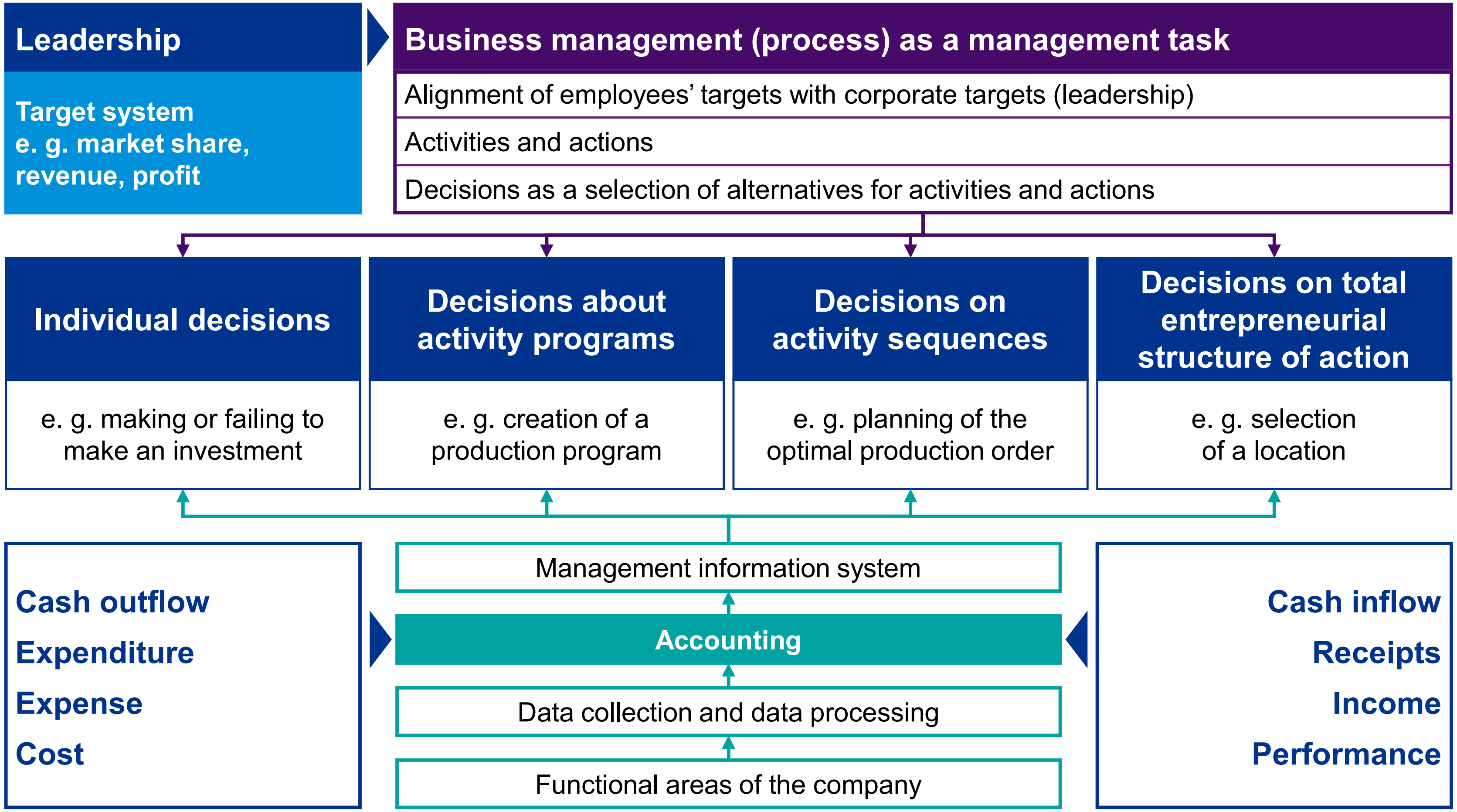
Accounting as an information system for business management



Target system of a company

Target system (objectives) of a company

Offer of certain services (Performance target)	Risk reduction (Safety target)	Profit maximization (Success target)	Increase in market share (Success target)

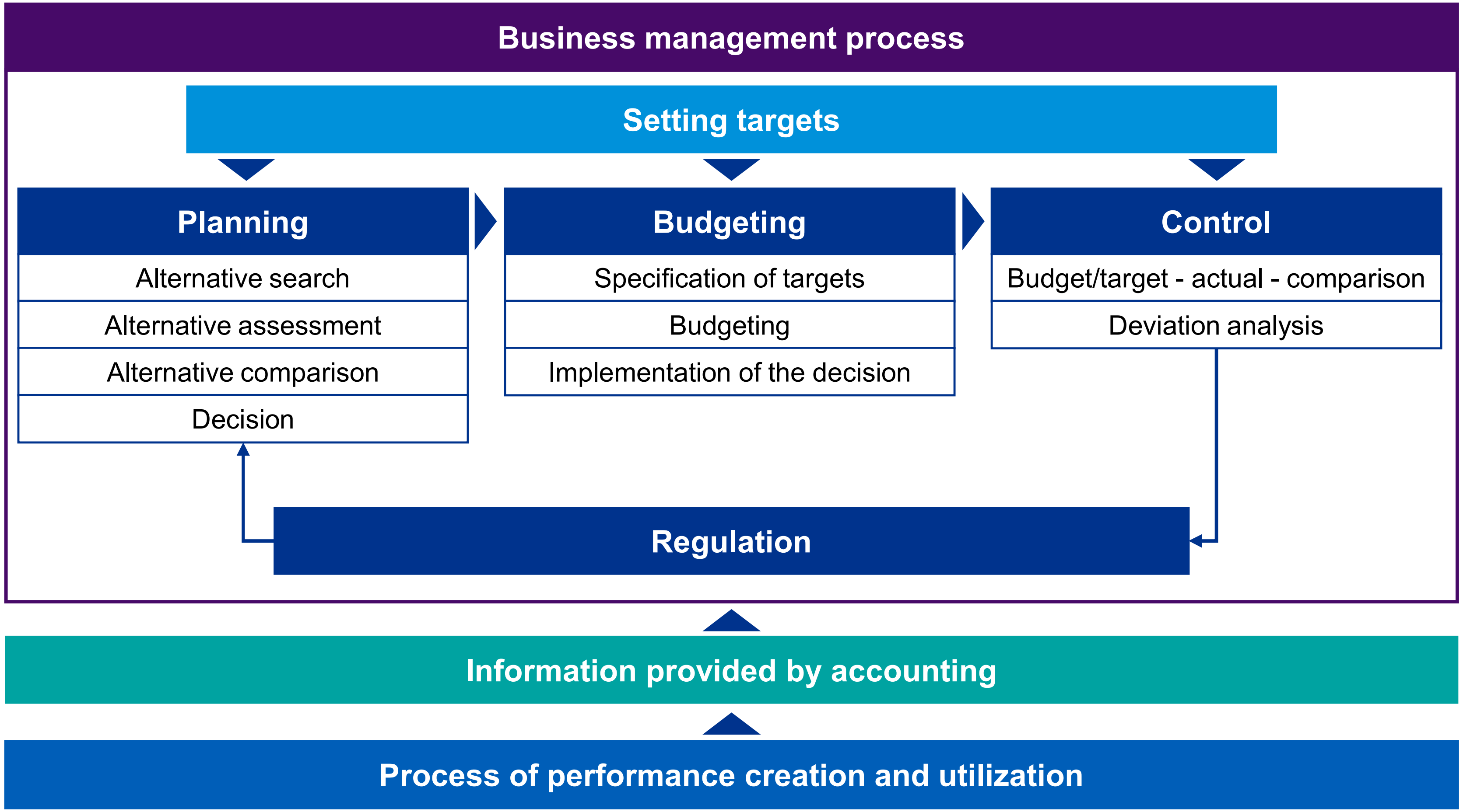
Recommendation for action

Presentation of methods to support the selection of those alternatives for action that best meet the objectives set by the management

Selection of alternatives for activities and actions

Examples of business alternative:
— Investment decision between a special or universal machine
— Decision on the offer of different types of products
— Choice of multiple manufacturing processes
— Decision between domestic and foreign suppliers

Relationships between accounting and business management (1/2)



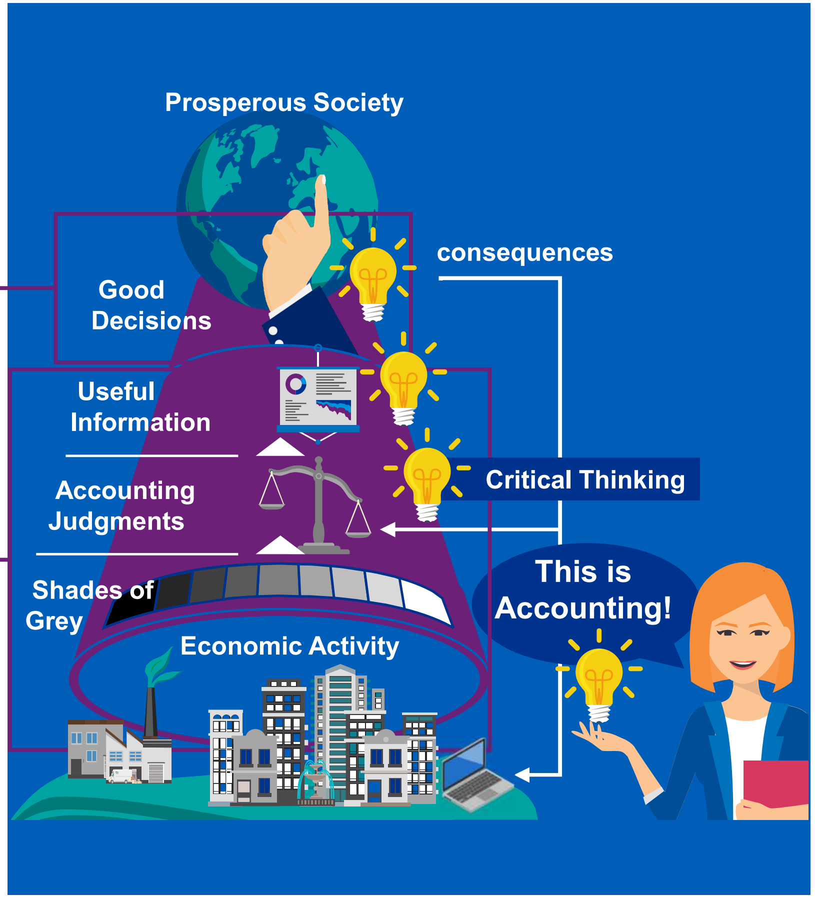
Tranforming business transactions into the accounts

Purpose of accounting

Provide **useful information** (to investors, managers and others) for making good decisions (and ultimately increase social welfare).

Process of accounting

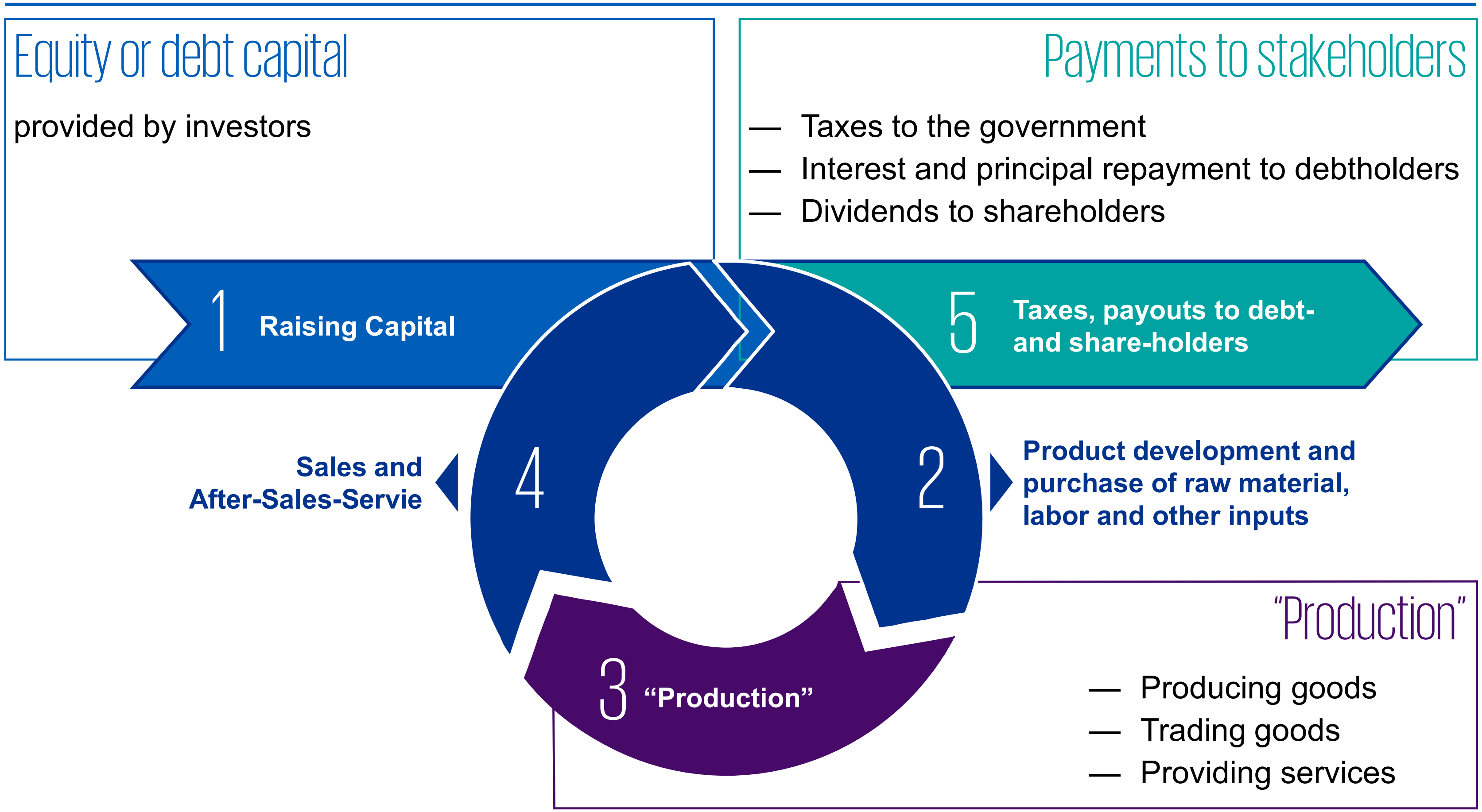
Business transactions are recorded according to rules (which requires judgments) and aggregated information are disseminated to the public.



Source: Prof. Dr. Ernstberger

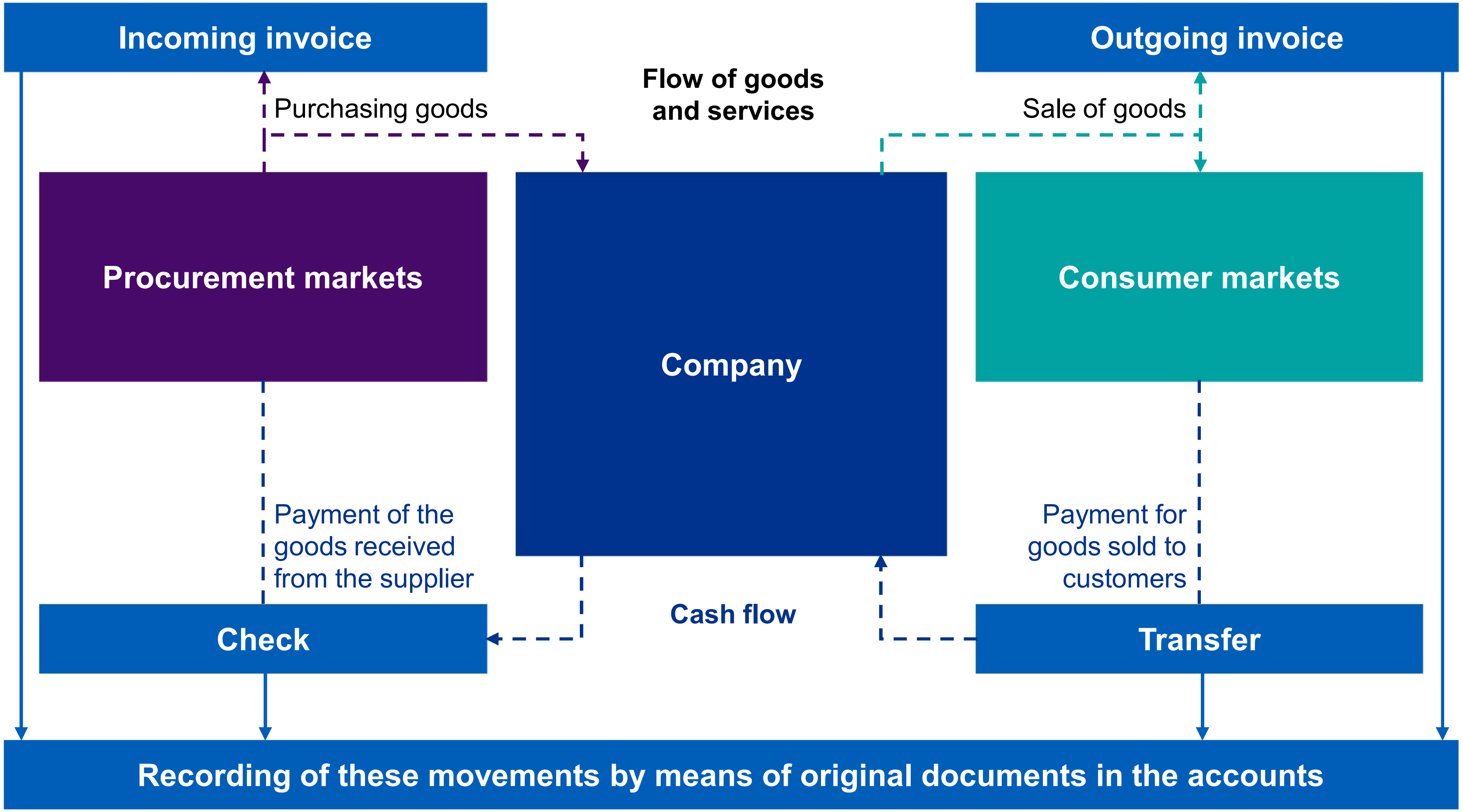
1.2 Process of accounting

Economic activity

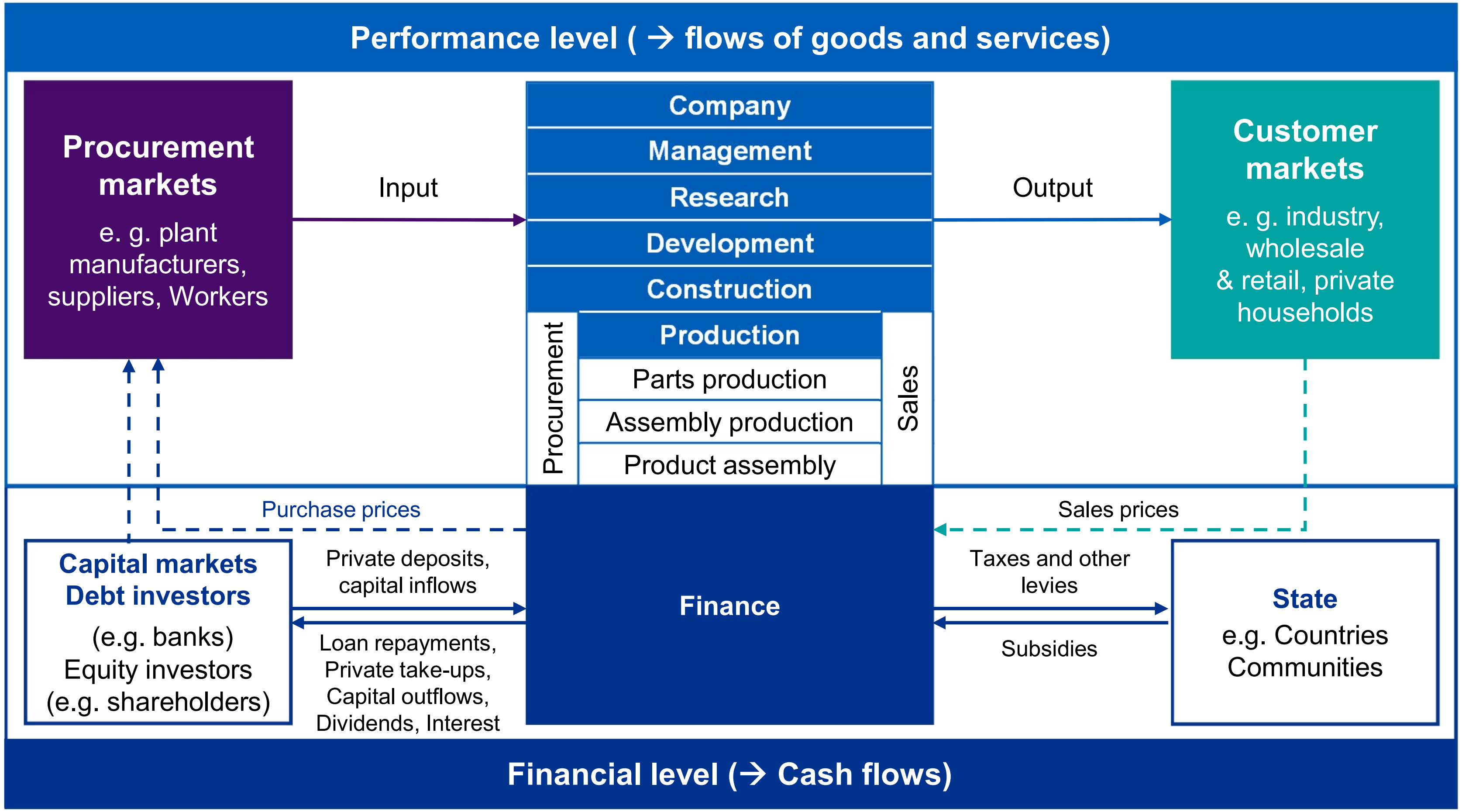


Source: Prof. Dr. Ernstberger

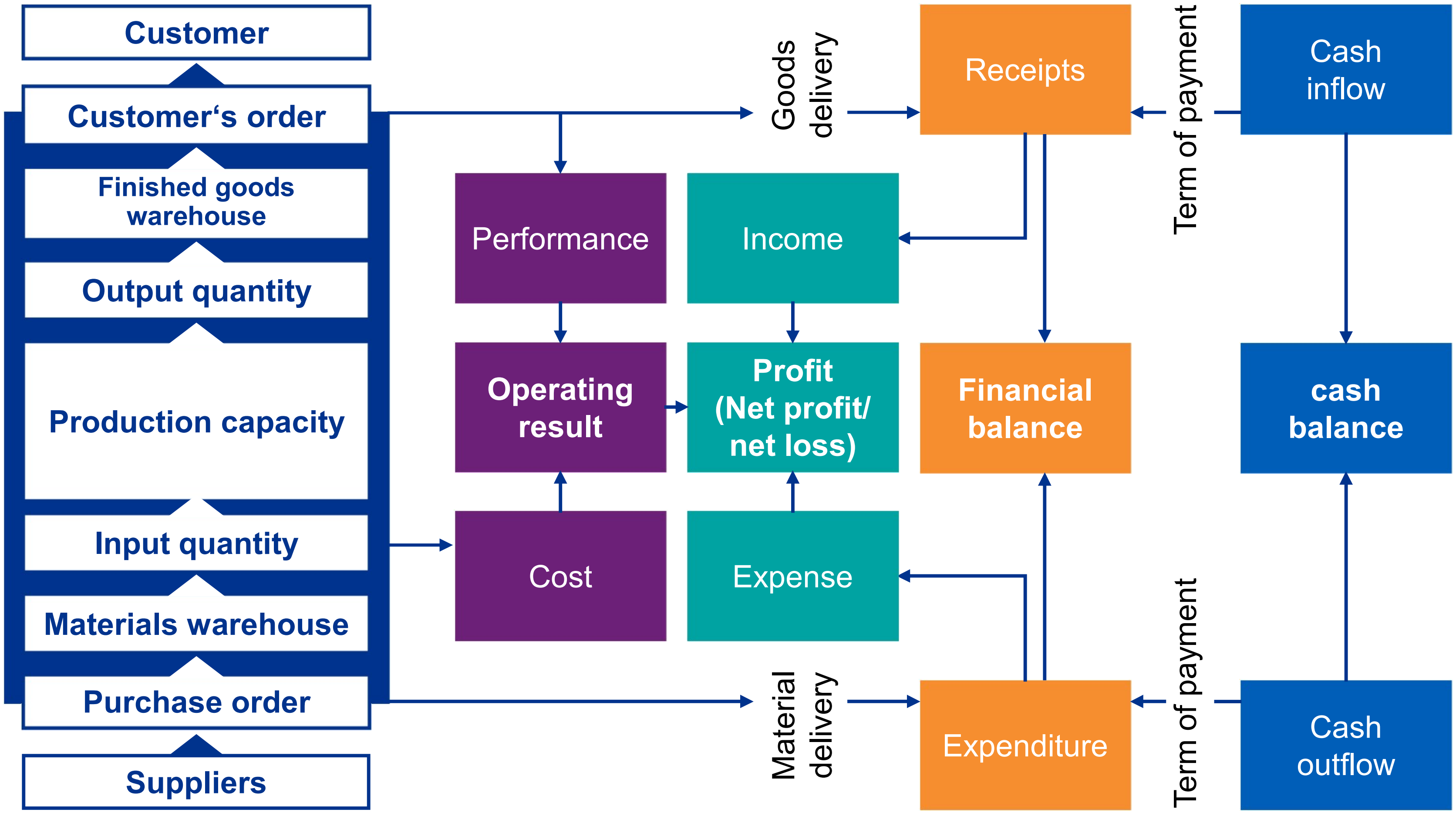
Relationship of accounting to the goods and cash cycle



Business transaction between a company and its environment



Accounting and company processes



Central questions of the stakeholders

Types of accounting	Flow values	Level of information	Central questions
Financial planning	+ Cash-inflows - Cash-outflows	Increase and decrease of cash and cash equivalents of the period	Is the future solvency secured?
Investment planning	+ Cash-inflows - Cash-outflows	Present value	Are the planned or realized investments profitable?
Financial accounting	+ Income - Expenses	Changes in net assets of the period	How successful has the company performed within the last period
Cost- (and performance) accounting	+ Performance - Costs	Operating profit	How beneficial are individual measures in the short-run?

Definitions

Cash-outflow	Cash and cash equivalents that are spent by the company within a period. Every cash-outflow decreases the amount of cash on hand and cash in banks. (= total of cash and cash equivalents).
Cash-inflow	Cash and cash equivalents that flow directly to the company within a period. Every cash-inflow increases the amount of cash on hand and cash in banks.
Expenditure	Monetary value of a company's acquired economic goods(a) within a period. Regardless whether the cash-outflows are made in the previous or following years.
Receipts	Monetary value of a company‘s delivered economic goods (a) within a period. Regardless whether the cash-inflows are made in the previous or following years.
Expense	Expenses are expenditures periodised and net income affecting. The period expense equals the amount of all consumed respectively used economic goods within that period.
Income	Income are receipts periodised and net income affecting. The period income equals the amount of the realized increase in value within that period.
Cost	Monetarily assessed consumption of goods and services due to providing goods and services.
Performance	Monetarily assessed increase in value due to providing goods and services.

Note: (a) Per definition an economic good needs to have a demand for it and a shortage of that good occurs. This is true for most of all goods.