Investment decisions

Investment decisions are the determination of place, time, method and amount of capital to spend or the amount of debt to acquire in the pursuit of profit realization. These kinds of decisions are reached by an investor and investment advisors. Investment decisions are affected by capital on hand, projects or opportunities available, prevailing market conditions, and a specific strategy on investment by the investor (Deloitte, 2008). Financial reporting and public accounting play an important role in investment decisions. For profit-seeking companies, managers of profit-seeking companies make reports containing financial information for the owners of these companies. In addition to other information, these reports contain four financial statements: the balance sheet, the income statement, the statement of stockholders' equity, and the statement of cash flows (Balkaran, 2002). For the owners and other interested parties, although prepared primarily for them, these financial reports are available to the public and are read by other interested parties who use them to assess the financial condition and performance of the company as well as the performance of its managers. Such interested parties, include potential investors, bankers, government agencies, and the company's customers, suppliers and debtors. Users obtain information from the financial reports that helps assess the company's past performance, predict its future performance, and control the activities of its managers. Financial reports and public accounting, therefore, help users to make better decisions. Investors, for example, use financial reports to choose companies in which to invest their funds; bankers use them to decide where to loan their funds and what interest rates to charge (Arnould, 1972).

User decisions most likely affect the financial condition and performance of the company if they are not well implemented. They may also affect the economic well-being of the firm’s managers. For example, a banker may use the information contained in a financial report to decide against issuing loans to a certain firm. The loan may be the last hope for a dying company and therefore, such a decision may cause the company to struggle and may cause managers to lose their jobs and the owners may lose millions of dollars in their investments. Therefore, poor financial procedures may bring any firm or business to a closure (Arrow, 1963). Financial statements primarily summarize the accounting process and provide a tabulation of account titles and give the estimated or actual economic position of a firm to the public. If poor procedures were used, then the firm risks the public making wrong assumptions about its welfare. A lot of investors may be attracted to a company or otherwise, they may stay away from it with regard to the financial reports presented to the public. It is quite a rare occurrence, but if it were to happen, then a lot of parties may be affected by the consequences. A firm should, therefore, employ competent managers and accountants so as to avoid tarnishing its name and unnecessary embarrassments.