

BRANCHES OF ACCOUNTING

Learning Objective

- To differentiate the branches of accounting and explain the kind or type of services rendered in each of these branches

Key Understanding

- Understanding of the branches of accounting and solve exercises in the identification of these branches described through the types of services rendered

Key Question

- What are the branches of accounting?

Branches of Accounting

1. Financial accounting
2. Management accounting
3. Government accounting
4. Auditing
5. Tax accounting
6. Cost accounting
7. Accounting education
8. Accounting research

Financial Accounting

- **Financial accounting** is a branch of accounting primarily handling the recording of financial transactions of a business. The financial transactions are later summarized into standardized accounting reports, more popularly known as the *financial statements*, for the benefit of internal and external users.

Financial Accounting

- Financial statements should provide information useful to a wide range of users in their economic decisions. This is the main reason why accounting standards such as the Philippine Financial Reporting Standard (PFRS) and the Philippine Accounting Standards (PAS) are created. The PFRS and PAS supply guidelines on how companies should prepare their financial statements. Standardized financial statements allow the users to compare the results of operations of different companies regardless of size and nature.

Financial Accounting

- Financial accounting is the broadest branch and is focused on the needs of external users. Financial accounting is primarily concerned with the recognition, measurement and communication of economic activities. This information is communicated in a complete set of financial statements. It is assumed under this branch that the users have one common information need.

Financial Accounting

- Examples of these financial reports include:
 - the balance sheet (statement of financial condition)
 - income statement (the profit and loss statement, or P&L)
 - statement of cash flows
 - Statement of changes in equity
 - Notes to financial statements
- Financial accounting is primarily concerned with processing historical data. Although financial accounting generally meets the needs of external users, internal users of accounting information also use these information for their decision-making needs.

Financial Accounting

- Likewise, standardized financial statements are also useful for creditors. Besides enhancing comparability, standardized financial reports improve the understandability of the company's financial statements. Creditors will be able to assess the riskiness of a company through the well-presented financial statements.
- As stated above, financial accounting caters to the need of both internal and external users. However, it is evident that financial accounting's main goal is to provide the information needs of external users that have no capability to request information directly from management..

General Purpose Financial Statements

- Are the financial statements prepared to accommodate the information needs of persons who have no capability to request or acquire information directly from the company?
- If the answer is yes, the financial statements are called *general purpose financial statements*. Otherwise, the financial statements are called *special purpose financial statements*.

General Purpose Financial Statements

Primary Users of General Purpose Financial Statements	Primary Users of Special Purpose Financial Statements
<ul style="list-style-type: none">• Investors• Creditors• Shareholders/Stockholders• Government Agencies• Auditors• Other interested outside parties	<ul style="list-style-type: none">• Top management (e.g., Board of directors of a company, CEO, CFO, COO)• Department managers (e.g., sales manager, production manager)• Other internal parties

- Predominantly, external parties use general purpose financial statements to evaluate the performance of the company.
- On the other hand, specific purpose financial statements are utilized by internal parties to guide them in the decision-making process for the company.

Management 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.
- Reports generated using management accounting are for internal users only. As such, management reports need not follow accounting standards such as the PFRS and PAS.

Management Accounting

- Additionally, unlike financial reports that are generated quarterly, semi-annually, or annually, management reports can be done daily, weekly, or whenever managers require a specific report.
- Management reports typically contain information regarding the amount of cash on hand, the level of sales revenue for a particular period, costs incurred, or even the comparison of actual results with budgeted amounts.

Management Accounting

- Managerial accounting involves financial analysis, budgeting and forecasting, cost analysis, evaluation of business decisions, and similar areas.
- Aside from the frequency and the intended users of reports, management accounting differs from financial accounting in the nature of information produced.
- Financial accounting summarizes financial information gathered within a specified period. Thus, financial accounting provides information that is historical. Meanwhile, management accounting information is forward-looking. It contains forecasted information used by managers in planning.

Management Accounting

Role of Management Accountants

According to the Chartered Institute of Management Accountants (CIMA), chartered management accountants perform the following roles:

- ✓ Advise managers about the financial implications of projects
- ✓ Explain the financial consequences of business decisions
- ✓ Formulate business strategy
- ✓ Monitor spending and financial control
- ✓ Conduct internal business audits
- ✓ Explain the impact of the competitive landscape
- ✓ Bring a high level of professionalism and integrity to the business

Management Accounting Skill Set

- ✓ **Analysis.** Management accountants should be able to analyze information and use it to make business decisions.
- ✓ **Strategy.** Management accountants should be able to formulate business strategies that will increase the company's wealth and create value for the company's shareholders.
- ✓ **Risk.** Management accountants should be able to identify risks that can potentially have detrimental effects to the company. At the same time, management accountants should give recommendations on how to manage such risks.
- ✓ **Planning.** Management accountants should be able to apply accounting techniques in the planning and budget creation phase of a business.
- ✓ **Communication.** Management accountants should be able to identify what information the management needs and also explain the numbers to nonfinancial managers.

Ethical Code

- Even though management reports do not follow the requirements imposed by accounting standards like the PFRS and PAS, management accountants are still expected to follow the CIMA code of ethics.

Government Accounting

- According to Section 109 of Presidential Decree 1445, *government accounting* is defined as an accounting system which “encompasses the process of analyzing, recording, classifying, summarizing, and communicating all transactions involving the receipt and disposition of government fund and property and interpreting the result thereof.”
- This branch of accounting deals with how the funds of the government are recorded and reported.

Government Accounting

- Section 110 of the same decree lays down the objectives of government accounting:
 1. To provide information concerning past operations and present conditions
 2. To provide a basis for guidance for future operations
 3. To provide for control of the acts of public bodies and offices in the receipt, disposition, and utilization of funds and property
 4. To report on the financial position and the results of operations of government agencies for the information and guidance of all persons concerned

The New Government Accounting System

- As citizens of the Philippines, we are very much concerned on the stewardship of the government of public resources. We do not want the country's funds to be used for personal reasons by erring public officials. Instead, we want these funds to be used for public projects that will benefit many constituents.

The New Government Accounting System

- One of the main features of the NGAS is that it enhances responsibility accounting in all agencies. Simply stated, responsibility accounting relates financial results to a particular responsibility center (i.e., agency). If there is a problem with the handling of funds by the DPWH, for example, people in that agency will be the ones accountable. This system of placing accountability in each agency discourages misappropriation and misuse of public funds.

Government Accounting Process

- Government accounting starts after the declaration of the General Appropriations Act (GAA). The GAA is the enacted budget of the country for the upcoming year. The GAA has the force of law and it states how much an agency can spend for the year. If it is indicated that ₱500M is available for the DPWH to implement its projects, the agency cannot spend more than this amount.

Government Accounting Process

- The government accounting process involves the Commission on Audit (COA), the Department of Budget and Management (DBM), the Bureau of Treasury (BTr), and all other government agencies.
- The COA is responsible for the keeping of the government's general accounts. Think of our government as one big, non-profit organization. The COA is tasked to keep and update the accounting books of the whole organization. Moreover, the COA disseminates accounting rules and regulations to be used by all agencies.

Government Accounting Process

- In accordance with Section 2, Chapter 1, Title XVII, Book IV of the Administrative Code of the Philippines, “The Department of Budget and Management shall be responsible for the formulation and implementation of the National Budget with the goal of attaining our national socio-economic plans and objectives. The Department shall be responsible for the efficient and sound utilization of government funds and revenues to effectively achieve the country’s development objectives.”

Government Accounting Process

- The BTr is responsible for the safekeeping of the national funds. It serves like a bank where the funds are kept. Although its main role is the safekeeping of funds, the BTr is also responsible for the management and control of the disbursements of such funds. Furthermore, the agency is also responsible in maintaining accounts of financial transactions of all natural government agencies.

Auditing

- **Auditing** is an unbiased examination and evaluation of the financial statements of an organization (*Investopedia.com*). Auditing is a process that includes numerous steps to determine whether or not a company's financial statements are presented truthfully.

Auditing

- Accountants that perform the auditing procedure are specifically called *auditors*. Auditors, aside from having the competence to perform their roles, should also be independent from the company being audited. Independent auditors have no connection with the company. If an employee of the company is the one who examines and evaluates the financial statements, the fear of the users that the results are manipulated will not be alleviated.

Auditing

- There are two types of auditing: external and internal auditing.
- **External auditing** refers to the examination of financial statements by an independent CPA (Certified Public Accountant) with the purpose of expressing an opinion as to fairness of presentation and compliance with the generally accepted accounting principles (GAAP). The audit does not cover 100% of the accounting records but the CPA reviews a selected sample of these records and issues an audit report.

Auditing

- **Internal auditing** deals with determining the operational efficiency of the company regarding the protection of the company's assets, accuracy and reliability of the accounting data, and adherence to certain management policies. It focuses on evaluating the adequacy of a company's internal control structure by testing segregation of duties, policies and procedures, degrees of authorization, and other controls implemented by management.

Auditing

- An audit of the financial statements improves their credibility. Financial statements that underwent the process of auditing are called **audited financial statements**. A set of the financial statements will only be useful to users after it has gone through the process of auditing.
- Audited financial statements are accompanied by the auditor's opinion. The auditor's opinion will be the basis whether or not the financial statements are prepared truthfully and without any material errors.

Tax Accounting

- The recording of financial transactions mentioned in the previous chapter follows specific guidelines provided by the PFRS and PAS. Tax accounting records some financial transactions in a different manner. It adheres to some guidelines in the PFRS and PAS, but it is not required to implement everything written in such standards.
- Tax accounting follows the pronouncements of the National Internal Revenue Code (NIRC). The NIRC is to tax accounting as the PFRS and PAS are to financial accounting.

Tax Accounting

- Tax accounting helps clients follow rules set by tax authorities.
- It includes tax planning and preparation of tax returns. It also involves determination of income tax and other taxes, tax advisory services such as ways to minimize taxes legally, evaluation of the consequences of tax decisions, and other tax-related matters.

Tax Accounting

- To illustrate the difference, let us look at a particular example. Starbucks offers its customers a card that you can use to pay for your orders. The process is simple. You ask the cashier to load the card; you pay for the amount of load; and then your card will reflect the balance available for you to use. You can use the card for future transactions with Starbucks. Under the PFRS and PAS, Starbucks will not recognize the amount you paid as revenue until you use the balance in your card in the future. Under the NIRC, Starbucks recognizes the revenue when the company received the payment from you. Thus, if Starbucks recognizes the revenue, it is taxable.

Tax Accounting

- Tax accounting enables the taxing authorities to collect taxes that differ from the amount due computed using the financial accounting standards.
- Another key difference lies in the type of report generated. Financial accounting generates reports known as the financial statements while tax accounting produces tax returns to be filed to the appropriate government agencies.

Cost Accounting

- **Cost accounting** is a branch of accounting that provides information for management accounting and financial accounting (Horngren et al.).
- It is sometimes considered as a subset of management accounting.
- Cost accounting refers to the recording, presentation, and analysis of manufacturing costs. Cost accounting is very useful in manufacturing businesses since they have the most complicated costing process.

Cost Accounting

- Cost accountants also analyze actual and standard costs to help managers determine future courses of action regarding the company's operations.
- For example, cost accounting helps measure the cost of a bicycle for a bicycle-selling company. This information supports management in deciding how many bicycles to produce, the selling price of the bicycle, or valuing the inventory of bicycles in the company's financial statements.

Cost Accounting

Terms Used in Cost Accounting

- ✓ Cost – the resource sacrificed to achieve an objective (e.g., money, resources, time, etc.)
- ✓ Cost object – anything that you wish to find the cost of (e.g., cost of a pair of jeans, cost of a pair of Jordan XI shoes)
- ✓ Cost driver – an activity that is a cause of the incurrence of costs (e.g., the number of working hours is related to the amount of salaries a company pays)
- ✓ Direct cost – costs that can economically be traced to a cost object (e.g., materials, labor, etc.)

Cost Accounting

Terms Used in Cost Accounting

- ✓ Indirect cost – costs that cannot be traced to a cost object (e.g., costs of supplies used in the factory, salary of supervisor overseeing factory operations, etc.)
- ✓ Fixed cost – costs that do not change within a relevant range of activity (e.g., rent of a factory building, insurance costs, etc.)
- ✓ Variable cost – costs that change as the level of activity or production increases (e.g., materials cost, labor cost, selling cost, etc.)

Accounting Education

- This branch of accounting deals with developing future accountants by creating relevant accounting curriculum.
- Accounting professionals can become faculty members of educational institutions.
- Accounting educators contribute to the development of the profession through their effective teaching, publications of their research and influencing students to pursue careers in accounting.
- Accounting teachers share their knowledge on accounting so that students are informed of the importance of accounting and its use in our daily lives.

Accounting Education

- The Bachelor of Science in Accountancy (BSA) in the Philippines is normally a 5-year course composed of subjects in accounting, audit, administration, and business laws and taxation. Although the subjects usually highlight the business environment, the scope of the topics in BSA also covers other fields such as banking and finance, government, nonprofit organizations, and the academe. Students of the course are also trained to create and understand computerized accounting systems to cope with the rapidly changing technology.

Accounting Education

- Most schools use a combination of diverse teaching techniques to explain accountancy to students. Some of these methods are classroom discussions, case analysis, individual and group reporting, feasibility studies, and lectures from renowned individuals in the field. Other schools require students to undergo an internship program equivalent to one subject. This is to enable the students to have a feel of the application of accounting in real life.

Accounting Education

Admission Requirements for BSA

- ✓ Must be a high school graduate
- ✓ Must have a college entrance examination of above average or depending on the specific rating set by the school
- ✓ Aside from the college entrance examination, must pass the separate aptitude test specific for BS in Accountancy
- ✓ Must pass the interview conducted by the college admission officer

Accounting Education

Admission Requirements for BSA

- ✓ Some schools require a high school QPA of 85% and above with no grade less than 80% in all subjects
- ✓ There are schools who require students to have an 85% or higher average rating in the National Secondary Assessment Test (NSAT)
- ✓ As set by CHED, all schools must conduct an English Proficiency examination to all BS in Accountancy applicants
- ✓ Admission for Philippine Educational Placement Test (PEPT) passers mainly depends on the school's discretion since some colleges and universities offer only selected courses

Accounting Education

Board Exam

- ✓ Before a BSA graduate can practice accountancy, he/she needs to pass the Certified Public Accountant Licensure Examination. The CPA Licensure Exam is a comprehensive test composed of 7 subjects. Each subject will be taken within 3 hours so the exam will be for 21 hours all in all. A candidate should achieve a general average of at least 75% with no rating below 60% in any of the 7 subjects in order to pass the exam.

Accounting Research

Accounting research, as the name suggests, is a branch of accounting that deals with the creation of new knowledge. Combining the models produced by the hard sciences in research and testing with financial statements, stock prices, surveys, and experiments, we can gain a specific perspective and basis on the following:

- ✓ Deciding and implementing new accounting and auditing standards
- ✓ Presenting unusual economic transactions in the financial statements
- ✓ Learning how new tax laws impact clients and employers
- ✓ Discerning how the accounting profession affects the capital markets through academic accounting research

Accounting Research

- Academic accounting research "addresses all aspects of the accounting profession" using a scientific method. Practicing accountants also conduct accounting research that focuses on solving problems for a client or group of clients. The Accounting research helps standard-setting bodies around the world to develop new standards that will address recent issues or trend in global business.