

USERS OF ACCOUNTING INFORMATION

BRANCHES OF ACCOUNTING

Management Accounting

- is a branch of accounting which focuses on the preparation of financial reports used by managers in their day-to-day decision-making.

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Government Accounting

- according to section 109 of PD 1445, it is defined as an accounting system which “encompasses the processes of analyzing, recording, classifying, summarizing, and communicating all transactions involving the receipt and disposition of government funds and properties and interpreting the result thereof.

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Cost Accounting

- is a branch of accounting that provides information for management accounting and financial accounting (Horngren et al. 2011).

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Tax Accounting

- produces tax returns to be filed to the appropriate government agencies.

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Accounting Research

- is a branch of accounting that deals with the creation of new knowledge.

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Auditing

- is an unbiased examination and evaluation of the financial statements of an organization.

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Financial Accounting

- is a branch of accounting primarily handling the recording of financial transactions of business.

Identify what branch of accounting performs the following functions.

1. Provides reports used by internal users only.
2. Tasked with the creation of new accounting knowledge.
3. Follows the NIRC instead of the PFRS and PAS.
4. Provides information to be used by the other branches of accounting.
5. Deals with the identifying of economic transactions, recording such transactions, and communicating the results of operations.

Identify what branch of accounting performs the following functions.

5. Deals with the identifying of economic transactions, recording such transactions, and communicating the results of operations.

6. Enhances the credibility of the financial statements by doing an independent examination and evaluation of the financial statements.

7. Determines the amount payable of each business.

Identify what branch of accounting performs the following functions.

8. Controls the accountancy profession in the country.

9. Reports generated by this branch of accounting depend on the requests of management.

10. Is not required to follow all of the pronouncements of the PFRS and PAS.

Internal and External Users of Financial Information

To be successful, business must interact with countless customers, investors, creditors, and other groups. These outside parties are the main source of income and/or funds that are key factors in determining if a business will be profitable or not. Given the importance of building lasting relationships with these groups, how can a business continue to capture the interest of such groups?

Classify each of the following as either external user (E) or internal user (I):

1. Academe
2. Creditor
3. Customer
4. Employees
5. General Public

Classify each of the following as either external user (E) or internal user (I):

6. Government

7. Management

8. Owners or Stockholders

9. Potential Investors

Type of User	Definition
Customers	Main source of income of businesses; acquire goods and services for a fee.

Type of User	Example of Users
Customers	Patrons, clients, people acquiring goods or services of a company for a fee

Type of User	Definition
Creditors	Providers of additional funds when the initial investment of owners is exhausted; lend resources to businesses usually in the form of money.

Type of User	Example of Users
Creditors	Banks, lending institutions, wealthy individuals; sometimes the government can also lend resources to a company

Type of User	Definition
Potential Investors	Providers of additional funds when the initial investment of owners is exhausted; invest resources in the business hoping to earn decent returns.

Type of User	Example of Users
Potential Investors	Wealthy individuals, other businesses planning to invest.

Type of User	Definition
Government	An external user whose primary role is to regulate businesses; studies financial statements to determine the amount of taxes payable.

Type of User	Example of Users
Government	Different government agencies, taxing authorities, government officials.

Type of User	Definition
Academe	Uses accounting information primarily for academic purposes

Type of User	Example of Users
Academe	Professors, lecturers, students and researchers

Type of User	Definition
General Public	Citizens and residents of the country even though they do not plan to transact with the business; use financial statements to gauge the condition of the economy.

Type of User	Example of Users
General Public	Common people not connected to the company.

Type of User	Definition
Management	Employees that can make decisions for the company; considered the brain of the company.

Type of User	Example of Users
Management	Board of directors, top management, middle-level managers, supervisors.

Type of User	Definition
Employees	Persons in the company aside from managers and owners or stockholders; do not have authority to implement decisions

Type of User	Example of Users
Employees	Laborers, field workers, non-managerial employees.

Type of User	Definition
Owners or Stockholders	Existing investors of the company; concerned mostly with the profits of the company.

Type of User	Example of Users
Owners or Stockholders	Founders of the company, owners, stockholders, partners, proprietors.

Type of User	Decisions/Benefits
Customers	Whether or not to build relationship with the business, to have any dealings with the business.

Type of User	Decisions/Benefits
Creditors	Whether or not to lend resources to the business; try to see if the business is not very risky before lending funds.

Type of User	Decisions/Benefits
Potential Investors	Whether or not to invest in the business; primary concern is the ability of the business to provide acceptable returns.

Type of User	Decisions/Benefits
Government	Oversees business operations with the end goal of improving economy; checks the accuracy of the financial statements to compute the correct amount of taxes payable.

Type of User	Decisions/Benefits
Academe	Uses accounting information in the teaching of accountancy; researches loopholes and possible improvements in the field of accountancy.

Type of User	Decisions/Benefits
General Public	Concerned with the overall performance of the economy; use financial information to estimate economic performance.

Type of User	Decisions/Benefits
Management	Uses financial information in making business decisions; allows management to identify problems immediately and to respond accordingly.

Type of User	Decisions/Benefits
Employees	Check if the business is profitable enough to provide compensation and other benefits.

Type of User	Decisions/Benefits
Owners or Stockholders	Mainly concerned with the returns earned from their investment; owners taking active roles in the operations of the business; also make decisions.

There are many types of creditors. Creditors can be banks, financial lending institutions, wealthy individuals, and the government. Which creditor is exposed to the highest level of risk when lending to a company?

In one-fourth sheet of paper

From the type of decisions made using accounting information and or benefits from accounting information, identify the corresponding type of users.

Type of User	Decisions/Benefits
(1)	Concerned with the overall performance of the economy; use financial information to estimate economic performance.

Type of User	Decisions/Benefits
(2)	Whether or not to lend resources to the business; try to see if the business is not very risky before lending funds.

Type of User	Decisions/Benefits
(3)	Whether or not to invest in the business; primary concern is the ability of the business to provide acceptable returns.

Type of User	Decisions/Benefits
(4)	Oversees business operations with the end goal of improving economy; checks the accuracy of the financial statements to compute the correct amount of taxes payable.

Type of User	Decisions/Benefits
(5)	Whether or not to build relationship with the business, to have any dealings with the business.

Type of User	Decisions/Benefits
(6)	Uses financial information in making business decisions; allows management to identify problems immediately and to respond accordingly.

Type of User	Decisions/Benefits
(7)	Uses accounting information in the teaching of accountancy; researches loopholes and possible improvements in the field of accountancy.

Type of User	Decisions/Benefits
(8)	Mainly concerned with the returns earned from their investment; owners taking active roles in the operations of the business; also make decisions.

Type of User	Decisions/Benefits
(9)	Check if the business is profitable enough to provide compensation and other benefits.