


Slide 1

**1.4 What financial information users need to make good decisions**

- Objectives
  - Why the need to know financial information
  - User types
  - Accounting information reports
  - Qualitative characteristics of information
  - Principles and Assumptions



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Slide 2

**What financial information users need to make good decisions?**

- There is much that needs to be understood about the communication of financial information to various users
- First there are two broad categories
  - Internal Users
  - External Users
- Second, there is a "Hierarchy of Qualitative Characteristics of Accounting Information" that must be met
- Third, there are several Assumptions & Principles of Accounting information that need to be taken into account
- And finally, accounting information is complex and requires individuals to "reason" through the information



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Slide 3

**Internal Users**

- Common Internal Users
  - Management
  - Employees
- Examples of Information Needs
  - What are the Sales are for the period?
  - What are the cost of sales are for the period?
  - How does this differ from last period?



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Slide 4

### External Users

- Types of External Users
  - Stockholders
  - Creditor
  - Suppliers
  - Customers
- Examples of Information Needs
  - Will my investment grow
  - Can they pay the loan
  - Can they pay for materials
  - Can they supply my needs



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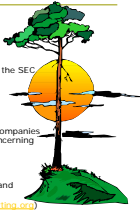
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Slide 5

### How Accounting Information is Communicated

- Basic Reports
  - Annual and Quarterly Reports
    - Glossy reports published by the company
    - Regulatory reports filed with the SEC
      - 10K – plain wrapper annual report filed with the SEC by the company
      - 10Q – quarterly report filed with the SEC
  - Other
    - Proxy Statement
      - Report required by the SEC to be sent to a companies shareholders that provides material facts concerning matters on which the shareholders will vote
      - Disclosure of executive salaries
    - Social or Environmental Report
      - Triple bottom line (financial, environmental and social)
      - Global Reporting Initiative ([www.globalreporting.org](http://www.globalreporting.org))



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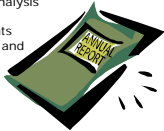
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Slide 6

### How Accounting Information is Communicated

- Basic Parts of the Annual Report
  - Income Statement
  - Balance Sheet
  - Statement of Cash Flows
  - Statement of Stockholders' Equity
  - Managements Discussion and Analysis (MDA)
  - Notes to the Financial Statements
  - Five year Summary of Earnings and Financial Highlights



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Slide 7

### Hierarchy of Qualitative characteristics of Accounting Info

- MUST HAVE characteristics
  - Benefits outweigh the cost
  - Understandable
  - Decision Usefulness



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Slide 8

### Hierarchy of Qualitative characteristics of Accounting Info

- Relevant
  - Predictive Feedback
  - Feedback Value
  - Timeliness
- Reliability
  - Verifiability
  - Representational Faithfulness
  - Neutrality

Company XYZ's earnings will increase 12.1% this next quarter



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Slide 9

### Hierarchy of Qualitative characteristics of Accounting Info

- Comparability
- Consistency
- Material in nature
  - If the size of the financial information item is big enough to influence the decision of an investor or creditor
- Users Bill of Rights
  - It is the "Rights" of the user that the information presented to them has all the above characteristics



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Slide 10

**Assumptions & Principles**

- Assumptions
  - Monetary Unit
    - Only those things that can be expressed in terms of money are included in accounting records
  - Economic or Separate Entity
    - Every economic entity must be separately identified and accounted for...in other words separate personal records from business records. Do not co-mingle
  - Time period
    - Divides the life of the business into artificial time periods for reporting purposes
  - Going Concern
    - States that the business will be in continued operations for the foreseeable future...in other words...no one expects the company to go bankrupt any time soon



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Slide 11

**Assumptions & Principles**

- Principles
  - Cost
    - Assets are recorded at their cost not their market value
  - Full Disclosure
    - All transactions that would affect the decisions of financial statement users should be reported



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Slide 12

**Analyzing the information**

- The data behind the report
  - Soundness of data prep
  - Garbage-In-Garbage-Out
- Reasoning through the material
  - Inductive Reasoning
  - Deductive Reasoning
- Understanding your perspective
- Understanding your bias
- Formulating a decision



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