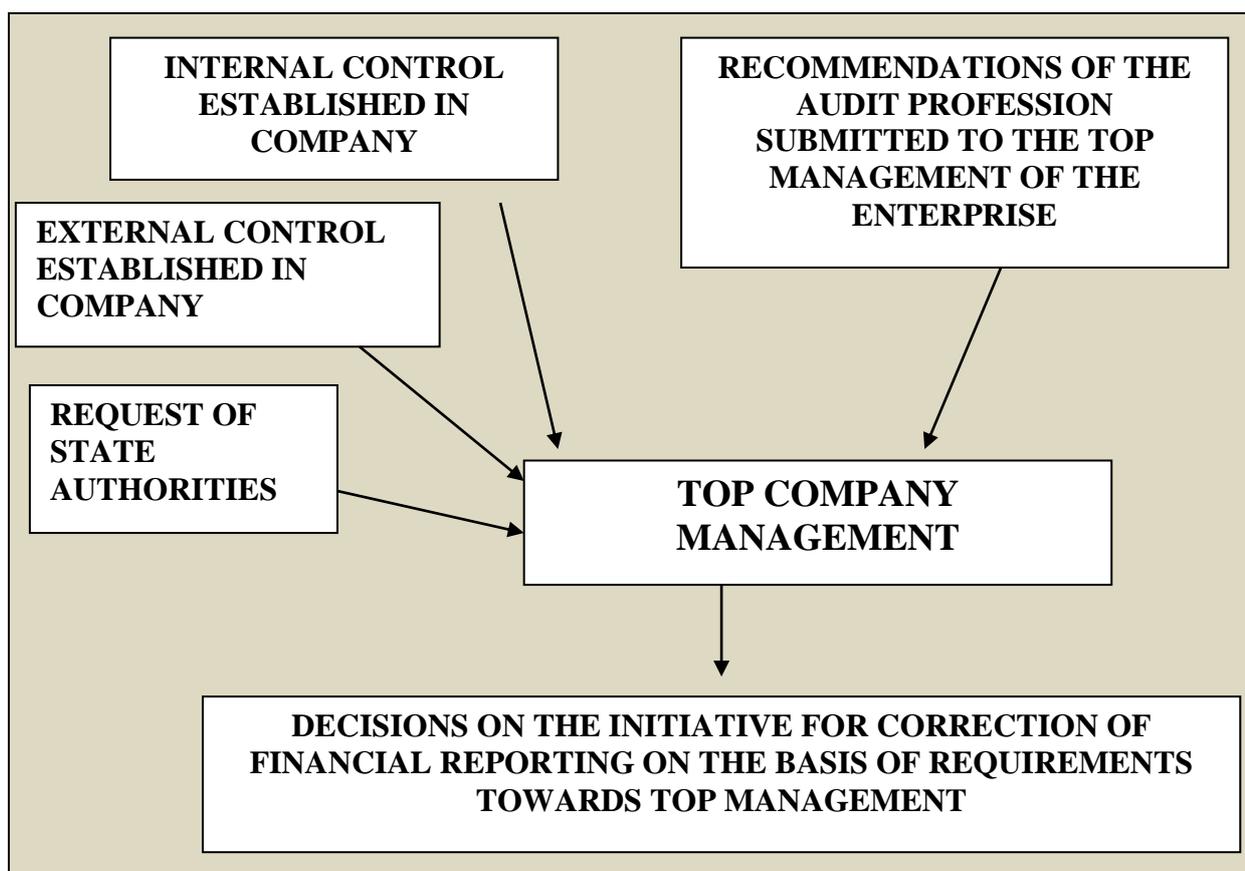


Figure No. 1: A model based on the initiative of entities to improve financial reporting in the company

In the following, the authors present in Table No. 1 two methods of presentation with their advantages and disadvantages as well as notes that may accompany the description of financial statements, which essentially represents the already published work of the author [16].

In this paper is modified only to Initiatives for changes in financial reporting may arise not only from internal audit but also from other bodies, which the authors previously pointed out in the presentation of Figure No. 1, as well as in the correction of the last column in Table No. 1, which provides an overview of extended possible notes used in reporting to the top management of the company.

Table no. 1: Application of presentation and standard presentation in the process of reporting to the top management of the company

PRESENTATION METHOD	ADVANTAGES	DEFICIENCY	NOTES ON THE APPLICATION OF REPORTING TO THE TOP MANAGEMENT ARE GIVEN IN WORDS IN ORDER OF IMPORTANCE
<i>PRESENTATION</i>	Interactive Flexible Easier acceptance Helps to consider difficult questions and solutions May increase the chance of enforcement Contributes to focusing on priority issues	Not all evidence can be presented It can lead to difficulties in presenting complex data which can lead to misunderstandings Presentation skills and active involvement of two people are required Good preparation is necessary Possibility of dominance of one person or a particular problem The user can still request a report	GREAT INFLUENCE ON THE BUSINESS OF THE COMPANY
<i>STANDARD REPORT</i>	Good for detailed reporting and complex data It can provide general information and context The evidence is immediately available to the reader	They require more preparation time Long reports can remain unread until the end Sometimes hard to accept They may be untimely presented due to delays in preparation	MEDIUM IMPACT ON THE BUSINESS OF THE COMPANY

5. Conclusion

The top management of the company is responsible for presenting true and fair financial statements. It should be noted that the top management of the company is in the role of users of this information, which is essentially in the financial statements of the company.

The most significant interest of top management is related to information on the basis of which it can see profitability, solvency and liquidity, and that is information on capital structure,

level of indebtedness, level of coverage of long-term related assets with quality sources of financing, etc.

The financial statements are interrelated and together they form a mandatory set of financial statements or an annual report in the final account of the company.

The main goal of compiling these reports is to provide information on the financial position, success and cash flows of the company for the purpose of making valid decisions of top management and management bodies in the company and for the purpose of submitting information to government agencies that prescribe annual reports persons at the end of the business year.

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