

---

# Financial Literacy and Understanding for Individuals or Small Business Owners in the Framework of Financial Accounting

---

**Ms. Ruhiya Nazneen\***

*\*Lecturer, Department of Management Applied College Jazan University, Kingdom of Saudi Arabia.*

*Corresponding Email: [\\*dfaisal@jazanu.edu.sa](mailto:dfaisal@jazanu.edu.sa)*

**Received:** 28 July 2023

**Accepted:** 17 October 2023

**Published:** 01 December 2023

***Abstract: This Study Examines Financial Accounting's Development And Impact On Corporate Decisions. We Show The Flow Of Financial Data From Journal Entries To Important Financial Statements, The Profit And Loss Account, And The Balance Sheet Using A Graphic Flowchart. We Examine How Financial Analysis Affects Business Reporting And Choices. The Flowchart Helps Explain Financial Accounting's Complexities. Financial Accounting's Key Steps Are Shown In The Flowchart. We Noticed That Transactions Begin In The Journal. These Entries Are Combined In The Ledger To Show Account Balances Vividly. Revenues And Costs Determine The Net Profit Or Loss In The Profit And Loss Account. A Company's Assets, Liabilities, And Equity Are Shown On The Balance Sheet Immediately. Their Relationship Shows The Balance Between Financial Stability And Profitability. Financial Analysis Is Vital To Decision-Making. Organizations May Assess Their Financial Health And Plan Forward By Reviewing Their P&L And Balance Sheet. This Study Concludes That Financial Accounting And Analysis Are Crucial To Company Choices.***

***Keywords: Financial Literacy, Financial Accounting, Corporate Decision, Business Decision Making, Financial Reporting.***

## 1. INTRODUCTION

Financial accounting is the foundation of business, documenting, summarizing, and conveying a company's financial activities (Arianti & Journal, 2018). It supports an organisation, facilitating decision-making, ensuring regulatory compliance, and fostering corporate transparency (Hussain, Salia, Karim, & Development, 2018).



Financial accounting involves recording, arranging, and reporting financial data in a consistent, understandable manner. This research examines financial accounting's fundamentals and commercial importance (Osadchy et al., 2018) .

Financial accounting begins with financial transactions recorded in a diary, or book of original entry. Here, accountants meticulously record every business transaction that impacts its finances. These entries cover sales, purchases, investments, and borrowings. This stage creates a chronological record of all financial occurrences to avoid missing anything (Weygandt, Kimmel, & Kieso, 2018).

Journal data is sent to ledger. The ledger organizes accounts by kind. Cash, accounts receivable, and costs are represented via ledger accounts. This methodical arrangement gives an organization's financial picture and makes data accessible and well-structured (Abdullah, Shaari, Chandren, & Mohd Ariff, 2021).

After consolidation in the ledger, data is utilized to construct the profit and loss account and balance sheet. The profit and loss account, or income statement, shows a company's revenues and costs during a fiscal year. It determines net profit or loss by comparing revenue and expenditure. This statement is lively for assessing a company's financial and operational efficiency (Dabbicco & Caruana, 2023).

Balance sheets show the company's financial situation at a given period. It covers equity, liabilities, and assets. Balance sheets reveal a company's solvency, liquidity, and resource allocation. It helps decision-making by showing the company's financial health (Yekimov, Mukhina, Kostina, Borodina, & Ermakova, 2021).

The procedure concludes with financial analysis. The profit and loss account and balance sheet statistics are analyzed here (Safin, Vyachina, & Kovrizhnykh, 2018). These statements help financial analysts assess ROI, liquidity, and profitability. These measures evaluate a company's health and competitiveness (Ecim, Maroun, & de Ricquebourg, 2023).

Financial analysis informs strategic planning, budgeting, and investment decisions. It helps leaders find opportunities for improvement and investment. Financial analysis connects raw data to educated decision-making, making it essential to financial accounting (Blums & Weigand, 2017).

Financial accounting involves communication, not just processes and formulae. Investors, creditors, and other stakeholders get a sneak peek into a company's finances through this procedure. Transparency fosters trust, investment, and regulatory compliance (Gibassier, 2022).

### **Review of Literature**

Financial accounting underpins small business success. The business language lets small business owners record, interpret, and discuss their financial transactions and health. In a

world where every cent matters, financial accounting is essential for these reasons (Munoz, Jalili, & Tafakori, 2022; Ram, Maroun, & Garnett, 2016):

Financial accounting is clear and transparent. It turns a mess of revenues and expenses into income and balance sheets. Small company owners may monitor their income, expenses, and remaining funds. Pricing and cost control decisions are guided by this clarity (Stewart & Connolly, 2022).

Second, it allows compliance. Small enterprises must report to regulators, pay taxes, and follow accounting requirements. Financial accounting knowledge ensures these standards be accomplished without costly mistakes or fines (Nayak, Patnaik, & Satpathy, 2021). It also helps get financing. Businesses must prove their financial viability to lenders and investors (Tettamanzi, Venturini, & Murgolo, 2022). Financial statements verify creditworthiness and investment potential (Leung, 2016). Presenting these documents helps small company owners get finance. Financial accounting involves growth (Arianti & Journal, 2018). It shows trends, strengths, and weaknesses, and aids strategic planning (Weygandt et al., 2018). Small business owners may identify growth opportunities and make profitable decisions. Financial accounting guides small business owners navigate entrepreneurship's stormy waters (Weygandt et al., 2018). Not just statistics, but enablement, compliance, financial access, growth, and corporate success. Understanding and using financial accounting helps small businesses succeed (Urvina-Barrionuevo, Mayorga-Mayorga, Álvarez-Mayorga, & Lavín, 2017).

Financial literacy involves understanding and using personal financial management, budgeting, and investing methods (Mattei, Jorge, & Grandis, 2020). It equips you to make smart financial decisions. Finances, aspirations, and circumstances change with time, making financial literacy a lifelong endeavour.

The Indian business sector values financial literacy because it may boost economic growth, empower people, and promote financial inclusion (Yashina, Kashina, Pronchatova-Rubtsova, Yashin, & Semakhin, 2022). With its fast changing economy, India has seen financial activity transition from small firms and start-ups to huge multinationals. Why financial literacy important in Indian business:

**Empowering Entrepreneurs:** For the countless entrepreneurs driving India's small and medium-sized enterprises (SMEs), understanding financial concepts is vibrant (Madugba et al., 2021). It facilitates them to make informed decisions about investments, funding, and day-to-day financial management (Ezenwoke & Tion, 2020).

**Attracting Investments:** India's business sector profoundly depends on domestic and foreign investments (Monciardini, 2017). Financial literacy nurtures confidence amongst investors and augments the credibility of businesses seeking capital infusion (Alamad, 2019).

**Facilitating Compliance:** India's financial sector is subject to an ever-evolving regulatory landscape. Financial literacy supports businesses in adhering to tax codes, accounting

standards, and other regulatory requirements, lessening the risk of non-compliance (Gordeev & Pyzhev, 2022).

**Enhancing Access to Finance:** Financially literate capitalists and entrepreneurs are better positioned to access credit and financial services (Kazakova & Prilepskaya, 2020; Suandi, 2017). This is particularly crucial for small business owners who often rely on loans to fuel their growth.

**Strengthening Corporate Governance:** For larger corporations, understanding financial principles and governance structures is vibrant for sustaining transparency, shareholder trust, and compliance with market regulations (Dabbicco & Caruana, 2023).

**Enabling Informed Investments:** Individual investors in India's stock markets, mutual funds, and other financial instruments benefit from financial literacy, as it empowers them to make sensible investment decisions and plan for their financial future (Adhitama & Sarno, 2017; Jorge, Dabbicco, Aggestam-Pontoppidan, & Vaz de Lima, 2022).

**Financial Inclusion:** In a country as dissimilar and economically varied as India, financial literacy is a tool for annexation. It endows and empowers those in rural and underserved areas to participate in the financial sector, nurturing economic growth and reducing poverty (Alamad, 2019; Kazakova & Prilepskaya, 2020).

## **2. METHODOLOGY**

The research methodology for this study adopts a novel approach, incorporating content analysis of financial accounting documents, financial statements, and relevant literature. Through a systematic review of these sources, the study aims to gain insights into the financial accounting process and its implications for business decision-making. Additionally, with the help of the flow chart analysis will be conducted to enrich the in depth analysis. The descriptive research methodology based on the model allows for a comprehensive exploration of the complexities of financial accounting and the real-world impact on corporate decision-making. The chart thus enabling the extraction of meaningful patterns and insights.

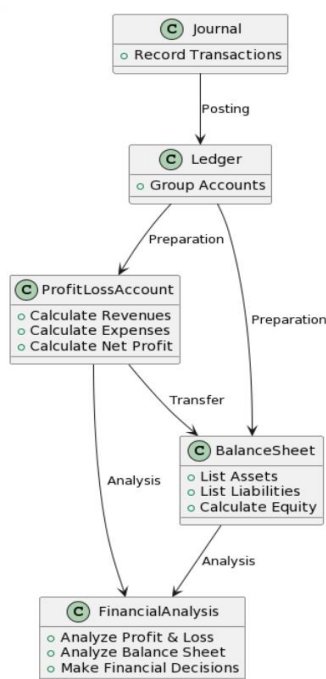


Fig: Model Financial Literacy

Source: Author

### 3. DISCUSSION AND CONCLUSION

As shown in the abstract, the model and flowchart that are offered in this research play a significant part in providing an explanation for the intricacies of financial accounting. These graphical representations help to improve our comprehension of financial statements and accounting analysis in a number of different ways, including the following:

#### **Simplification of Complex Processes:**

The financial accounting process is inherently complex, involving a multitude of transactions and intricate calculations (Gordeev & Pyzhev, 2022). The flowchart effectually filters this complexity into a visual and coherent format. It simplifies the journey of financial data from journal entries to the creation of financial statements, such as the profit and loss account and the balance sheet (Suandi, 2017). This generalization makes it adaptable to a wider audience, allowing individuals with changeable degrees of financial expertise to grasp the essential steps involved (Kazakova & Prilepskaya, 2020).

#### **Highlighting Interconnectedness:**

The capacity of the model and flowchart to demonstrate the interconnection of financial accounting issues is well acknowledged (Jesus & Jorge, 2015). The presented flowchart illustrates the interdependence between successive stages, emphasizing the crucial need of maintaining high standards of financial data quality and consistency (Mason, 2018). The impact of journal entries on the ledger is significant, as it serves as a comprehensive record of

financial transactions (Wiener & Stokoe, 2018). Furthermore, the process of financial analysis plays a crucial role in informing decision-making processes.

**Educational Tool and Teaching Aid:**

The utilization of models and flowcharts in the classroom setting serves to strengthen instructional practices. These graphic aids can assist educators in elucidating intricate financial accounting principles (Altukhov, Predeus, & Predeus, 2019). Please utilize these resources as references and incorporate them into your own academic work to facilitate students' comprehension of the sequential procedures in accounting. Additionally, they serve to provide clarification and structure to the process of acquiring knowledge (Yekimov et al., 2021).

**Informed Decision-Making:** Financial accounting provides business owners with accurate and timely information about the financial health of their company (Safin et al., 2018). It offers insights into revenue, expenses, profits, and losses. Armed with this data, business owners can make informed decisions regarding investments, expansions, cost-cutting measures, and pricing strategies (Gordeev & Pyzhev, 2022). Without a grasp of financial accounting, decisions would be based on guesswork, which can lead to costly mistakes.

**Financial Planning:** Financial literacy is the cornerstone of effective financial planning. Business owners need to plan for the short term and long term. They must create budgets, forecast revenues, and anticipate expenses (Yekimov et al., 2021). A strong understanding of financial concepts allows for more realistic and achievable financial goals, ensuring the company's fiscal stability (Safin et al., 2018). The entire process of financial planning can be understood by the process diagram below mentioned where it has been shown from defining goals upto monitoring and review part.



Fig2: Financial Planning Process

Source: Author

**Cash Flow Management:** Cash flow is the lifeblood of any business. Understanding financial accounting helps business owners manage cash flow effectively (Cooper, 2019). This includes tracking the inflow and outflow of cash, ensuring that there is enough liquidity to cover operational expenses, and planning for contingencies. A lack of financial literacy can lead to cash flow issues, which, in turn, can jeopardize the survival of the business (Ertimur, Francis, Gonzales, & Schipper, 2020). The cash flow management process based in discussion can be expressed by the below mentioned chart.

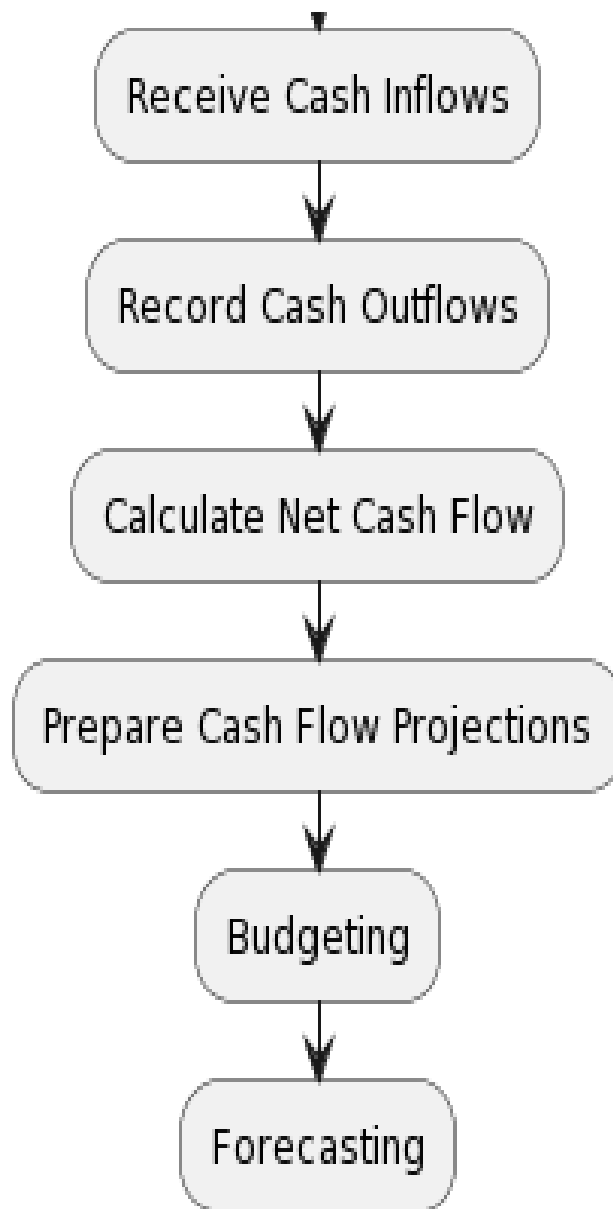


Fig 3: Cash Flow Management Process  
Source: Author





**Risk Assessment:** Every business faces risks, and financial literacy enables business owners to assess and mitigate these risks (Blums & Weigand, 2017). By understanding financial statements and ratios, they can identify warning signs early. For example, analyzing a declining profit margin can prompt proactive measures to address the issue. Without financial literacy, business owners may not recognize these red flags until it's too late.

**Access to Capital:** Whether seeking loans, investors, or other sources of capital, business owners must present their financial information to external parties. Financial literacy ensures that these presentations are accurate, comprehensive, and credible. Lenders and investors are more likely to support a business that demonstrates a clear understanding of its financial situation and future prospects (Tettamanzi et al., 2022).

**Tax Compliance:** Tax laws and regulations are complex and ever-changing. Financial literacy helps business owners navigate these intricacies effectively. Understanding deductions, credits, and tax planning can result in substantial savings for the business (Parmanand, 2021). Conversely, a lack of financial knowledge can lead to missed opportunities for tax optimization and compliance issues.

**Legal Obligations:** Business owners have legal obligations to meet, including accurate financial reporting. Failure to comply with these obligations can result in fines, penalties, and even legal consequences (Kinati, Temple, Baker, & Najjar, 2023). A solid grasp of financial accounting ensures that all financial reporting, from income statements to balance sheets, is accurate and compliant with legal requirements.

**Investor Relations:** If your business is publicly traded or you have shareholders, financial literacy is essential for maintaining good investor relations. Investors rely on financial statements to gauge the performance and potential of the company. Accurate and transparent financial reporting builds trust and confidence among shareholders and potential investors (Arianti & Journal, 2018).

**Strategic Planning:** Financial literacy enables business owners to develop and execute strategic plans. It helps in setting financial objectives, measuring progress, and adjusting strategies as necessary. With this knowledge, business owners can align financial goals with the company's overall mission and vision (Madugba et al., 2021).

**Long-Term Sustainability:** Ultimately, financial accounting and financial literacy contribute to the long-term sustainability of the business (Monciardini, 2017). They are essential for identifying areas of improvement, seizing growth opportunities, and navigating economic fluctuations. Without these skills, a business may falter or fail due to poor financial management.

#### **Application to Real-World Decision-Making:**

The flowchart shows example financial analysis. Financial statements like the profit and loss



account and balance sheet are used to assess financial performance and business health (Boisjoly, Conine, & McDonald, 2020).

This section illustrates the role of financial accounting in the context of company operations and its impact on the formulation and execution of corporate strategy. This demonstrates the significance of having financial information in making informed decisions.

The abstract of the study enhances our understanding of accounting statements and financial analysis through the utilization of a model and flowchart. The aforementioned activities encompass the simplification of intricate procedures, the illustration of interrelationships, the provision of education, and the emphasis on the practical use of financial accounting in making decisions in real-world contexts.

The utilization of visual representations facilitates the comprehension and application of financial accounting principles among many stakeholders, including students, small business proprietors, and financial practitioners. By comprehending the crucial role of financial accounting and optimizing its impact, individuals enhance the process of making financial decisions and improve overall corporate performance.

#### **Implications and Further Scope of Research:**

This study's ramifications and breadth are significant and provide vital insights for academics and industry. Educational Improvement: The study's focus on streamlining accounting operations and employing models and flowcharts affects education. Visuals may help students understand and remember difficult financial topics.

This may increase student financial literacy, preparing them for real-world decisions. Small Business Management: Small business owners generally manage their money without accounting expertise. This population can benefit from the study's easier financial statement interpretation and management. These methods help small firms make better financial decisions, improving performance and sustainability.

**Financial Practitioner Adoption:** This research demonstrates financial accounting's practical applicability for financial practitioners. Visual tools help professionals explain financial information to clients, improving decision-making and financial planning.

**Future Research:** The study encourages accounting and finance research. Future research might examine how different visual aids and models work in educational and practical settings. The study might also examine visual assistance in industries other than small firms.

#### **4. REFERENCES**

1. Abdullah, Z., Shaari, H., Chandren, S., & Mohd Ariff, A. H. (2021). Fawn and deer: a public institution's biological assets valuation. *Emerald Emerging Markets Case Studies*, 11(4), 1-24. doi:10.1108/EEMCS-07-2021-0232
2. Adhitama, M. A., & Sarno, R. (2017). Account charting and financial reporting at accounting module on Enterprise Resource Planning using tree traversal algorithm.

Paper presented at the Proceedings of 2016 International Conference on Information and Communication Technology and Systems, ICTS 2016.

3. Alamad, S. (2019). *Financial and Accounting Principles in Islamic Finance*: Springer International Publishing.
4. Altukhov, P. V., Predeus, N. V., & Predeus, J. V. (2019). Development of the Elements of the Mechanism Accounting and Analytical Support of Economic Security of Construction Enterprises. Paper presented at the IOP Conference Series: Earth and Environmental Science.
5. Arianti, B. F. J. E., & Journal, A. (2018). The influence of financial literacy, financial behavior and income on investment decision. 1(1), 1-10.
6. Blums, I., & Weigand, H. (2017). Financial reporting by a shared ledger. Paper presented at the CEUR Workshop Proceedings.
7. Boisjoly, R. P., Conine, T. E., & McDonald, M. B. (2020). Working capital management: Financial and valuation impacts. *Journal of Business Research*, 108, 1-8. doi:10.1016/j.jbusres.2019.09.025
8. Cooper, C. R. (2019). An overview of consumer finance and policy issues. In *Key Congressional Reports for July 2019 – Business and Finance* (pp. 151-186): Nova Science Publishers, Inc.
9. Dabbicco, G., & Caruana, J. (2023). The measurement of income and expenditure: Comparing public accounts and national accounts. In *Measurement in Public Sector Financial Reporting: Theoretical Basis and Empirical Evidence* (pp. 105-129): Emerald Group Publishing Ltd.
10. Ecim, D., Maroun, W., & de Ricquebourg, A. D. (2023). An analysis of key audit matter disclosures in South African audit reports from 2017 to 2020. *South African Journal of Business Management*, 54(1). doi:10.4102/sajbm.v54i1.3669
11. Ertimur, Y., Francis, J., Gonzales, A., & Schipper, K. (2020). Financial reporting for pollution reduction programs. *Management Science*, 66(12), 6015-6041. doi:10.1287/mnsc.2019.3416
12. Ezenwoke, O., & Tion, W. (2020). International financial reporting standards (IFRSs) adoption in Africa: Abibliometric analysis. *Cogent Social Sciences*, 6(1). doi:10.1080/23311886.2020.1801370
13. Gibassier, D. (2022). Measuring, accounting, and reporting impact. In *Recent Trends In Financial Engineering: Towards More Sustainable Social Impact* (pp. 195-227): World Scientific Publishing Co.
14. Gordeev, R. V., & Pyzhev, A. I. (2022). Social and Economic Importance of Forest Companies in Asian Russia: Evidence from Corporate Financial Reporting. *Forests*, 13(12). doi:10.3390/f13122151
15. Hussain, J., Salia, S., Karim, A. J. J. o. S. B., & Development, E. (2018). Is knowledge that powerful? Financial literacy and access to finance: An analysis of enterprises in the UK. 25(6), 985-1003.
16. Jesus, M. A., & Jorge, S. (2015). Governmental budgetary reporting systems in the European Union: is the accounting basis relevant for the deficit reliability? *International Review of Administrative Sciences*, 81(1), 110-133. doi:10.1177/0020852314541565

17. Jorge, S., Dabbicco, G., Aggestam-Pontoppidan, C., & Vaz de Lima, D. (2022). New development: The development of standardized charts of accounts in public sector accounting. *Public Money and Management*, 42(7), 530-533. doi:10.1080/09540962.2022.2106680
18. Kazakova, N., & Prilepskaya, A. (2020). The assessment of risks of ecological safety based on the audit of ecological expenses of Russian construction companies. Paper presented at the International Multidisciplinary Scientific GeoConference Surveying Geology and Mining Ecology Management, SGEM.
19. Kinati, W., Temple, E. C., Baker, D., & Najjar, D. (2023). Pathways to Empowerment: Case Studies of Positive Deviances in Gender Relations in Ethiopia. *Gender Issues*, 40(1), 86-118. doi:10.1007/s12147-022-09305-x
20. Leung, D. (2016). *Inside Accounting: The Sociology of Financial Reporting and Auditing*: Taylor and Francis.
21. Madugba, J. U., Howell, K. E., Nwanji, T. I., Faye, S., Egbiide, B. C., & Eluyela, D. F. (2021). Audit committee quality and financial reporting in deposit money banks in Nigeria. *Asian Economic and Financial Review*, 11(2), 104-117. doi:10.18488/journal.aefr.2021.112.104.117
22. Mason, P. (2018). Accounting for social benefits: The search for a past event. *International Social Security Review*, 71(3), 73-80. doi:10.1111/issr.12180
23. Mattei, G., Jorge, S., & Grandis, F. G. (2020). Comparability in IPSASs: Lessons to be Learned for the European Standards. *Accounting in Europe*, 17(2), 158-182. doi:10.1080/17449480.2020.1742362
24. Monciardini, D. (2017). The Rationales of Lawyers, Accountants and Financial Analysts in Shaping the EU Agenda on CSR. In *CSR, Sustainability, Ethics and Governance* (pp. 3-23): Springer Nature.
25. Munoz, J., Jalili, M., & Tafakori, L. (2022). Hierarchical classification for account code suggestion. *Knowledge-Based Systems*, 251. doi:10.1016/j.knosys.2022.109302
26. Nayak, S., Patnaik, B. C. M., & Satpathy, I. (2021). Reflections on implementation of international financial reporting standards (IFRS) in the Indian banking industry. *Universal Journal of Accounting and Finance*, 8(4), 148-152. doi:10.13189/UJAF.2020.080407
27. Osadchy, E., Akhmetshin, E., Amirova, E., Bochkareva, T., Gazizyanova, Y. Y., & Yumashev, A. (2018). Financial statements of a company as an information base for decision-making in a transforming economy.
28. Parmanand, S. (2021). regulating motherhood through markets: Filipino women's engagement with microcredit. *Feminist Review*, 129(1), 32-47. doi:10.1177/01417789211040506
29. Ram, A., Maroun, W., & Garnett, R. (2016). Accounting for the Bitcoin: Accountability, neoliberalism and a correspondence analysis. *Meditari Accountancy Research*, 24(1), 2-35. doi:10.1108/MEDAR-07-2015-0035
30. Safin, I. K., Vyachina, I. N., & Kovrizhnykh, O. E. (2018). About new approaches to management of finance enterprises. *Journal of Social Sciences Research*, 2018(Special Issue 5), 41-45. doi:10.32861/jssr.spi5.41.45



31. Stewart, E., & Connolly, C. (2022). New development: Ten years of consolidated accounts in the United Kingdom public sector—taking stock. *Public Money and Management*, 42(6), 460-462. doi:10.1080/09540962.2022.2031647
32. Suandi, A. B. (2017). Classification of profit-sharing investment accounts: A survey of financial statements of Islamic banks in Asia. *International Journal of Islamic and Middle Eastern Finance and Management*, 10(3), 351-370. doi:10.1108/IMEFM-05-2015-0067
33. Tettamanzi, P., Venturini, G., & Murgolo, M. (2022). Sustainability and Financial Accounting: a Critical Review on the ESG Dynamics. *Environmental Science and Pollution Research*, 29(11), 16758-16761. doi:10.1007/s11356-022-18596-2
34. Urvina-Barrionuevo, R., Mayorga-Mayorga, F., Álvarez-Mayorga, E., & Lavín, J. M. (2017). Prototype application using XBRL for financial statements according to IFRS in Ecuador. Paper presented at the 2017 4th International Conference on eDemocracy and eGovernment, ICEDEG 2017.
35. Weygandt, J. J., Kimmel, P. D., & Kieso, D. E. (2018). *Financial accounting with international financial reporting standards*: John Wiley & Sons.
36. Wiener, M., & Stokoe, P. (2018). Discussing accrued-to-date liabilities. *International Social Security Review*, 71(3), 27-48. doi:10.1111/issr.12177
37. Yashina, N. I., Kashina, O. I., Pronchatova-Rubtsova, N. N., Yashin, S. N., & Semakhin, E. A. (2022). Monitoring the Effectiveness of Budget Management in the Paradigm of the Economy Digitalization. In *Advances in Science, Technology and Innovation* (pp. 587-593): Springer Nature.
38. Yekimov, S., Mukhina, E., Kostina, Z., Borodina, T., & Ermakova, M. (2021). Management according to international standards in farming. Paper presented at the IOP Conference Series: Earth and Environmental Science.