**Managerial Accounting**

Institution Affiliation

**Capital Investment**

Capital investment involves the accumulation of enough cash and assets to enable a firm carry out its operations smoothly. For instance, a company may need to raise enough financial capital to fund its operation. Rising of financial capital is mostly done through investing in the capital markets through buying of financial instruments such as bonds and shares which in turn the company transacts to get cash to run its operations (Edmonds, Tsay, & Olds, 2018). This paper therefore, will mainly focus on human capital which plays a key role in accounting department of every company.

**Human Capital**

Human capital is the combination of an individual’s skills, knowledge and abilities which they use in in provision of services to an organization for production of items and services. Human capital plays a critical role in improvement of a company’s performance. Employees should be considered as an organizational asset unlike the traditional way of perceiving workers as a cost to the company. Employees create significant value to the firm. Workers’ skills and knowledge and skills are what is referred to human capital. Investing on human capital includes the use of employee empowerment programs to improve performance and productivity level (Querbach et al., 2020). Employees are categorized as unskilled, semi-skilled or skilled. The employee categories are used to determine the value of employees a company has.

For the accounting department, skills are key in improving the company financial data quality in terms of accuracy and reliability. Accounting practices help in regulation of financial data flow, identification, and correcting of errors and fraud which occur as a result of poor accounting practices (Querbach et al., 2020). The quality of firm’s financial data is critical for important decision making in regard to the future operation of the business. Decision making that is based on quality financial data is likely to improve the company’s profitability levels. Therefore, improving the quality of human capital via employee empowerment programs would be an addition to the value of financial data maintained and used by the company for decision making.

Conducting of employee empowerment programs regularly can help in promoting the business operations. Employees are key assets in a company set up and their value is critical in determining the quality of services they offer to the business. Regular training and employee appraisal programs can be undertaken to improve the quality of services they render (Edmonds, Tsay, & Olds, 2018). The value of employee is one of the factors that give the business a competitive advantage against their competitors in the industry from which they operate. Therefore, through equipping and up scaling of employees a business can build a strong brand thus attracting more customers in to the business (Querbach et al., 2020). Consequently, the business will build a strong relationship with its employees and clients boosting the firm’s profitability.

Moreover, employee performance evaluation method is crucial in employee management and is useful in improving of business operations. Factors such as good communication channels, employee appraisal programs and rewarding systems have an impact on how businesses can effectively operate. Rewarding of employees helps motivate them while employee management keeps workers informed on what is expected of them through target setting for achieving of business objectives. Rewarding systems could be through promotion and offering of bonuses (Edmonds, Tsay, & Olds, 2018). Therefore, businesses can focus on other non-cost cutting methods to improve the operations of the business through focusing on the human capital and production systems.

**Financial Statement Analysis Tools**

**Horizontal Analysis Method**

Horizontal analysis is also referred to as trend analysis. This method involves the learning of changes in particular financial items such as revenue in the income statement over a particular accounting period (Edmonds, Tsay &Olds, 2018). The accounting period could be various quarterly financial statements or different accounting years. Horizontal analysis focuses on trends in absolute amounts (Edmonds, Tsay &Olds, 2018). For example an analyst may observe that the revenue item of income statement changed from $40 million to $50 million. Therefore, this represents a $10 million increment from the previous accounting period and is expressed as 20 percent change.

**Vertical Analysis**

Vertical analysis refers to the comparison of individual items in form of percentages. The percentage comparisons are for items in the same accounting period with other accounting periods (Edmonds, Tsay &Olds, 2018). In the income statement, all the items are expressed as a percentage of sales. Analysis for various accounting periods are combined to give the common size income statements. On the other hand, vertical analysis for balance sheet involves the expression of all the items as percentage of the total assets (Bloch, Kleinman & Peterson, 2017). For example, if the equipment is worth $10 million and total assets are $40 million, the equipment is given as 25 percent of the total assets.

**Ratio Analysis**

Ratio analysis is the comparison of various items to each other to identify the underlying relationship. For instance, the net income in income statement may be compared to the assets in the balance sheet (Bloch, Kleinman & Peterson, 2017). The analysis involves calculation of various ratios for various purposes. Ration analysis is used to give financial condition of the firm in respect to the needs of the financial statement users (Edmonds, Tsay &Olds, 2018). Examples of ratios include the liquidity ratios, efficiency ratios, profitability, and the solvency ratios. Liquidity ratios for instance are used by creditors to show if the company has the ability to settle both its short-term and term financial obligations without having to look for external finding. Liquidity ratios further include ratios such as current and acid-test ratios. Current ratio is obtained through taking the firm’s current assets divided by its current liabilities. On the other hand acid –test ratio measures the ability of the company to repay its short-term financial obligations with the use of its quick assets (Bloch, Kleinman & Peterson, 2017). Consequently, through investing on human capital the business will effectively and accurately provide updated analysis keeping the business able to sustain itself in regard to its liquidity.

Additionally, efficiency ratios are used to establish how effective a company is in utilizing of its resources and assets to influence the performance of the business. Asset turnover ratio is an example of efficiency ratios which measures the ability of a firm to produce sales income its assets. Also, day’s sale in inventory ratio is an efficiency ratio which describes the number of days a company uses to turn its inventories to sales. Moreover, profitability ratios are used to measure the ability of a business to generate income relative to its assets and costs. Proper tracking of account balances and checks on costs would help the company improve its profitability (Bloch, Kleinman & Peterson, 2017). Therefore, by investing in human capital the business stands to gain significantly in its financial performance.

**Non-Financial Factors Influencing Decision Making on Capital Investment**

Non-monetary factors are ignored in the financial statement analysis yet they have influence on the financial performance of the company and the resultant operational efficiency of the business. Consequently, these non-financial factor ends up influencing the decision the management adopts base on the financial statements. The non-financial factors are not analyzed because no monetary value can be attached on them (Rajapaksaet al., 2019). Management reputation for example, is n of such factors that greatly influence the success of a business yet cannot be factored in the company’s financial statements. Human capital is responsible setting retaining goo working relationships between the company, its clients and other companies. It is thus important for the management to take in to consideration the role played by its human capital in the building of the business reputation.

Employee cooperation is very critical for the performance of a business yet it is hard to incorporate in the financial statements. Communication is one of the most important factors that help build good employee cooperation. Division and allocation of duties amongst the business employees makes it easy to harmonize the firm’s activities for a collective success in the set objectives (Rajapaksaet al., 2019). Proper employee management practices could help the business improve the value of its human capital and subsequently the overall financial performance of the company.

Additionally, business credit worthiness is an aspect that affects a company’s ability to access financial funding for efficiency and too cannot be reflected in financial statements (Edmonds, Tsay, & Olds, 2018). A good accounting staff well equipped and empowered would help in maintaining of reliable accounting records for continuous check on the status of the company’s financial ability to sustain its operations without any external pressure. A business with good credit worthiness has easy access to financial funding from lenders. Regular training to improve employee knowledge and skills in the accounting department would improve the company credit worthiness since the quality of a company’s human resource is considered as one of its important assets (Rajapaksaet al., 2019). Conclusively, as a result of recent improvements in the measurement of financial performance of businesses, managers now consider the use of non-financial factors which cannot be captured in the financial statements yet have an impact on the firm performance in decision making process.

Reference

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