

Accounting for Financial and Managerial Decision and Control

Unit 1

Financial and Management Accounting Information

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Contents

- Concept, need, scope and sources of financial information
- Concept and need of management accounting information and its diversity
- Management accounting in the competitive business environment
- Management accounting information as a control tool
- Control system and control environment in an organization

Learning Objectives

- Understand the concept of financial accounting information
- Describe the need of financial accounting information
- Explain about the scope and sources of financial accounting information
- Understand the concept of management accounting information
- Explain the need of management accounting information
- Describe management accounting in the competitive business environment
- Recognize Management accounting information as a control tool
- Identify control system and control environment in an organization

Concept of Financial Accounting Information

- Financial accounting
 - summary, analysis and reporting of financial transactions related to a business
 - the process of recording, summarizing, analyzing and interpreting financial activities of business
 - provides useful information to users, i.e., internal as well as external

Concept of Financial Accounting Information (Contd.)

- Financial accounting
 - attributes reporting and summarizing in financial terms the results of past decisions and transactions
 - Financial statements are the basic information of financial accounting.
 - It contents statement of financial position
 - balance sheet, income statement, cash flow statement, changes in the equity, and accounting policies and other explanatory information for the period.
 - financial statements are prepared as per common ground rules, i.e., GAAP, accounting standards, financial reporting standard and others account principals.

Concept of Financial Accounting Information (Contd.)

- Nepal Accounting Standard Board officially defined “Financial statements are a structured representation of the financial position and financial performance of an entity (Section 9, Nepal Accounting Standard 1: Presentation of Financial Statements).
- Section 7 of NAS 1 explained “the general purpose of financial statements is those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs”

Concept of Financial Accounting Information (Contd.)

- Section 9, NAS 1 further explained that “the objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management’s stewardship of the resources entrusted to it”.

Concept of Financial Accounting Information (Contd.)

- Financial statements provide information about an entity's such as (i) assets, (ii) liabilities, (iii) equity, (iv) income and expenses, including gains and losses, (v) contributions by and distributions to owners in their capacity as owners; and (vi) cash flows (Section 9, NAS 1).

Financial Accounting Information

(Reporting)

Financial reporting should provide information that:

- useful to present and potential investors and creditors in making rational investment credit decisions

(Related with all financial accounting information)

- comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence

(Related with all financial accounting information)

(Source: Anthony, Hawkins & Merchant, 2012)

Financial Accounting Information (Contd.)

(Reporting)

Financial reporting should provide information that:

- It is about the economic resources of an enterprise, the claims to those resources, and the effects of transactions and events that change resources and claim to those resources
(Related to the balance sheet)
 - It is about an enterprise's financial performance during a period
(Related to the income statement)
 - Helps users assess the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale or redemption of securities or loan (Related to the cash flow statement)
- (Source: Anthony, Hawkins & Merchant, 2012)

Need of Financial Accounting Information

- Owners/Shareholders
- Directors/Managers
- Employees
- Money lenders/Creditors

Need of Financial Accounting Information (Contd.)

- Prospective investors
- Government
- Other parties
 - Stock exchange authority
 - Researchers
 - Economists
 - Customers

Scope and Sources of Financial Accounting Information

- Quarterly report
- Annual report
- Auditor's report
- Board of Director's report

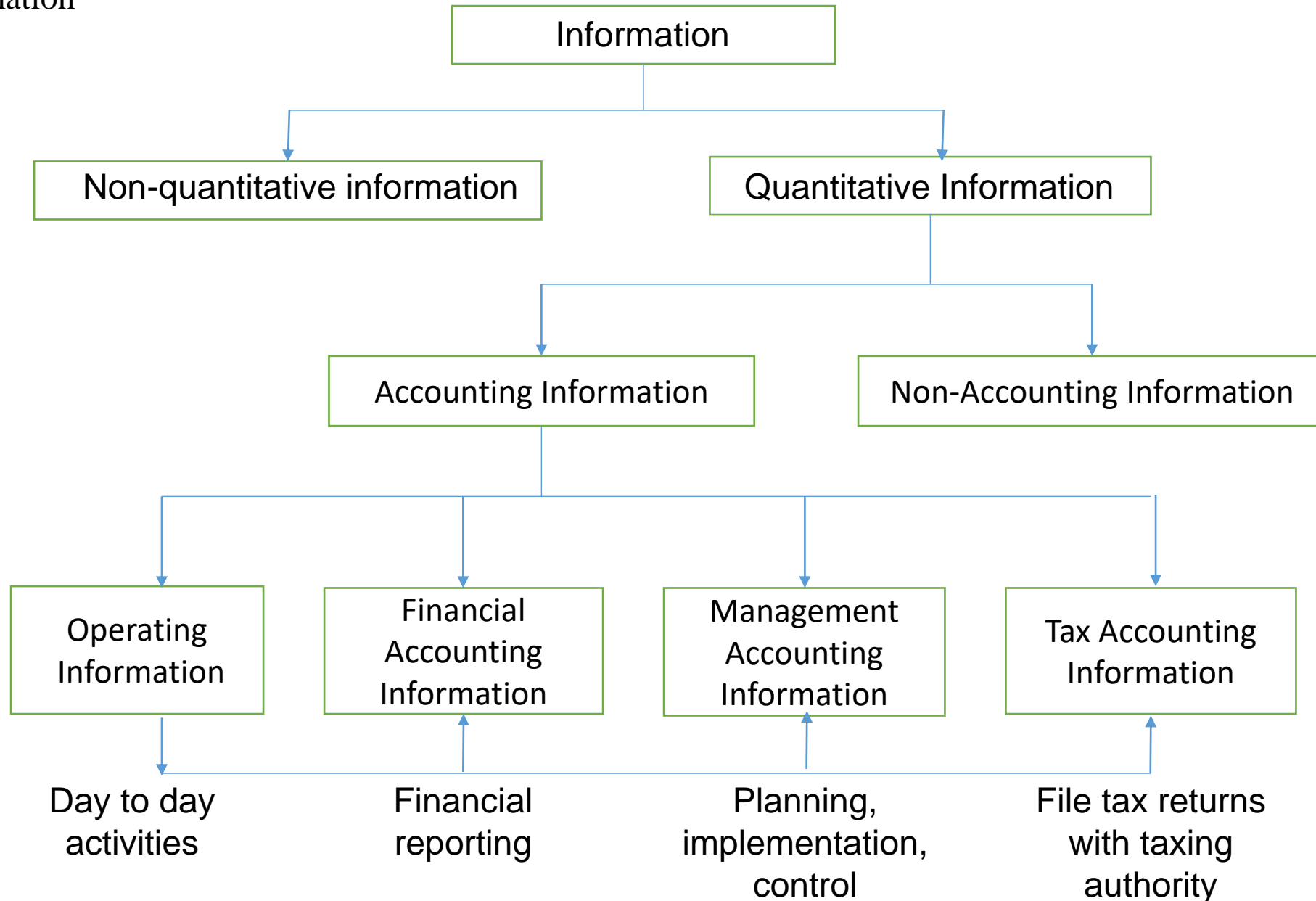
Scope and Sources of Financial Accounting Information (Contd.)

- Internal sources
 - Details of resources used, purchase and sales information, details plan of action for the future period (budget)
- External sources
 - Study reports, expert opinion, customer satisfaction report, interviews, television shows, news
 - Public limited companies (web sites of SEBON and NEPSE)

Concept of Management Accounting Information

- Management Accounting Information
 - analyzing and presenting the financial data turning into information to management in such a way that they are helpful in solving various problems
 - different data and facts provide and communicate
 - managers must have the various information which will enable them to their activities related with business.
 - preparing reports and accounts that provided accurate and timely financial and statistical information to business owner and top management level in decision making.
 - the collection of reports and data that managers use to make financial decision.

Table 1
Types of Information



(Source: Anthony, Hawkins & Merchant, 2012)

Management Accounting Information (Objectives)

1. Providing information for decision-making and planning, and proactively participating as part of the management team in the decision-making and planning processes
2. Assisting managers in directing and controlling domestic and international operational activities
3. Motivating managers and other employees towards the organization's goal
4. Measuring the performance of activities, subunits, managers, and other employees within the organization
5. Assessing the organization's competitive position, and working with other managers to ensure the organization's long-term competitiveness in its industry

(Source: Hilton and Platt, 2014)

Need of Management Accounting Information

- Assistance in planning and formulating future policies
- Helps in the interpretation of financial information
- Helpful in controlling performance (standard cost, budgetary control system)
- Helps in organizing (budgeting, cost centers, responsibility accounting, cost-control technique, internal control)

Need of Management Accounting Information (Contd.)

- Helpful in making decision (Alternative choices)
- Helps for coordinating (communication)
- Helpful in motivating employees

Diversity of Management Accounting Information

- Financial accounting
- Cost accounting
- Budgeting and forecasting
- Statistical methods
- Internal audit and control

Diversity of Management Accounting Information (Contd.)

- Tax system and planning
- Office services
- Interpretation and analysis of accounting information
- Management reporting

Management Accounting in the Competitive Business Environment

- Facing fast changing competitive business environment
 - Quick decision in day to day activities
 - Develop strategies for competitive advantages
 - New technologies
 - Customers expectation
 - Shareholders expect greater value from their investment and accurate information of the financial status of the company
- Bamber, Braun and Harrison (2008) argued that the technological advancement and globalization change the business environment
- Hilton and Platt (2014) opined that management accounting continually evolves and adapts as business environment changes

Management Accounting Information as a Control Tool

- Responsibility centers to measure the performance of managers and sub-units within the organization
- Standard costing
- Variable costing
- Cost volume profit analysis
- Financial statement analysis including ROI and RI

Control System and Control Environment in an Organization

- Improve efficiency
- Reduce costs
- Improve quality
- Assess correct product costs
- Planning
- Decision-making
- Proper monitoring

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Thank You