

Usefulness Of Accounting Information To Users

General speaking, 'Accounting is concerned with the collection, analysis and communication of economic information' (*Peter A & Eddie M 1999, p1*). People need economic information to help them to make decision and judgement about business. Operating an accounting system is to recognise and record transaction implies that all economic events in the business, from payment of wage to the purchase of a subsidiary company, are entered into the system, which is organised to minimise the possibility of resources being misused. Accounting can be seen as an important part of the total information system within a business. User, both inside and outside the business require to ensure that resources are allocated in an efficient and effective manner and require economic information to make base decision.

Accounting has been divided into two major areas: financial accounting and management accounting, 'the authority of ASB standards is the requirement in Sections 226-227 Companies Act 1985 (as amended) that accounts must give a 'true and fair view' of the state of affairs of the company and, if appropriate, the group of which it is part' (www.inlandrevenue.gov.uk), therefore every user has a right to know financial information of company, and financial accounting statement must be carefully drafted to disclose what users need to know. Financial accounting reports are general-purpose reports with standardised format and provide users with a broad overview of the position and performance of the business for a period, and they concentrate on information which can be quantified in monetary term. In management accounting, the managers of the business will want to know how things are going. They need financial information in order to plan for the future; they then need more up-to-date information in order to check whether actual performance is on target. This process is known as controlling the costs and finances.

Shareholders

Shareholders, the legal owners, have invested in the business by buying shares. In general, financial accounting report for shareholders is to assess how effective the

managers are running the business and to make judgement about likely levels of risk and return in the future. Financial accounting statement is especially important in case that potential shareholders are considering the purchase of share while other companies contemplating a take over bid (*Alan P 1998, p6*). The common thing between existing and potential shareholders is that they are both interested in the dividend to be paid, and want to know about financial health, influence the share prices and the ability of the business to grow in the future.

Lenders

Lenders want to know the ability if the business to meet its obligations and to pay interest and to repay the principal. Lenders can be divided into long-term or short-term lenders to the business. The common thing is they all have an interest in the security of loans and risk that they might not be repaid. Some long-term lenders may pay attention on fixed assets of business with interest. They want to know whether the profit made is enough to cover the interest and security of their loads. Short-term lenders need to be paid soon for goods or service supplied on credit terms; therefore they are interested in the short-term assets of the business that will soon generate a cash flow from which they are to be repaid.

Government

It is obvious that government wants to know how much tax business could pay for. The financial accounts provide the starting point for the tax Computation, which works from the accounting profit to the taxable profit on which corporation tax is levied (*Alan P 1998, p6*). However, some costs such as depreciation are not allowable for tax purpose and must be added back to the profit, while taxation allowance are then deducted. Therefore capital allowances calculated for the fixed assets are deducted after depreciation is added back to profit. From financial accounting statement, government could also know whether company complies with agreed pricing policies, whether financial support is needed etc.

Customers

Similar with shareholders, customers want to know how effective the managers are running business and financial position of the company in order to see whether the needs of them could be satisfied. They use financial statement to ensure that they are buying from reputable business with sufficient resources to perform according to contract. It is particularly important when a subcontractor or component supplier and where long-term contracts are involved are involved, the customer will need to be on his or her guard to ensure that the business appears able to complete the contract successfully (*Alan P 1998, p6*).

Employees

Employees have inverted their careers rather than their money, they need to an overview to inform them about company performance and the ability of the business to continue to offer employment and to reward employees for their labour with fair and open collective bargaining, however employees often need detailed information at local level which is in a clear and simple non-technical way, and they may require particular statements for its own use, not as traditionally regarded as 'financial' at all (*David A 1996, p12*).

Analysts

This group includes stockbrokers, financial advisers and columnists who are among the most financially sophisticated users of the financial report (*Alan P 1998, p6*). They use financial report to compare with other information they have gathered through various channels to assess the likely risks and returns in order to determine its investment potential and to advise clients accordingly.

Competitor

Financial accounting information of company is not only benefit to users who are investing or working with the company, but also equally benefit to its competitors, which is negative aspect of providing financial accounting information to the public.

Competitors wish to increase their own effectiveness and efficiency by finding out as much as possible about the financial, technical and marketing structure of the business. Competitors can assess the profitability and financial status of rival firms simply by using published financial statements, competitors are interested to see an analysis of the turnover of another business to calculate market share and accessing accounting ratios to compare with the average for a similar group of companies as a measure of performance (*Alan P 1998, p6*). Therefore managers try to preserve some items, and provide only the legal minimum of information.

Managers

‘The management accounting information system is an information system that produce outputs using inputs and process needed to satisfy specific management objectives’ (*David W 1996, p4*). Accounting information can help managers identify problems, solve problems, and evaluate performance. Managers need accounting information to plan for the future. Whatever a business is trying to achieve, managers must have clear in their mind what plans are. Planning is decision-making which is vital for business, and planning involves making decisions about what course of action is best to plan for. However, well planned the activities of the business are not always achieved in practice, therefore control can be defined as compelling events to conform to plan. Accounting is very useful in the control process, it is possible to state plans in accounting terms and it is also possible to state actual outcomes in the same terms, thus it is easy to make comparison between actual and planned outcomes.

To sum up, accounting exists for a particular purpose and that is to help users of accounting information make informed decision. Accounting is as the process of identifying, measuring and communicating business information to facilitate judgements and decision-making. Accounting information is for a wide range of users both inside and outside the business; different users, with different purposes, may require different information about the same items; different users will also require different degree of complexity and depth, therefore it is managers’ duty to provide true and firm report from time to time to users in order to inform them of the success

of their operations, and the disposition of the resources entrusted to their care. However, the confidentiality of some items should be preserve as little as legal minimum. Accounting information also helps managers to make plans for the business and to help them to exercise control and to ensure that plans come to fruition.

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