

Visual Learning Maps

Introductory Financial Accounting



Click to Go to the Website

VIRTUAL TEXT BOOK

Accounting Info – What Is It, and What’s It Used For? – 1 of 2

Music is a universal language; so is Algebra; so is Chess.

And to a large extent - so is Accounting information. Financial transactions are classified and reported through the bookkeeping process that then generates these reports, called the financial statements:

- Statement of Financial Position (Balance Sheet)
- Income Statement
- Statement of Cash Flows
- Statement of Owner’s Equity – proprietorships and partnerships

- Statement of Retained Earnings – corporations

These are virtually standard worldwide. They are the core of financial information. There are statistical relationships between and among these statements that are analyzed in a standard and consistent way to judge the performance of the business.

There are two types of users of financial information:

INTERNAL USERS - Managers, Owners, Company Officers & Directors

First - it is important to understand the difference between data and information. Information is used to evaluate what happened and make decisions about the future; data supports and proves the information.

What defines data or information depends on who is reviewing what figures. This is called “the level of detail.” Owners and company officers and directors look at the highest level - the financial statements. Management looks at financial statements in much greater detail. The lower a manager is in the organizational hierarchy – the greater the detail is under review.

The details of sales and accounts receivable analyzed by managers are of no interest to directors. So – to the directors, this is data. To those managing collections and merchandise planning – this is key information.

Accounting Info – What Is It, and What’s It Used For? – 2 of 2

INTERNAL USERS...continued

Internal users evaluate the month’s results (or quarter or year) in terms of

- How the actual results compare to the plan they were using; and
- The overall performance of the business compared to previous years (months, quarters) and competitors in their industry.

AND...to set the plan for the next accounting period.

EXTERNAL USERS – Suppliers, Investors, Potential Investors, Creditors, Tax & Regulatory Authorities, Unions, Competitors, and Customers

External users analyze financial statements to determine the profitability, liquidity, stability and growth of businesses.

Suppliers, banks, bond holders, leaseholders are particularly interested in determining the credit worthiness of a business. These users are constantly reviewing their credit granting policies and the risk associated with this.

Investors concentrate on evaluating how their investment is doing compared to other investing alternatives available up until now; and if they should continue with their investment. Potential investors make similar evaluations and decisions.

Tax authorities require, by law, financial statements prepared under GAAP to be filed with tax returns; securities regulators require, by law, audited financial statements to be filed for publicly traded enterprises.

Unions examine financial statements for information that is useful for their members and relevant to contractual negotiations with companies.

Competitors are interested in the results of businesses in the same industry to see how they compare.

Customers are interested more in the policies of businesses regarding products they have purchased – products under guarantee or warranty.

Depending on your point of view, **employees** can be considered internal or external users. Regardless – employees are interested in the financial health of the company because it can influence their decisions about the future.