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Financial and managerial accounting the basis for business decisions 17th edition pdf

Financial accounting is a specific type of accounting that is used by businesses to prepare reports on the finances of a firm for people outside of the organization, such as stockholders or government agencies. It is governed by specific accounting standards to insure uniformity in reporting. The function of financial accounting is to prepare reliable reports on a business's financial state at any given time. Corporations and other large businesses typically prepare reports on a regular schedule; at a minimum, yearly. A financial accounting report does not interpret, or provide advice on, the financial health of a company. Rather it reports objective financial information in a specific format for the viewer to interpret. Financial accounting creates a public record of a company's historical financial performance, which allows stockholders and other stakeholders outside of the organization to get a clear picture of a business's financial health. Because financial accountants must follow a strict set of accounting principles, stakeholders can be assured that the information they are receiving is accurate and objective. They can then make predictive assumptions on performance and base future financial decisions on these assumptions. There are two primary types of business accounting: managerial and financial accounting. Managerial accounting focuses on interpreting financial information for use within the company to assist managers in making decisions. Managerial accounting reports can be presented in any format, and do not have to adhere to specific accounting principles, except insofar as good practice and ethical standards are followed. Financial accounting follows generally accepted accounting principles (GAAP) and is not used for internal decision-making. One very important distinction between managerial and financial accounting is that a managerial accounting report is future-oriented and addresses the financial needs of the company, while a financial accounting report is based strictly on historical, past financial performance. As financial accounting statements are used by many different people outside of an organization, financial accounting follows a set of standards that include what are called 'generally accepted accounting principles' (GAAP). The Financial Accounting Standards Board (FASB) is a U.S.- based organization that develops these standards. While financial accounting specialists are, CPAs (Certified Public Accountants), many organizations prefer to hire CMAs (Certified Management Accountants) to take care of internal financial records, as they are specifically trained in preparing reports regarding internal cost measures and accounting for managerial review. In order to pursue a career in financial accounting, one must complete an approved program of study to become a CPA, certified public accountant. There are a number of schools that offer Associate degrees in accounting; however, some employers prefer to hire accounts who have completed a Bachelors degree in Accounting with additional coursework in business. All CPAs must pass a licensure exam to qualify to practice as a CPA. The U.S. Bureau of Labor Statistics states that the job outlook for CPAs is excellent, with above-average job growth, owing to increasing numbers of businesses and "greater scrutiny of company finances." Accounting has been called the language of business and is used in many different situations. Cost accounting is used to streamline manufacturing operations. Managerial accounting is used to compile data necessary for sound management decisions. Financial accounting is used to report the financial result of a company's operations. Public companies are required to report their results to the public while private companies report to their owners. In either case financial statements are created and the results are analyzed. That process is financial accounting. Financial accounting is used to report the outcome of business operations in monetary form. To do this the accounting department uses financial accounting techniques to create an income statement. The income statement is also called the profit and loss statement. As the name indicated it reports whether or not the company had a profit or a loss over a given period of time. Public companies report and publish their income statements with the Securities and Exchange Commission (SEC). Private companies perform the same procedures but they do not publish the outcome. Financial accounting is also used to determine a companies financial position for a specific period in time. This process is repeated monthly, quarterly and annually. The accounting department creates a balance sheet which provides the financial position of the company at a given time. The balance sheet contains the status of the companies asset, liability and equity accounts. This information is critical in determining liquidity, solvency and the future viability of the business continuing operations. Different businesses in different industries have varying monthly cash needs. However, using financial accounting, the accounting department, has the ability to create cash flow statements. Used for managerial accounting as well, cash flow statements examined over a period of time can generate a history of cash fluctuations. This data can be used to report the company's cash position and going concern theory. The going concern theory is a test of whether a company can continue operations. Financial ratios are computed when the financial statements are created. These ratios tell an investor or manager how well positioned an organization is to continue operations. These ratios determine a company's liquidity. Liquidity is the measure of a company's ability to pay their short term debt when it comes due. Solvency is the measure of how well a company will be able to meets its long term debt obligations. These ratios are critical in determining the health and long term vitality of a company since the financial statements only report for a certain period. Decisions require information. Making a decision without a basis or intelligence on the subject matter is called gambling. All of the financial accounting tools mentioned here are used to make solid management decisions. Decisions on whether to borrow to cover cash needs, invest surplus cash and expand production or possible the production line. This financial data is instrumental in these decisions. Financial reporting is required by all public US companies. This process is complex and time consuming. However, it is easier to explain. Quarterly and annually public companies report their results and publish their outcomes with the SEC, mentioned earlier in this article. This is the most obvious use of financial accounting data. The role of ethics in financial management is legal, practical and moral. You must keep your books with honesty and integrity because you are legally required to do so in a way that accurately reflects your company's financial workings. Ethical accounting also makes sound practical sense because an accurate set of books will give you more useful information than pure fiction. Of course, using a moral compass in accounting and financial decision-making is simply the right thing to do. Ethics requires honesty and accuracy in accounting. Moral principles also address conflicts of interest in financial decision making. Ethics is important enough in accounting to have earned a dedicated set of principles. Independence and objectivity. In order to provide fair and accurate information, accountants must approach their work free from bias or agenda. Having preconceptions can affect the accuracy of financial data. Having a stake in the outcome can likewise interfere with letting the numbers tell their own story as clearly and honestly as possible. Integrity. Accountants are morally and legally obligated to do their work with conscience — that is, to exercise honesty and a willingness to handle information thoroughly and carefully. It is their responsibility to engage in fair and accurate reporting with regard to the veracity of the data they provide as well as its completeness. Confidentiality. Accountants handle sensitive information, and they are morally obligated to make sure this information isn't shared with anyone who doesn't have the right to see it. This ethical obligation is especially important for public accountants who handle the books for multiple companies but must not divulge one client's information to another. Competence. It may seem strange to include as an ethical guideline for accountants the obligation to perform work competently. However, the act of performing a professional service includes both an ethical and a professional commitment to do it right. Shoddy accounting puts a client at risk of legal trouble and poor decisions. Professional behavior. Accountants are also responsible for performing work in accordance with the standards set by their profession. These include legal parameters as well as guidelines set by trade organizations that protect the integrity of the industry as a whole. Whether your company hires an outside financial manager or manages its finances in house, ethical considerations are both necessary and expedient. Finance is the process of managing money and maintaining a set of books that provides insights on how your company earns and spends its cash. Attending to this process with honesty and integrity allows you to present your financial situation accurately, both internally and externally. Your financial reports represent your profit and loss, net worth and cash flow situation. When you use them to understand and improve operations, it is an ethical imperative to present this information in ways that are clear and honest. Whether you are assessing efficiency and profitability or evaluating whether it makes sense to invest in future growth, approaching these documents with a sound moral compass helps you to provide the people who review them with the information they need to make the best possible decisions. Business partners and stakeholders have a right to know whether your business is earning or losing money and whether they are making investments in an organization with a firm or shaky foundation. Showing a crooked set of books may help you to secure financing that will be convenient and expedient but may be in neither your best interest nor the lender's if your business model is not sound enough for you to repay what you borrow. A utilitarian approach to ethical thinking argues that moral behavior yields the greatest good for the greatest number of people. If you present financial statements that inflate your net worth and secure financing for a risky venture, you may further your own short-term interests, but you deceive lenders and investors by not offering them the benefit of an honest evaluation of your loan worthiness. By borrowing money that you secure via false information, you may not even be acting in your own best interests, especially if you are pledging collateral for a loan. The bank's process of evaluating your financial reports may seem cumbersome and inconvenient, but it is designed with an eye toward the mutual best interests shared by you and the lender. If your business isn't ready to expand or invest in pricey infrastructure, it isn't a good idea to do so. Even if the money you borrow or land in investments is unsecured, and you lose nothing by losing someone else's money, you can still do broader damage by misrepresenting your situation. If a bank makes too many unsound investments, it will be forced to use stricter criteria going forward. This may lessen the possibility that someone else who is more deserving may not be able to get useful capital. You may further your own interest, but your actions are immoral by utilitarian standards because they ultimately do more big-picture harm than good. A categorical imperative is a more abstract approach to ethical thinking. Rather than expressing moral principles in terms of their costs and benefits, a categorical imperative weighs the motivation behind an action and judges whether it has merit on principle. The 18th century philosopher Immanuel Kant framed the categorical imperative as a question of whether the maxim behind an action could be used as a universal moral principle. If you misrepresent your financial situation to borrow undeserved funds or lower your tax liability, you act out of pure self-interest, disregarding the needs of lenders, other taxpayers and other patrons of your lending institution. Self-interest works in the short term for a limited number of people, but if everyone acted purely out of self-interest, the world would be entirely vicious and morally bankrupt. Most unethical practices in accounting and finance stem from a desire for more money that has not been rightfully earned. If this single-minded pursuit of money at the expense of honesty, integrity and kindness were a universal practice, then ethical principles would be largely irrelevant, and charity and generosity would be obsolete. Although this may seem like a leap from simply fudging some numbers on your financial reports, ethical evaluation based on a categorical imperative requires you to take this perspective. Questions of ethics in finance and accounting are often framed in black-and-white terms, with moral choices presented as simple and clear. In reality, ethical questions in finance can be fuzzy and complex, forcing you to ask difficult questions and make ongoing judgement calls. For example, you may have had a difficult year when you lost money, but you fully understand your market and your opportunities, and you know that a cash infusion would be a sound investment for a lender or banker despite your problematic recent financial history. In addition, you may have the opportunity to create high-quality jobs if you receive the funding you seek. It's possible that the potential moral benefits of misrepresenting your financial situation may outweigh the ethical questionability of presenting inaccurate financial statements. However, the good that comes from your ability to provide jobs may be outweighed by the risk you take for yourself and the employees you hire. It is important to keep asking difficult questions even if the answers are unclear and inconvenient. Information from financial statements influences business decisions by providing data that enables you to shift your planning and anticipate upcoming cash flow crunches. To get the most from your financial statements, prepare them regularly and base them on thorough, current information. Honest accounting data enables you to make solid, informed decisions. Your balance sheet provides an overall picture of the financial health of your business by comparing assets and liabilities, and calculating your net worth. Balance sheets influence business decisions by showing whether you can afford new investments, placing these decisions in the context of a bigger picture. If there is credit available to your business, it can be easy to lose sight of the fact that these capital infusions do not represent actual income. A balance sheet influences business decisions by reminding you of this reality. Income statements influence business decisions by providing information about your company's profitability, pointing to areas where you could be earning more or spending less. An income statement lists all of your company's sources of income, as well as all of its categories of expenses. This format enables you to evaluate whether your company is disproportionately focused on a particular type of sales activity, such as wholesale or retail, and to decide whether you wish to create a more balanced revenue stream. In addition, the information on an income statement could help you decide to cut expenses in a particular area to improve your overall margins. A cash flow projection influences business decisions by highlighting periods when you will be short of cash, enabling you to save during more bountiful times or think ahead to secure needed funding. By showing how much cash will be flowing into and out of your business over the coming year, your cash flow projection provides you with an essential planning tool, enabling you to make financial decisions to avert cash flow difficulties before they develop into full blown crises. Your financial statement helps you make business decisions by enabling you to make an overall assessment of your business activities from a financial perspective. If your income statement shows that you are earning a profit but your balance sheet shows that you have no cash saved, then this information can steer you toward decisions that will improve your rate of savings. If your balance sheet shows that you have capital available, but your income statement shows that you are losing money, this information can help you decide to use available resources more frugally.