Chapter 1

ACCOUNTING: Information for Decision Making

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Accounting “links” decision makers with economic activities — and with the results of their actions (decisions).
Types of Accounting Information

- Financial
- Tax
- Managerial
Information System

Information Users
- Investors
- Creditors
- Managers
- Owners
- Customers
- Employees
- Regulatory agencies
  - SEC
  - IRS
  - EPA

Cost & Revenue Determination
- Job costing
- Process costing
- ABC
- Sales

Assets & Liabilities
- Plant and equipment
- Loans & equity
- Receivables, payables & cash

Cash Flows
- From operations
- From financing
- From investing

Decision Support
- CVP analysis
- Performance evaluation
- Incremental analysis
- Budgeting
- Capital allocation
- Earnings per share
- Ratio analysis
Basic Functions of an Accounting System

1. Interpret and record business transactions.

Payment

Car
Basic Functions of an Accounting System

1. Interpret and record business transactions.
2. Classify similar transactions into useful reports.
3. Summarize and communicate information to decision makers.
Objectives of External Financial Reporting

The primary external users of financial information are investors and creditors.

<table>
<thead>
<tr>
<th>Cash Flow Prospects</th>
<th>Investors</th>
<th>Creditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Investment</td>
<td>Periodic dividends</td>
<td>Periodic interest</td>
</tr>
<tr>
<td>Return of Investment</td>
<td>Sale of ownership at a future date</td>
<td>Repayment of loan at a future date</td>
</tr>
</tbody>
</table>
Objectives of Financial Reporting

(Specific)
Information about economic resources, claims to resources, and changes in resources and claims.

Information useful in assessing amount, timing and uncertainty of future cash flows.

Information useful in making investment and credit decisions.

(General)
Objectives of External Financial Reporting

The primary financial statements.

- Balance Sheet
- Income Statement
- Statement of Cash Flows
Financial Statements: A Lens to View Business
Characteristics of Externally Reported Information

A Means to an End

Usefulness
Enhanced via Explanation

Broader than Financial Statements

Based on General Purpose Assumption

Historical in Nature

Results from Inexact and Approximate Measures
Internal Users of Accounting Information

- Board of Directors
- Chief Executive Officer
- Chief Financial Officer
- Vice Presidents
- Business Unit Managers
- Plant Managers
- Store Managers
- Line Supervisors
Information about decision-making authority, for decision-making support, and for evaluating and rewarding decision-making performance.

Information useful in assessing both the past performance and future directions of the enterprise and information from external and internal sources.

Information useful to help the enterprise achieve its goal, objectives and mission.
Characteristics of Management Accounting Information

- Timeliness
- Identify Decision-Making Authority
- Oriented Toward Future
- A Means to an End
- Measures of Efficiency and Effectiveness
Integrity of Accounting Information

Institutional Features

- Generally Accepted Accounting Principles (GAAP)
- Financial Accounting Standards Board
- Securities and Exchange Commission
- Internal Control Structure
- Audits
Integrity of Accounting Information

Professional Organizations

- American Institute of Certified Public Accountants
- Institute of Management Accountants
- Institute of Internal Auditors
- American Accounting Association
Integrity of Accounting Information

Competence, Judgment and Ethical Behavior

- Certified Public Accountants (CPAs)
- Certificate in Management Accounting (CMA)
- Certificate in Internal Auditing (CIA)
- Code of Professional Conduct
Reference