

CHAPTER 3 - USERS OF ACCOUNTING INFORMATION



***AT THE END OF THIS CHAPTER, THE
STUDENTS SHOULD BE ABLE TO :***

1. DEFINE EXTERNAL USERS OF ACCOUNTING DATA AND GIVE EXAMPLES;
2. DEFINE INTERNAL USERS OF ACCOUNTING DATA AND GIVE EXAMPLES;
3. IDENTIFY THE TYPE AND DECISIONS MADE BY EACH GROUP OF USERS;
4. DESCRIBE THE TYPE OF INFORMATION NEEDED BY EACH GROUP OF USERS;

FABM 1

RAGS TO RICHES

FABM 1



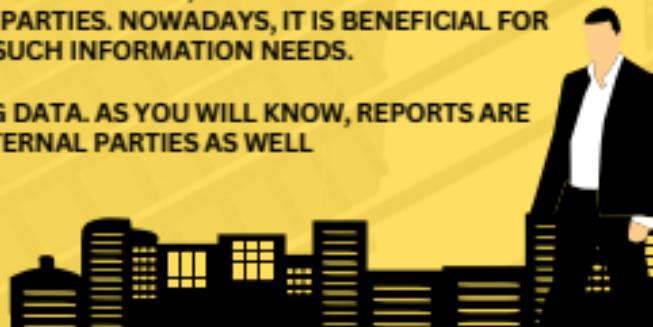
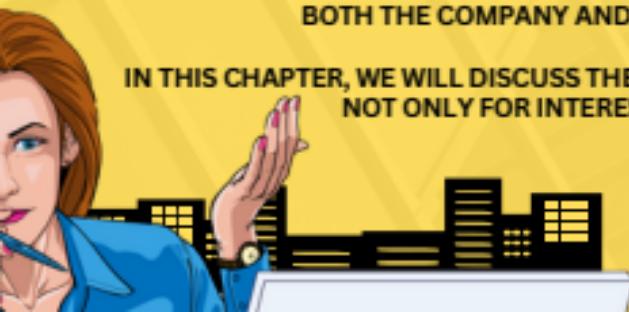
RAGS TO RICHES

SM MIGHT JUST BE THE MOST RECOGNIZABLE TWO-LETTER COMBINATION HERE IN THE PHILIPPINES. IF YOU THINK ABOUT IT, IT IS AMAZING HOW THESE TWO LETTERS TELL A RICH HISTORY. SM IS AN AVENUE FOR ALMOST ANYTHING YOU DESIRE TO DO. FROM FAMILY GATHERINGS, MEETINGS WITH FRIENDS, OR SIMPLY ENJOYING SOME ALONE TIME FOR YOURSELF, SM TRULY "GOT IT ALL FOR YOU."

SM IS NO EXCEPTION TO THE STRUGGLES FACED BY ALL START-UP BUSINESSES. SM WAS FOUNDED AS A SHOE STORE BY HENRY SY, SR. IN OCTOBER 1958 IN DOWNTOWN MANILA. DURING THOSE TIMES, THE COMPANY CATERED TO A RELATIVELY SMALL CUSTOMER BASE. MR. SY THOUGHT OF ESTABLISHING A SHOE STORE WITH A STORE LAYOUT AND MERCHANDISING CONCEPTS NEVER BEFORE SEEN IN THE PHILIPPINES. THE POPULAR SHOEBOX STRUCTURE OF ITS MALLS BECAME THE TRADEMARK OF SM. FROM ITS HUMBLE BEGINNINGS IN MANILA, SM IS CURRENTLY A RETAIL GIANT. THE SUCCESS AND EXPANSION OF SM ARE PARTNERED WITH A GROWING CUSTOMER BASE. ADDITIONALLY, INVESTORS ARE MORE INTERESTED IN INVESTING IN THE COMPANY TO SHARE IN ITS SUCCESS. CREDITORS ARE NOW MORE WILLING TO LEND TO THE COMPANY SINCE THEY ARE ASSURED THAT IT HAS THE CAPABILITY TO PAY. BEING A LARGE PLAYER IN

THE ECONOMY, SM IS ALSO CLOSELY WATCHED BY GOVERNMENT AGENCIES. IN THE PAST, SM NEED NOT PRODUCE FINANCIAL REPORTS TO CATER TO THE INFORMATION NEEDS OF INTERESTED PARTIES. NOWADAYS, IT IS BENEFICIAL FOR BOTH THE COMPANY AND OUTSIDE PARTIES IF SM PROVIDES SUCH INFORMATION NEEDS.

IN THIS CHAPTER, WE WILL DISCUSS THE DIFFERENT USERS OF ACCOUNTING DATA. AS YOU WILL KNOW, REPORTS ARE NOT ONLY FOR INTERESTED OUTSIDE PARTIES BUT FOR INTERNAL PARTIES AS WELL.



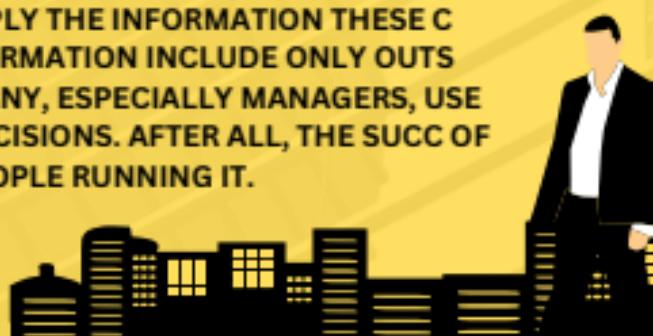
INTRODUCTION



INTRODUCTION

TO BE SUCCESSFUL, BUSINESSES MUST INTERACT WITH COUNTLESS CUSTOMERS, CREDITORS, AND OTHER GROUPS. THERE IS NO KNOWN BUSINESS THAT IS ESTABLISHED JUST TO TRAN WITH ITSELF. THESE OUTSIDE PARTIES ARE THE MAIN SOURCES OF INCOME AND/OR FUNDS THAT BUILDING LASTING RELATIONSHIPS WITH THESE GROUPS, HOW CAN A BUSINESS CONTINUE TO CA KEY FACTORS IN DETERMINING IF A BUSINESS WILL BE PROFITABLE OR NOT. GIVEN THE IMPORTANCE THE INTEREST OF SUCH GROUPS?

THE COMMUNICATION OF ACCOUNTING INFORMATION IS ONE ANSWER TO THIS PROBLEM. COMMUNICATING THE ACCOUNTING INFORMATION TO THESE DIFFERENT PARTIES, THEY ARE EMPOW DEMAND IN ORDER FOR THEM TO MAKE DECISIONS CONNECTED TO THE BUSINESS. HOWEVER, S GROW TO MAKE BETTER ECONOMIC DECISIONS. FINANCIAL REPORTS SUPPLY THE INFORMATION THESE C COMMON MISCONCEPTION THAT THE USERS OF ACCOUNTING INFORMATION INCLUDE ONLY OUTS PARTIES. THIS IS CLEARLY NOT THE CASE. EMPLOYEES OF THE COMPANY, ESPECIALLY MANAGERS, USE ACCOUNTING INFORMATION TO MAKE WELL-INFORMED BUSINESS DECISIONS. AFTER ALL, THE SUCC OF A BUSINESS IS ALSO HEAVILY DEPENDENT ON THE PEOPLE RUNNING IT.



INTRODUCTION

AS MENTIONED IN THE PREVIOUS CHAPTERS, COMPANIES TYPICALLY PRODUCE TWO TYPES FINANCIAL STATEMENTS (I.E., GENERAL PURPOSE FINANCIAL STATEMENTS AND SPECIAL PURPOSE FINANCIAL STATEMENTS). GENERAL PURPOSE FINANCIAL STATEMENTS ARE INTENDED TO PROVIDE INFORMATION TO THOSE WHO DO NOT HAVE THE CAPABILITY TO REQUEST DIRECTLY FROM THE COMPANY. SOME EXAMPLES OF SUCH GROUPS ARE THE CUSTOMERS, CREDITORS, POTENTIAL INVESTORS, AND GOVERNMENT AGENCIES IMAGINE THE WORKLOAD IF ALL OF THESE GROUPS CAN JUST DEMAND FINANCIAL REPORTS AT WILL. CLEARLY IT IS NOT WISE FOR A COMPANY TO PRODUCE FINANCIAL REPORTS THAT CATER TO EACH SPECIFIC NEED OF THESE USER GROUPS. THIS IS WHY GENERAL PURPOSE FINANCIAL STATEMENTS SHOULD CONTAIN INFORMATION THAT CAN POSSIBLY ANSWER THE INQUIRIES OF A WIDE RANGE OF INTERESTED USERS.



EXTERNAL USER



CUSTOMERS



CUSTOMERS

***MAIN SOURCE OF INCOME OF
BUSINESSES ; ACQUIRE GOOD
AND SERVICES FOR A FEE.***

E.G : CLIENTS



CUSTOMERS

AS MUCH AS HUMAN BEINGS NEED OXYGEN TO LIVE, A BUSINESS NEEDS CUSTOMERS TO SURVIVE. CUSTOMERS ARE THE MAIN SOURCE OF INCOME OF BUSINESSES. IT CAN EVEN BE CLAIMED THAT MOST BUSINESSES ARE ESTABLISHED SOLELY FOR THE SERVICE OF THEIR CUSTOMERS. BUSINESSES USUALLY AIM TO WIDEN THEIR REACH BY TARGETING MULTIPLE CUSTOMERS SEGMENTS. ALL OF US HAVE BEEN A CUSTOMER AT SOME POINT IN OUR LIVES.

WHEN YOU BUY SHAMPOO IN THE NEARBY SARI-SARI STORE, YOU ARE CONSIDERED A CUSTOMER. WHEN YOU HAVE YOUR HAIR CUT BY THE LOCAL BARBER, YOU ARE CONSIDERED A CUSTOMER. WHEN YOUR HOUSEHOLD AVAIL THE SERVICES OF MAYNILAD OR MERALCO, YOU ARE CONSIDERED A CUSTOMER.



CUSTOMERS

IT IS IMPORTANT TO POINT OUT, HOWEVER, THAT EVEN LARGE BUSINESSES CAN BE CUSTOMERS. FOR EXAMPLE, MOST RESTAURANTS DO NOT RAISE LIVESTOCK FOR THEIR OWN USE INSTEAD, THEY PURCHASE CHICKEN, BEEF, PORK, AND OTHER LIVESTOCK PRODUCTS FROM THEIR TRUSTED SUPPLIERS. IN THIS SENSE, THESE BUSINESSES ARE CUSTOMERS THEMSELVES. SIMPLY PUT, CUSTOMERS ARE PEOPLE OR ENTITIES THAT ACQUIRE GOODS AND SERVICES FOR A FEE.



CUSTOMERS

CUSTOMERS ARE ONE USER GROUP THAT IS PARTICULARLY INTERESTED IN THE ACCOUNTING INFORMATION OF A BUSINESS. BY ANALYZING THE ACCOUNTING INFORMATION OF A BUSINESS, CUSTOMERS CAN DETERMINE IF IT WILL BE PROFITABLE FOR THEM TO TRANSACT WITH THE BUSINESS. THIS IS ESPECIALLY ESSENTIAL IF THE CUSTOMER PLANS TO BUILD A LONG-TERM RELATIONSHIP WITH THE BUSINESS. LET US GO BACK TO THE RESTAURANT EXAMPLE MENTIONED ABOVE. IF A SUPPLIER IS HAVING FINANCIAL DIFFICULTIES OR HAS A TRACK RECORD OF BEING UNRELIABLE, RESTAURANTS WILL PROBABLY NOT ASK FOR ITS SERVICES. FINANCIAL REPORTS ALSO HINT AT THE QUALITY OF PRODUCTS AND SERVICES THE BUSINESS OFFERS. IF A COMPANY IS CONTINUOUSLY SHOWING LOSSES IN ITS FINANCIAL STATEMENTS, IT MIGHT INDICATE THAT THE PRODUCTS AND SERVICES PROVIDED BY THE COMPANY ARE NOT OF HIGH QUALITY. CUSTOMERS WILL MOST LIKELY VEER AWAY FROM THIS COMPANY. ANOTHER THING CUSTOMERS LOOK FOR IN THE COMPANY'S FINANCIAL REPORT IS ITS CAPABILITIES TO HONOR OBLIGATIONS (E.G., WARRANTIES AND AFTER-SALES SERVICES).



CUSTOMERS

NORMALLY, CUSTOMERS NOTE THE INCOME OF A COMPANY. THE INCOME IS A GOOD INDICATOR OF THE PROFITABILITY OF A COMPANY. A PROFITABLE RESULT OF OPERATIONS IS A SIGNAL THAT THE CUSTOMERS WILL TAKE MINIMAL RISK IF THEY DECIDE TO DEAL WITH THE COMPANY. OCCASIONALLY, CUSTOMERS ALSO TRY TO KNOW THE FUTURE COMMITMENTS OF THE COMPANY (E.G., PLANS FOR EXPANSION OF THE BUSINESS OR TO DISCONTINUE A BUSINESS SEGMENT) SINCE IT WILL AFFECT THEIR LONG-TERM PLANS AS WELL.



CUSTOMERS

ILLUSTRATIVE EXAMPLE: PATRICIA PLANS TO ORGANIZE A FURNITURE SHOP. SHE WANTS HER BUSINESS TO TAKE OFF BY BUILDING THE FURNITURE FROM SCRATCH. HOWEVER, THE MATERIALS NEEDED TO BUILD THE FURNITURE WILL BE PURCHASED FROM AN OUTSIDE SUPPLIER. PATRICIA HAS TWO POSSIBLE SUPPLIERS: DAYANA COMPANY AND DRAY COMPANY. FOR THE LAST 5 YEARS, DAYANA CO. AND DRAY CO. DISPLAYED POSITIVE INCOME IN THEIR FINANCIAL STATEMENTS WITH DRAY CO. HAVING A SLIGHTLY HIGHER INCOME ON THE AVERAGE THAN DAYANA CO'S. BOTH COMPANIES ARE REGARDED AS RELIABLE SUPPLIERS. BUT DURING THE LAST YEAR, DRAY CO. EXPERIENCED PROBLEMS IN ITS OPERATIONS DUE TO A LABOR STRIKE PREVENTING IT FROM FULFILLING ALL ORDERS.

WHAT COMPANY SHOULD PATRICIA CHOOSE AS HER SUPPLIER?



CUSTOMERS

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WHAT COMPANY SHOULD PATRICIA CHOOSE AS HER SUPPLIER?



CUSTOMERS

BASED ON THE FACTS GIVEN, PATRICIA SHOULD CHOOSE DAYANA CO. AS HER SUPPLIER. EVEN THOUGH DRAY CO'S INCOME IS SLIGHTLY HIGHER ON THE AVERAGE THAN DAYANA CO'S, THE RELIABILITY OF DAYANA CO. IS THE MORE IMPORTANT FACTOR TO CONSIDER. SINCE THE OPERATION OF DAYANA CO. IS STABLE, IT WILL LIKELY BE THE MORE STABLE SUPPLIER.



CREDITORS



CREDITORS

PROVIDERS OF ADDITIONAL FUNDS WHEN THE INITIAL INVESTMENT OF OWNER IS EXHAUSTED , LEND RESOURCES TO BUSINESSES USUALLY IN THE FORM OF MONEY

E.G : BANKS , LENDING INSTITUTIONS



CREDITORS

MOST LARGE BUSINESSES (SOMETIMES, EVEN SMALL BUSINESSES) REQUIRE ADDITIONAL FUNDS TO OPERATE THE BUSINESS. IN THE EARLY PHASE OF A BUSINESS, THE CONTRIBUTION OF THE OWNERS OR INVESTORS IS THE FUEL THAT DRIVES THE COMPANY FORWARD. WHEN THE FUEL RUNS OUT, THE BUSINESS MUST FIND A NEW SOURCE OF FUNDS. POSSIBLE SOURCES OF ADDITIONAL FUNDS ARE THE CREDITORS. CREDITORS LEND THEIR RESOURCES (USUALLY MONEY) TO THE BUSINESS IN EXCHANGE FOR A FEE. THE FEE CHARGED BY CREDITORS IS THE PAYMENT FOR THE USE OF THEIR RESOURCES. AS YOU PROBABLY LEARN IN ECONOMICS, MONEY LOSES ITS VALUE OVER TIME. THE VALUE OF P1 000 TODAY IS NOT EQUAL TO THE VALUE OF P1 000 ONE YEAR FROM NOW. THIS IS THE MAIN REASON WHY CREDITORS ASK FOR A FEE. USUALLY IN THE FORM OF INTEREST, WHEN YOU USE THEIR MONEY. COMMON EXAMPLES OF CREDITORS ARE BANKS, LENDING INSTITUTIONS, WEALTHY INDIVIDUALS, AND EVEN THE GOVERNMENT.



CREDITORS

BEFORE CREDITORS GRANT LOANS TO A BUSINESS, THEY FIRST EXAMINE ITS FINANCIALS. THE BIGGEST FEAR OF CREDITORS IS THAT THEY WILL NOT GET PAID THE AMOUNT DUE TO THEM.

NO MATTER HOW HIGH THE INTEREST RATES CREDITORS CHARGE, IT WILL NOT MATTER IF THEY CANNOT CLAIM IT IN THE END. THIS IS THE MAIN REASON WHY CREDITORS TAKE A CLOSE LOOK IN A COMPANY'S FINANCIAL STATEMENTS. IF A COMPANY EXHIBITS STABLE INCOME AND CONSISTENT DESIRABLE RESULTS, CREDITORS ARE INCLINED TO LEND.

MEANWHILE, IF A COMPANY IS IN DIRE FINANCIAL CONDITIONS, CREDITORS WILL THINK TWICE BEFORE LENDING. GENERALLY, CREDITORS WOULD NOT LEND TO A RISKY COMPANY. HOWEVER, THERE ARE CREDITORS WHO STILL OFFER THEIR MONEY TO THESE COMPANIES IN EXCHANGE FOR HIGHER INTEREST RATES OR LENDING FEES. AS A RULE OF THUMB IN THE FIELD OF FINANCE, "HIGH RISK, HIGH RETURN: STATEMENTS"



CREDITORS

SIMILAR TO CUSTOMERS, CREDITORS ORDINARILY OBSERVE THE PROFITS OF A COMPANY. CREDITORS ARE CONCERNED WITH THE PROFITS OF THE COMPANY BECAUSE THE PROFITS WILL BE THE FUNDS AVAILABLE TO REPAY THEM. IF A COMPANY'S PROFITS ARE CONSISTENTLY HIGH, CREDITORS WILL FEEL MORE SECURED THAT THE COMPANY WILL NOT DEFAULT ON ITS DEBTS. ASIDE FROM THE LEVEL OF PROFITS, CREDITORS ALSO LOOK AT THE AMOUNT OF BORROWINGS THE COMPANY HAS. HAVING HIGH PROFITS IS NOT MUCH OF AN UPSIDE IF THE COMPANY STILL HAS HUGE AMOUNTS OF DEBTS. FOR EXAMPLE, IF THE PROFITS OF A COMPANY FOR 2014 TOTLED P2M AND ITS DEMANDABLE DEBT AMOUNTS TO P3M, THERE IS STILL A CHANCE THAT A CREDITOR WILL NOT GET PAID



CREDITORS

THREE MAIN FACTORS CONSIDERED BY CREDITORS BEFORE LENDING TO
A COMPANY:

1. RISKINESS OF LENDING
2. PROFITABILITY OF THE COMPANY
3. COMPANY'S AMOUNT OF BORROWINGS



CREDITORS

ILLUSTRATIVE EXAMPLE: AMADEO CO., A TEXTILE MANUFACTURE, SUBMITTED A PROPOSAL TO PHILIPPINE RURAL BANK (PRB) WHICH STATES THAT THE COMPANY PLANS TO BORROW P5M PAYABLE 2 YEARS FROM NOW. AMADEO CO. ALSO PROMISES TO PAY INTEREST OF P150 000 EVERY SIX MONTHS. PRB EXAMINED AMADEO CO'S FINANCIAL STATEMENTS.



CREDITORS

1. THE PROFIT OF AMADEO CO. GREW BY AN AVERAGE OF 10% EACH YEAR FOR THE PAST 3 YEARS.
2. AMADEO CO. ONLY HAS A SMALL AMOUNT OF BORROWINGS.
3. AMADEO CO. NEVER DEFAULTED ON ITS BORROWINGS IN THE PAST.



CREDITORS

**ASSUMING NO OTHER USE FOR ITS EXCESS
FUNDS, SHOULD PRB LEND MONEY TO
AMADEO CO.?**



CREDITORS

THE ANSWER IS YES. THE CONCLUSIONS
SHOWED THAT LENDING TO AMADEO CO. IS
NOT A RISKY ENDEAVOR.



POTENTIAL INVESTOR



POTENTIAL INVESTOR

PROVIDERS OF ADDITIONAL FUNDS WHEN THE INITIAL INVESTMENT OF OWNER IS EXHAUSTED , INVEST RESOURCES IN THE BUSINESSES HOPING TO EARN DECENT RETURNS

E.G : WEALTHY INDIVIDUALS , OTHER BUSINESSES PLANNING TO INVEST



POTENTIAL INVESTOR

IN SOME WAYS, POTENTIAL INVESTORS ARE COMPARABLE TO CREDITORS. CONTINUING THE ANALOGY IN THE LAST SECTION, INVESTORS MAY ALSO PROVIDE THE ADDITIONAL FUEL TO DRIVE THE COMPANY FORWARD. INVESTORS PUT THEIR RESOURCES (USUALLY MONEY) IN A BUSINESS HOPING TO EARN A DECENT AMOUNT OF RETURN. UNLIKE CREDITORS WHO ARE ASSURED TO EARN THE INTEREST AND FEES, INVESTORS MAY WIN OR LOSE IN THEIR INVESTMENT. INVESTING IN A BUSINESS IS A GAMBLE.

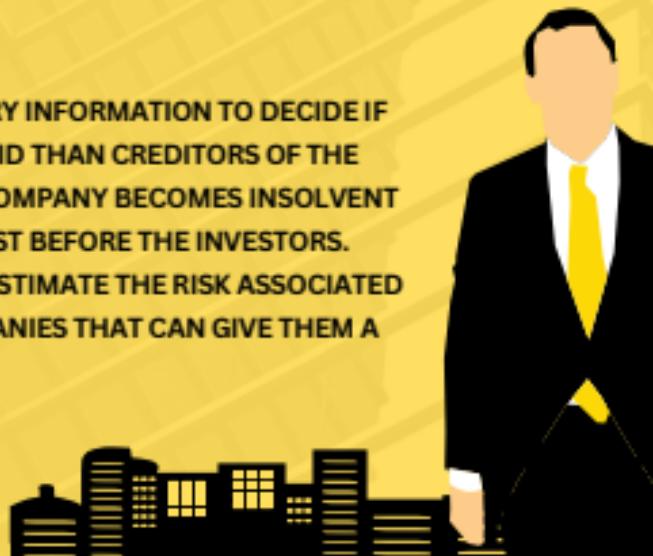
PROFITS TO COMPENSATE INVESTORS FOR THE RISKS THEY TAKE, THEY NORMALLY COULD EARN MORE THAN CREDITORS. CREDITORS EARN FIXED AMOUNT OF PROFITS IN THE RESOURCES THEY LEND (I.E., INTEREST AND FEES). INVESTORS, ON THE OTHER HAND, ENJOY NO LIMIT ON THE AMOUNT OF PROFITS THEY CAN



POTENTIAL INVESTOR

RECEIVE. IF THE COMPANY YOU INVEST IN IS DOING WELL, EXPECT A LARGE AMOUNT OF PROFIT. IF THE COMPANY YOU INVEST IN INCURS A LOSS, YOU MIGHT EVEN LOSE EVERYTHING YOU INVESTED. EVERYONE CAN BE AN INVESTOR AS LONG AS YOU HAVE ENOUGH RESOURCES TO PLACE IN THE COMPANY'S STEWARDSHIP. INVESTORS ARE MOSTLY WEALTHY INDIVIDUALS, BUT BUSINESSES CAN INVEST IN OTHER BUSINESSES AS WELL,

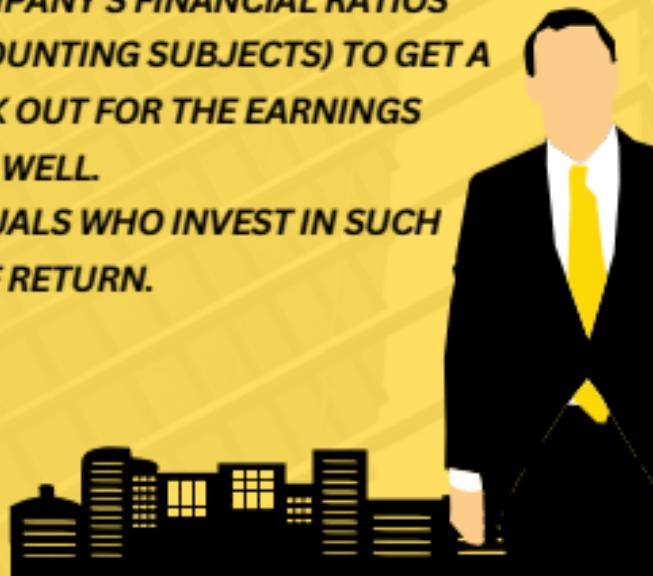
FINANCIAL STATEMENTS PROVIDE POTENTIAL INVESTORS THE NECESSARY INFORMATION TO DECIDE IF THEY WILL INVEST IN THE BUSINESS. INVESTORS ARE EVEN MORE AFRAID THAN CREDITORS OF THE POSSIBILITY THAT THEY WILL LOSE THEIR MONEY. IN THE EVENT THAT A COMPANY BECOMES INSOLVENT (IE, ASSETS ARE LESS THAN THE LIABILITIES), CREDITORS ARE PAID FIRST BEFORE THE INVESTORS. THROUGH THE COMPANY'S FINANCIAL STATEMENTS, INVESTORS TRY TO ESTIMATE THE RISK ASSOCIATED WITH INVESTING IN THE COMPANY. MOREOVER, INVESTORS SEEK COMPANIES THAT CAN GIVE THEM A DECENT RETURN IN THEIR INVESTMENTS.



POTENTIAL INVESTOR

THE LEVEL OF PROFITS PRESENTED IN THE FINANCIAL STATEMENTS IS A PRIMARY CONCERN FOR INVESTORS. THIS INFORMATION IS A KEY INDICATOR IF AN INVESTMENT WILL BE PROFITABLE. INVESTORS ALSO EVALUATE THE COMPANY'S FINANCIAL RATIOS (YOU WILL LEARN THESE RATIOS IN FINANCE OR HIGHER ACCOUNTING SUBJECTS) TO GET A FEEL OF HOW THE COMPANY OPERATES. INVESTORS LOOK OUT FOR THE EARNINGS RETENTION POLICY OF A COMPANY AS WELL.

- UP COMPANY. IF THEIR GAMBLE IS SUCCESSFUL, INDIVIDUALS WHO INVEST IN SUCH COMPANIES WILL EARN HIGHER RATES OF RETURN.



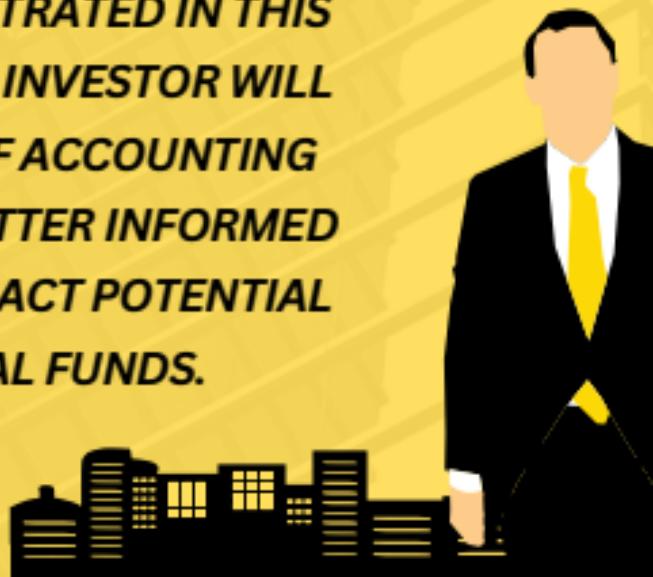
POTENTIAL INVESTOR

ARYANA IS A SUCCESSFUL CAREER WOMAN. DURING HER 15-YEAR TENURE AS AN ENGINEER, SHE AMASSED A TOTAL OF P10M IN SAVINGS. INSTEAD OF PLACING HER MONEY IN THE BANK, WHICH EARNS ONLY 2% IN INTEREST EVERY YEAR, SHE PLANS TO INVEST IN EITHER SHELL OR PETRON. SHELL AND PETRON ARE TWO OF THE LARGEST OIL COMPANIES IN THE COUNTRY. AFTER ANALYZING THE FINANCIAL STATEMENTS OF BOTH COMPANIES, ARYANA NOTED THAT PETRON AND SHELL EARNED HIGH LEVELS OF PROFIT FOR THE PAST 2 YEARS WITH PETRON GARNERING P40M MORE IN PROFITS. IN ADDITION, PETRON IS PLANNING TO EXPAND THE BUSINESS WHICH IS EXPECTED TO BRING IN MORE PROFITS FOR THE COMPANY.



POTENTIAL INVESTOR

BASED ON THE FACTS GIVEN, IT IS MORE PROBABLE THAT AN INVESTMENT IN PETRON WILL BE THE MORE PROFITABLE INVESTMENT IN THE LONG RUN. AS ILLUSTRATED IN THIS EXAMPLE, BOTH THE COMPANY AND THE INVESTOR WILL BENEFIT FROM THE COMMUNICATION OF ACCOUNTING INFORMATION. INVESTORS CAN MAKE BETTER INFORMED DECISIONS WHILE COMPANIES CAN ATTRACT POTENTIAL INVESTORS TO PROVIDE ADDITIONAL FUNDS.



GOVERNMENT



GOVERNMENT

***AN EXTERNAL USER WHOSE PRIMARY ROLE IS TO
REGULATE BUSINESSES ; STUDIES FINANCIAL
STATEMENTS TO DETERMINE AMOUNT OF TAXES
PAYABLE.***

**E.G : AGENCIES , TAXING AUTHORITIES ,
GOVERNMENT OFFICIALS**



GOVERNMENT

THE GOVERNMENT IS LIKEWISE A USER OF A COMPANY'S FINANCIAL STATEMENTS. DOES THE GOVERNMENT PLAN TO INVEST OR LEND MONEY TO BUSINESSES? IT IS A POSSIBILITY, BUT THE MAIN PURPOSE OF THE GOVERNMENT IS TO REGULATE THE BUSINESSES IN THE ECONOMY. OUR ECONOMY CONSISTS OF THOUSANDS OF BUSINESSES INTERACTING WITH ONE ANOTHER. GOVERNMENT'S MAIN ROLE IS TO SCRUTINIZE BUSINESSES, ESPECIALLY THE LARGE ONES. DIFFERENT GOVERNMENT AGENCIES ARE ASSIGNED TO CHECK IF BUSINESSES FOLLOW GUIDELINES PROVIDED BY LAW IN THEIR OPERATIONS: GOVERNMENT AGENCIES ALSO SEE IF BUSINESSES ARE NOT TRYING TO DECEIVE THE OTHER USERS OF FINANCIAL STATEMENTS BY MISREPRESENTING THE AMOUNT OF EARNINGS OR MANIPULATING PORTIONS OF THE COMPANY'S FINANCIAL STATEMENTS. REGULATING BUSINESSES IS A CRUCIAL ROLE TO PREVENT FINANCIAL COLLAPSE LIKE WHAT HAPPENED IN THE UNITED STATES (AND IN OTHER COUNTRIES AS DURING THE ENRON BANKRUPTCY. WELL)



GOVERNMENT

ILLUSTRATIVE EXAMPLE: THE BUREAU OF INTERNAL REVENUE (BIR) IS RESPONSIBLE FOR THE ASSESSMENT AND COLLECTION OF TAXES FROM ITS CONSTITUENTS. AS YOU PROBABLY HEARD IN THE NEWS, BIR IS STRENGTHENING ITS COLLECTION POLICIES TO PROVIDE MORE FUNDS FOR THE GOVERNMENT TO USE. IN THE BIR, TAX ASSESSORS AND TAX COLLECTORS STUDY THE FINANCIAL STATEMENTS OF THE COMPANIES AND COMPARE THEM WITH FILED TAX RETURNS. IF THE TAX RETURNS DO NOT MATCH TO THE RESULTS OF THE FINANCIAL STATEMENTS, THE BIR COMPUTES FOR THE APPROPRIATE TAXES TO BE COLLECTED.



FABM 1

ACADEME



ACADEME

***USES ACCOUNTING INFORMATION
PRIMARILY FOR ACADEMIC PURPOSES.***

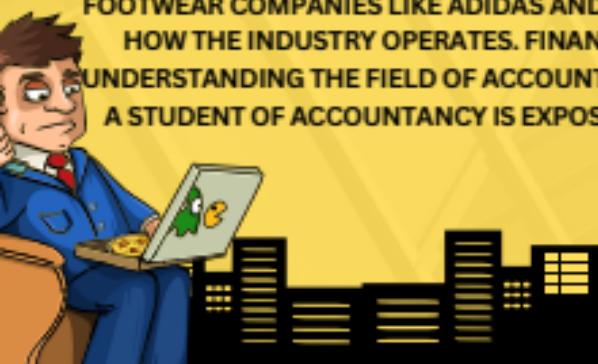
E.G : PROFESSORS , LECTURERS ,
STUDENTS & RESEARCHERS



ACADEME

MEMBERS OF THE ACADEME (E.G., PROFESSORS, RESEARCHERS, STUDENTS) BENEFIT FROM THE ACCOUNTING INFORMATION IN THE FINANCIAL STATEMENTS OF A COMPANY. ALTHOUGH THEY DO NOT USUALLY TRANSACT WITH BUSINESSES, MEMBERS OF THE ACADEME UTILIZE FINANCIAL STATEMENTS FOR ACADEMIC PURPOSES. USE OF FINANCIAL STATEMENTS FOR ACADEMIC PURPOSES IS NOT CONFINED IN THE ACCOUNTANCY FIELD. OTHER FIELDS OF STUDY LIKE BANKING AND FINANCE, ENTREPRENEURSHIP, AND ECONOMICS SIMILARLY MAKE USE OF FINANCIAL STATEMENTS.

AS EARLY AS CHAPTER 1, IT IS ALREADY STATED THAT THE FINANCIAL STATEMENTS TELL A STORY ABOUT THE OPERATIONS OF A COMPANY. PROFESSORS AND STUDENTS TAKE ADVANTAGE OF THIS FACT. FOR EXAMPLE, IF A CLASS PLANS TO STUDY THE FOOTWEAR INDUSTRY, THEY MIGHT WANT TO LOOK AT THE FINANCIAL STATEMENTS OF FOOTWEAR COMPANIES LIKE ADIDAS AND NIKE. BY DOING SO, PROFESSORS AND STUDENTS MIGHT GET AN IDEA ON HOW THE INDUSTRY OPERATES. FINANCIAL STATEMENTS ALSO SERVE AS A BLUEPRINT TO HELP STUDENTS IN UNDERSTANDING THE FIELD OF ACCOUNTANCY. MOST TEXTBOOKS CONTAIN SAMPLES OF FINANCIAL STATEMENTS. A STUDENT OF ACCOUNTANCY IS EXPOSED TO NUMEROUS FINANCIAL STATEMENTS OF COMPANIES BELONGING FROM DIFFERENT INDUSTRIES.



ACADEME

ALTERNATIVELY, RESEARCHERS STUDY THE FINANCIAL STATEMENTS TO IDENTIFY PARTICULAR TRENDS IN A SPECIFIC INDUSTRY OR THE ECONOMY AS A WHOLE. THE RESULT OF THE STUDIES CONDUCTED BY RESEARCHERS CAN GREATLY HELP THE GOVERNMENT IN ASSESSING THE CONDITION OF THE ECONOMY. RESEARCHERS MAY ALSO AIM TO IMPROVE THE ACCOUNTANCY PRACTICE IN THE COUNTRY BY SEARCHING FOR LOOPHOLES AND POSSIBLE IMPROVEMENTS IN THE ACCOUNTING STANDARDS CURRENTLY BEING USED.



FABM 1

GENERAL PUBLIC



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.

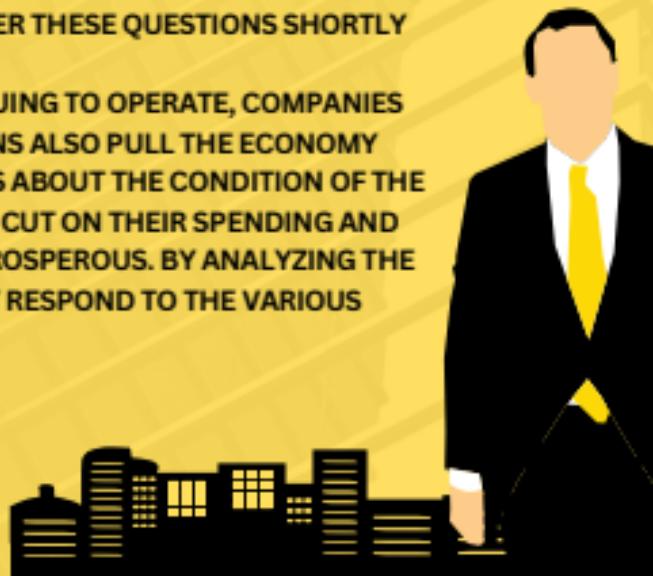
E.G : COMMON PEOPLE NOT CONNECTED WITH THE COMPANY



GENERAL PUBLIC

THE GENERAL PUBLIC IS THE LAST GROUP CONSIDERED TO BE AN EXTERNAL USER. WHY DOES THE GENERAL PUBLIC CONCERN THEMSELVES WITH THE CONDITION OF A COMPANY EVEN THOUGH THEY DO NOT HAVE ANY PLANS TO DEAL WITH SAID COMPANY? WHAT ARE THE BENEFITS DERIVED BY THE GENERAL PUBLIC IN THE FINANCIAL STATEMENTS OF A COMPANY? WE WILL ANSWER THESE QUESTIONS SHORTLY

COMPANIES UNDOUBTEDLY AFFECT THE WHOLE ECONOMY. BY CONTINUING TO OPERATE, COMPANIES CREATE JOBS FOR THE PUBLIC. THE RESULTS OF COMPANY OPERATIONS ALSO PULL THE ECONOMY TOWARD GROWTH OR RECESSION. FINANCIAL STATEMENTS GIVE US HINTS ABOUT THE CONDITION OF THE ECONOMY. IF THE ECONOMY IS NOT DOING WELL, THE GENERAL PUBLIC CUT ON THEIR SPENDING AND INCREASE THEIR SAVINGS. THE CONTRARY IS TRUE IF THE ECONOMY IS PROSPEROUS. BY ANALYZING THE FINANCIAL STATEMENTS OF COMPANIES, THE PUBLIC CAN PROPERLY RESPOND TO THE VARIOUS ECONOMIC CYCLES.



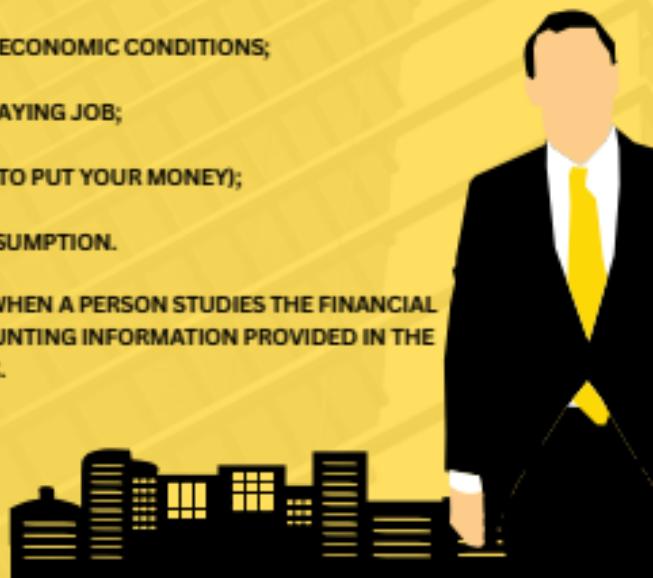
GENERAL PUBLIC

ECONOMIC CYCLES.

THE PUBLIC'S BEHAVIOR CONCERNING THEIR LEVELS OF CONSUMPTION AND SPENDING IS NOT THE ONLY THING AFFECTED WHEN THEY STUDY FINANCIAL STATEMENTS. SINCE FINANCIAL STATEMENTS TAKEN TOGETHER CAN REPRESENT THE ECONOMY, OTHER DECISIONS OF THE PUBLIC THAT CAN BE AFFECTED INVOLVE:

1. WHETHER OR NOT IT IS WISE TO START A BUSINESS GIVEN THE CURRENT ECONOMIC CONDITIONS;
2. TO STAY ON YOUR CURRENT JOB OR LOOK FOR A HIGHER-PAYING JOB;
3. DETERMINING THE BEST USE OF A PERSON'S RESOURCES (I.E., WHERE TO PUT YOUR MONEY);
4. DETERMINING THE OPTIMAL LEVEL OF SAVINGS AND CONSUMPTION.

THIS LIST IS NOT EXCLUSIVE. THERE ARE STILL MANY DECISIONS THAT CAN BE AFFECTED WHEN A PERSON STUDIES THE FINANCIAL STATEMENTS OF COMPANIES. WHAT IS BEING EMPHASIZED HERE IS THE EFFECT OF ACCOUNTING INFORMATION PROVIDED IN THE FINANCIAL STATEMENTS TO THE GENERAL PUBLIC.



INTERNAL USERS



FABM 1

MANAGEMENT



MANAGEMENT

***EMPLOYEES THAT CAN MAKE DECISIONS
FOR THE COMPANY; CONSIDERED AS THE
BRAIN OF THE COMPANY.***

E.G :BOARD OF DIRECTORS , TOP
MANAGERS , MIDDLE LEVEL & SUPER
VISORS



MANAGEMENT

ACCOUNTING INFORMATION IS PROCESSED INTO SUMMARIZED FINANCIAL STATEMENTS NOT ONLY FOR THE BENEFIT OF EXTERNAL PARTIES. PEOPLE INSIDE THE COMPANY ARE INTERESTED USERS AS WELL.

MANAGEMENT IS COMPOSED OF EMPLOYEES WITHIN THE COMPANY THAT CAN IMPLEMENT DECISIONS AFFECTING THE COMPANY'S OPERATIONS. MEMBERS OF THE BOARD OF DIRECTORS, TOP MANAGEMENT, MIDDLE-LEVEL MANAGERS, AND SUPERVISORS ARE THE COMMON CLASSES OF EMPLOYEES BELONGING TO THE MANAGEMENT GROUP. FROM HERE ON OUT, WE WILL COLLECTIVELY REFER TO THEM AS "MANAGERS." THE KEY DISTINCTION BETWEEN MANAGERS AND OTHER EMPLOYEES IS THE MANAGERS AUTHORITY TO MAKE JUDGMENTS FOR THE COMPANY. MANAGERS OFTEN FUNCTION AS THE BRAIN OF THE COMPANY. THUS, INFORMATION PERTAINING TO COMPANY OPERATIONS IS OFTEN GIVEN TO THEM.



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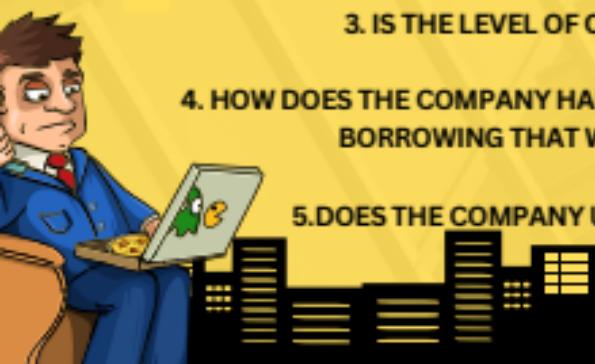
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MANAGEMENT

ALL MANAGERS MUST KNOW THE COMPANY INSIDE AND OUT. BY EXAMINING FINANCIAL STATEMENTS, MANAGERS ARE ABLE TO IDENTIFY PROBLEMS AND RESPOND TO THEM ACCORDINGLY. SOME PROBLEMS FACED BY MANAGERS INCLUDE, BUT ARE NOT LIMITED TO THE FOLLOWING:

1. WHAT AREAS OF THE BUSINESS ARE BECOMING PROBLEMATIC? WHAT SEGMENTS OF THE BUSINESS UNDERPERFORMED DURING THE LAST PERIOD? WHAT IS
2. THE CAUSE OF SUCH UNDERPERFORMANCE?
3. IS THE LEVEL OF COMPANY EXPENSES BECOMING ALARMING?
4. HOW DOES THE COMPANY HANDLE ITS DEBT? IS THE COMPANY INCURRING TOO MUCH BORROWING THAT WILL BE DIFFICULT TO PAY IN THE LONG RUN?
5. DOES THE COMPANY USE ITS RESOURCES IN THE BEST POSSIBLE WAY?



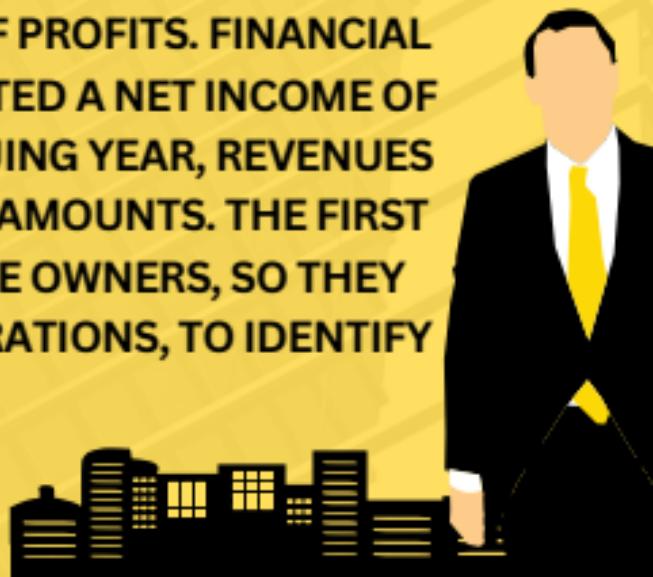
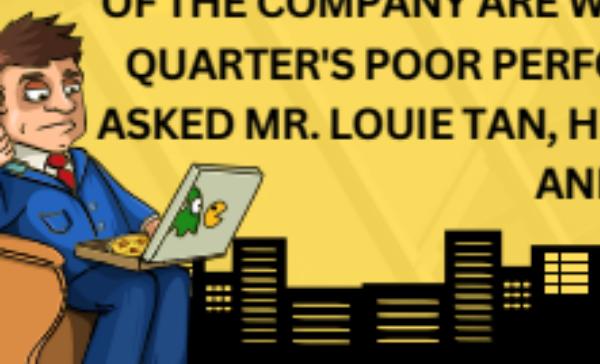
MANAGEMENT

THESE ARE JUST SOME OF THE QUESTIONS THAT CAN BE ANSWERED WHEN MANAGERS STUDY THE FINANCIAL STATEMENTS. LIKEWISE, MANAGERS ALSO DISCOVER THE STRONG POINTS OF THE BUSINESS. IF A MANAGER SEES THAT THE BUSINESS IS PERFORMING WELL IN A PARTICULAR SEGMENT, HE OR SHE MAY FURTHER DEVOTE THE COMPANY'S RESOURCES TO THIS PROFITABLE SEGMENT. THE BENEFITS PROVIDED BY ACCOUNTING INFORMATION TO MANAGERS ARE SEEMINGLY UNLIMITED.



MANAGEMENT

ILLUSTRATIVE EXAMPLE: FIX IT BEAUTY SALON IS ONE OF THE LARGEST AND MOST SUCCESSFUL SALONS IN THE COUNTRY. FOR THE PAST 5 YEARS, FIX IT EARNED SIGNIFICANT AMOUNTS OF PROFITS. FINANCIAL STATEMENTS FROM THE PREVIOUS YEAR INDICATED A NET INCOME OF P10M. DURING THE FIRST QUARTER OF THE ENSUING YEAR, REVENUES OF THE COMPANY ARE WELL BELOW BUDGETED AMOUNTS. THE FIRST QUARTER'S POOR PERFORMANCE ALARMED THE OWNERS, SO THEY ASKED MR. LOUIE TAN, HEAD OF COMPANY OPERATIONS, TO IDENTIFY AND SOLVE THE PROBLEM.



MANAGEMENT

BY EXAMINING THE FINANCIAL STATEMENTS, MR. TAN NOTICED THAT 10 OUT OF 25 BRANCHES OF FIX IT HAD REVENUES BELOW THE BUDGET. HE ALSO NOTICED THAT THE MARKETING AND ADVERTISING EXPENSES OF THESE BRANCHES WERE ALSO MATERIALLY BELOW THE BUDGET. HE FOUND OUT THAT MANAGERS OF THESE BRANCHES CUT ON THE ADVERTISING EXPENSE IN HOPES OF IMPROVING THE NET INCOME FIGURE. THIS PLAN OBVIOUSLY BACKFIRED SINCE REVENUES LOST ARE GREATER THAN THE SAVINGS FROM MARKETING AND ADVERTISING. MR. TAN IMMEDIATELY ORDERED THE MANAGERS OF THESE BRANCHES TO FOLLOW THE PROPOSED ADVERTISING EXPENSE IN THE NEXT QUARTER.



EMPLOYEES



EMPLOYEES

PERSONS IN THE COMPANY ASIDE FROM MANAGER AND OWNERS OR STOCK HOLDERS ; DO NOT HAVE AUTHORITY TO IMPLEMENT DECISIONS

E.G : LABORERS , FIELD WORKERS ,
MANAGERIAL EMPLOYEES



EMPLOYEES

SOME EMPLOYEES OF A BUSINESS, ASIDE FROM MANAGERS, SOMETIMES TAKE A LOOK AT THE COMPANY'S FINANCIAL STATEMENTS. UNLIKE MANAGERS WHO EXAMINE THE FINANCIAL STATEMENTS TO MAKE BETTER DECISIONS FOR THE BENEFIT OF THE COMPANY, THESE EMPLOYEES USE FINANCIAL STATEMENTS PRIMARILY FOR PERSONAL REASONS.

EMPLOYEES ARE CONCERNED WITH THE COMPANY'S PROFITABILITY. IF THE COMPANY THEY ARE WORKING FOR IS PROFITABLE, EMPLOYEES FEEL THAT THEY WILL TIMELY AND ADEQUATELY RECEIVE THEIR COMPENSATION AND ADDITIONAL BENEFITS. ADDITIONAL BENEFITS INCLUDE YEAR-END BONUSES, FRINGE BENEFITS (E.G., MEDICAL INSURANCE, TRANSPORTATION ALLOWANCES), REMUNERATION PACKAGES, AND TERMINATION PAY. THE CURRENT CONDITION OF A COMPANY ALSO IMPACTS EMPLOYEE MORALE AND PERFORMANCE. COMPANIES THAT ARE PERFORMING WELL ALMOST ALWAYS HAVE EMPLOYEES THAT ARE MOTIVATED. ON THE OTHER HAND, EMPLOYEE DEMOTIVATION MIGHT BE THE EFFECT OF NOT MEETING COMPANY GOALS.



OWNERS OR STOCK HOLDER



OWNERS OR STOCK HOLDER

*EXISTING INVESTORS OF THE COMPANY
; CONCERNED MOSTLY WITH THE
PROFITS OF THE COMPANY*

E.G : FOUNDERS OF THE COMPANY ,
OWNERS , STOCK HOLDERS & PARTNERS



OWNERS OR STOCK HOLDER

OWNERS OR STOCKHOLDERS ARE THE EXISTING INVESTORS OF THE COMPANY. THEY ARE TO BE DISTINGUISHED FROM THE POTENTIAL INVESTORS DISCUSSED EARLIER IN THE CHAPTER.

OWNERS OR STOCKHOLDERS ALREADY INVEST THEIR RESOURCES IN THE COMPANY. IN OTHER WORDS, THEY HAVE ALREADY TAKEN THE GAMBLE. SOME OWNERS OR STOCKHOLDERS TAKE AN ACTIVE ROLE IN THE MANAGEMENT OF THE BUSINESS WHILE OTHERS JUST WAIT FOR THE GENERATION OF PROFITS. WHATEVER THEIR ROLE IN THE BUSINESS MIGHT BE, ALL OWNERS OR STOCKHOLDERS ARE INTERESTED IN THE RESULTS OF COMPANY OPERATIONS.

PREDOMINANTLY, OWNERS OR STOCKHOLDERS WANT TO KNOW IF THEIR INVESTMENTS WILL YIELD ACCEPTABLE RETURNS. A PROFITABLE BUSINESS KEEPS ITS INVESTORS HAPPY. AS A RESULT, INVESTORS WOULD NOT LIQUIDATE THEIR OWNERSHIP. THEY MIGHT EVEN PROVIDE ADDITIONAL RESOURCES WHILE THE BUSINESS IS ENJOYING SUCCESS. MEANWHILE, BUSINESSES WHO FAIL TO ACHIEVE DESIRED PROFIT LEVELS USUALLY RESULT IN DISSATISFIED OWNERS OR STOCKHOLDERS.

