

# Chapter 1

## Overview of Managerial Accounting

### Basic Objective of Accounting

The basic objective of **ACCOUNTING** is to provide **STAKEHOLDERS** with **USEFUL INFORMATION** about a **BUSINESS ENTERPRISE** in order to help them make rational economic **DECISIONS**.

### Qualitative characteristics of Accounting Information:

In order for **ACCOUNTING** information to be characterized as **USEFUL**, it should have two **primary** characteristics: **Relevance** and **Reliability**.

#### **RELEVANCE:**

Information has the quality of relevance when it is 'capable of making a difference in the economic decisions of users. In order for information to be relevant, it should possess three attributes:

- a. **Predictive Power:** Capacity to improve your ability to predict the future.
- b. **Feedback Value:** (Confirm or Disconfirm prior expectations)
- c. **Timeliness:** Information should reach the decision maker on time.

#### **RELIABILITY (Verifiability):**

Information has the quality of reliability when the information can be trusted and hence depended upon by the users. For the information to be reliable, it should meet three attributes: representational faithfulness, verifiability and neutrality.

- a. **Representational Faithfulness:** Information should faithfully represent what it purports to represent.
- b. **Precision:** Information should be supported by objective evidence.
- c. **Neutrality:** Information should be free from material errors and bias.

### Basic Objective of Financial Accounting

The basic objective of **FINANCIAL ACCOUNTING** is to provide **EXTERNAL STAKEHOLDERS** (*e.g., investors, creditors, financial analysts, etc.*) with **USEFUL FINANCIAL INFORMATION** about a **BUSINESS ENTERPRISE** in order to help them make rational economic **DECISIONS**.

### Basic Objective of Managerial (Management) Accounting

The primary role (basic objective) of **MANAGERIAL ACCOUNTING** is to provide **INTERNAL STAKEHOLDERS** (*i.e., managers of a company at all levels*) with **USEFUL FINANCIAL & NON-FINANCIAL INFORMATION** about a **BUSINESS ENTERPRISE** in order to help them make rational economic **DECISIONS**.

**AUDITING** is the process of making sure that the financial statements are prepared in accordance with the generally accepted accounting principles (GAAP/IFRS).

**Figure 1**  
**Users of Accounting Information (Stakeholders)**

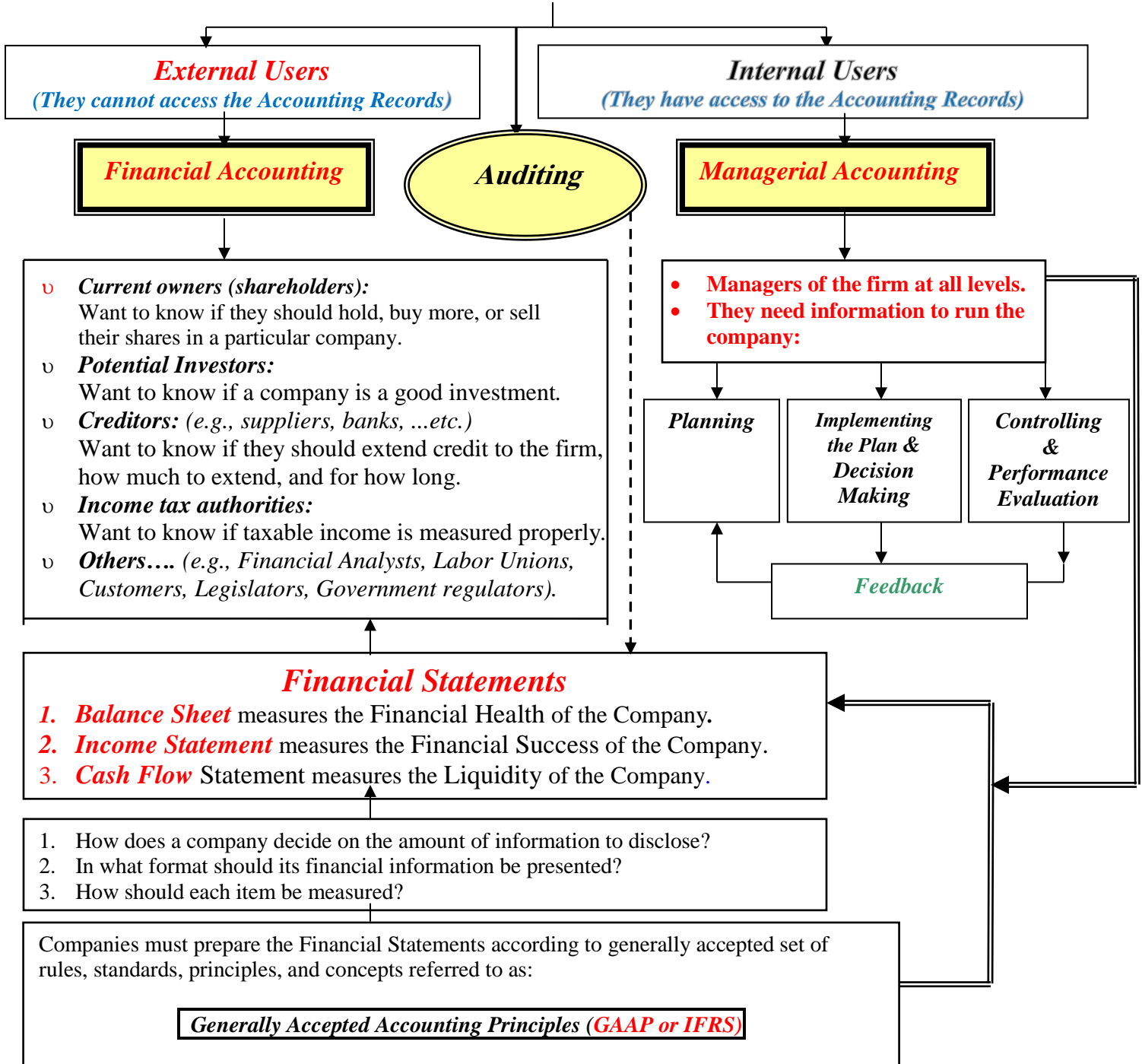
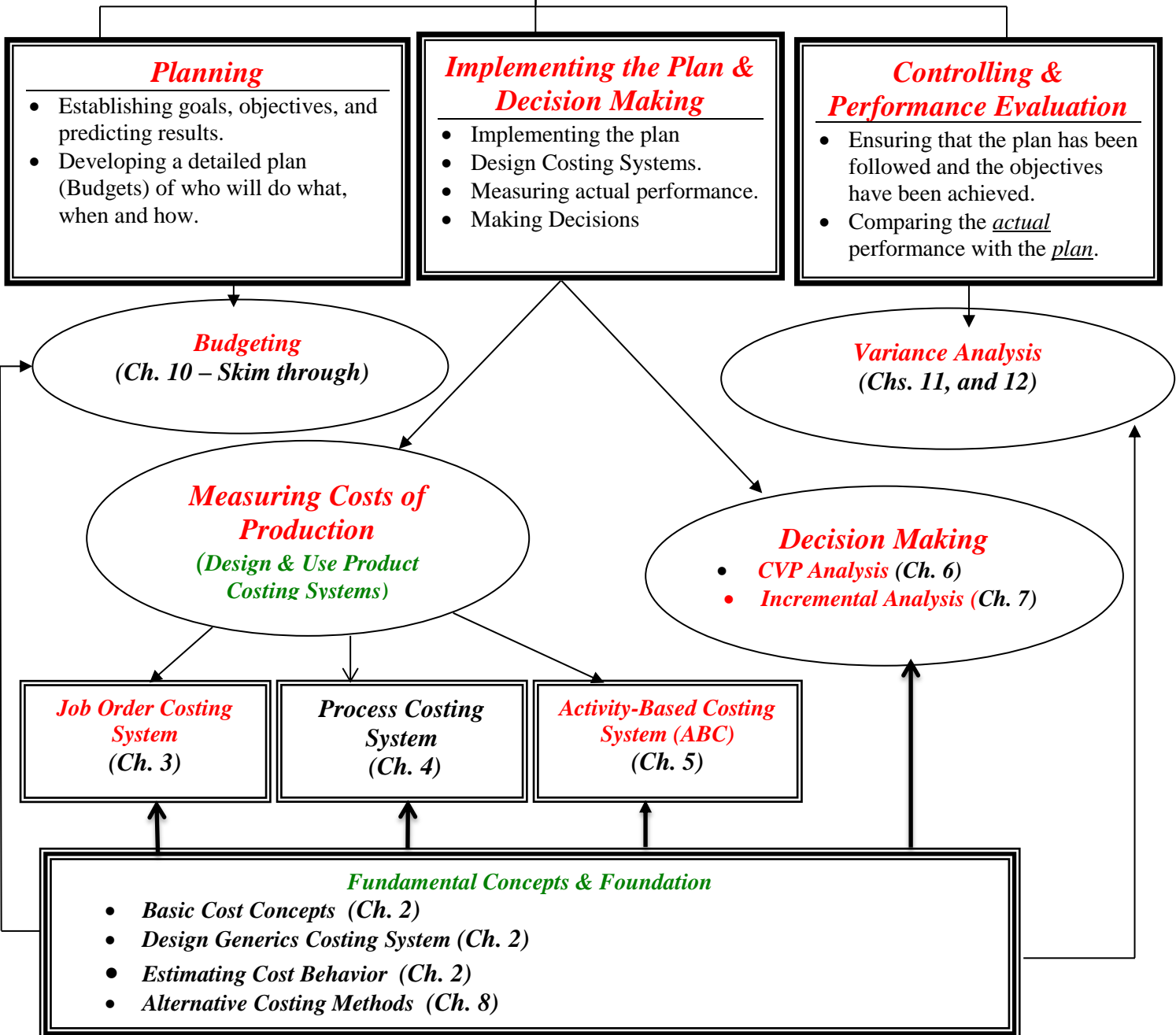
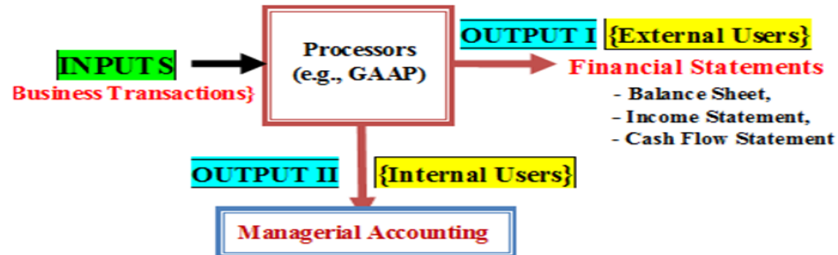


Figure 2  
Accounting System



## *Comparing Managerial Accounting with Financial Accounting*

There are both **similarities** and differences between managerial and financial accounting.

- Both fields of accounting deal with the economic events of a business and require that the results of that company's economic events be quantified and communicated to interested parties.
- The two fields **differ** along several dimensions including: primary users of reports, types and frequency of reports, purpose of reports, content of reports, and verification process.

<i>Perspective</i>	<i>Financial Accounting</i>	<i>Managerial Accounting</i>
<i>Primary Users</i>		
<i>Types of information</i>		
<i>Time Orientation (focus)</i>		
<i>Purpose of reports</i>		
<i>Frequency of Reporting</i>		
<i>Level of Aggregation</i>		
<i>Rules &amp; Regulations of Reporting</i>		
<i>Trade-off between reliability and relevance</i>		
<i>Verification process</i>		