

Need of Financial Information

Financial information is the lifeblood of decision-making in organisations, markets, and public policy. It converts business activities into measurable signals—revenues, costs, assets, liabilities, cash flows, and value—that different stakeholders rely on to plan, control, and evaluate performance. Its need can be understood across users, purposes, and outcomes.

1) Managerial planning and control: Managers use financial information to translate strategy into budgets, allocate resources, and set performance targets. Budgeted income statements and cash flow forecasts help decide which projects to fund, when to expand capacity, or how to price products. During execution, variance analysis (actual vs. budget) highlights where operations deviate from plan, enabling corrective actions. Without accurate cost and margin data, even a sound strategy can fail in implementation.

2) Investment and financing decisions: Capital budgeting requires estimates of expected cash inflows, outflows, risk, and cost of capital. Financial information—past profitability patterns, leverage, liquidity, and cash generation—guides decisions on whether to invest, defer, or abandon projects. On the financing side, metrics such as interest coverage, debt-equity ratio, and free cash flow inform the optimal mix of debt and equity and the timing of security issuance or buybacks.

3) Performance measurement and accountability: Clear, comparable financial statements enable managers and boards to assess how efficiently resources are used. Return on equity, return on assets, and economic value-added link results to capital employed. Segment reporting reveals which products, regions, or customer groups create or destroy value. This supports accountability within the firm (manager appraisals, incentive plans) and externally (reporting to shareholders and lenders).

4) Investor confidence and valuation: Current and prospective shareholders depend on audited financial statements to estimate intrinsic value, growth prospects, and risk. Earnings quality, revenue recognition policies, and cash flow sustainability affect valuation multiples. Transparent disclosures reduce information asymmetry between insiders and outsiders, lowering the required return on equity and, ultimately, the firm's cost of capital.

5) Creditor assessment and risk pricing: Banks and bondholders evaluate creditworthiness using liquidity ratios (current, quick), solvency indicators (debt ratios), and cash flow coverage. Reliable financial information allows lenders to price risk appropriately, structure covenants, and monitor compliance. For firms, better disclosure can translate into improved borrowing terms and access to longer-tenor funding.

6) Regulatory compliance and governance: Statutory reporting (per accounting standards and company law) protects public interest. Accurate financial information

supports tax computation, statutory audits, and compliance with listing regulations. Strong internal controls over financial reporting reduce fraud risk, enhance board oversight, and align with corporate governance codes—vital for reputation and market standing.

7) Operational decisions and cost management: Activity-based costing, contribution analysis, and break-even studies rely on granular financial data. Managers need product-level margins to optimise pricing, discontinue loss-making SKUs, or renegotiate supplier contracts. Working capital reports (inventory turns, receivables days, payables days) help free cash, cut financing costs, and improve resilience.

8) Strategic agility and scenario planning: In volatile conditions, scenario-based financial models test the effects of shocks—interest rate changes, commodity swings, or demand shifts—on profitability and liquidity. Sensitivity analysis guides hedging, capacity planning, and diversification. Real-time dashboards connect operational KPIs to financial outcomes, supporting faster, better decisions.

9) Stakeholder communication and trust: Employees, customers, and communities draw cues from financial stability. Profit-sharing schemes, vendor payment terms, and CSR commitments all hinge on credible financials. Consistent, candid reporting builds trust, enabling long-term partnerships and employer branding.

10) Sustainability and integrated reporting: ESG initiatives ultimately tie back to financial performance through capex needs, risk mitigation, and cost savings (e.g., energy efficiency). Linking non-financial metrics to financial outcomes clarifies trade-offs and strengthens integrated thinking.

In essence, financial information is indispensable because it turns strategy into numbers, numbers into choices, and choices into accountability. It reduces uncertainty, lowers capital costs, improves control, and fosters trust—key ingredients for sustainable value creation.