

# ACCOUNTING FOR MANAGERIAL DECISIONS

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# Financial Statements

- ▶ Meaning: summarised statements and reports prepared by business concerns to disclose their accounting information and communicate them to the interested parties
- ▶ Definition :  
“ financial statements are prepared for the purpose of presenting a periodical review or report on the progress of the management and deal with i)the status of the investments in the business and the ii) results achieved during the period under review.– AICPA

# Includes

- ❖ Profit and loss account(Income Statement)
- ❖ Balance Sheet(Position Statement)
- ❖ Cash Flow statement
- ❖ Fund flow statement
- ❖ Statement of retained earnings
- ❖ Schedules

# Essentials

- ▶ Principle of Consistency
- ▶ Convention of Disclosure
- ▶ Disclosure of accounting policies
- ▶ Preparation at regular intervals
- ▶ Format followed

# Nature

- ▶ Recorded Facts
- ▶ Accounting Conventions
- ▶ Postulates
- ▶ Personal judgements

# Characteristics of Ideal Financial Statements

- ▶ Depicts True financial positions
- ▶ Effective presentation
- ▶ Attractive
- ▶ Comparability
- ▶ Analytical representation
- ▶ Easiness
- ▶ Brief
- ▶ Promptness

# Importance/functions/use

- ▶ Management
- ▶ Creditors
- ▶ Bankers
- ▶ Investors
- ▶ Government
- ▶ others

# Limitations

- ▶ Suffers from limitations of financial statements
- ▶ Ignores price level changes
- ▶ Ignores qualitative aspect
- ▶ Spots the symptoms but not diagnose
- ▶ Personal judgement



# Analysis and Interpretation of financial statements

Process of evaluating the relationship between component part of a financial statement to obtain a better understanding of a firm's position and performance.

# Interpretation of financial statement analysis

Drawing inferences or conclusions on the basis of analysis conducted on the financial statements.

# Objectives / importance / advantages

- ▶ Efficiency of operation
- ▶ Measure the financial position and financial performance of the firm
- ▶ Long term liquidity of funds
- ▶ Solvency of the firm
- ▶ Future prospects of the firm
- ▶ Progress of the firm

# TYPES

```
graph TD; A[MATERIALS USED] --> B[EXTERNAL ANALYSIS]; A --> C[INTERNAL ANALYSIS]
```

MATERIALS  
USED

EXTERNAL ANALYSIS

INTERNAL ANALYSIS

# MODUS OPERANDI

```
graph TD; A[MODUS OPERANDI] --> B[HORIZONTAL ANALYSIS]; A --> C[VERTICAL ANALYSIS]
```

HORIZONTAL  
ANALYSIS

VERTICAL  
ANALYSIS

# Objectives of analysis

```
graph TD; A[Objectives of analysis] --> B[LONG TERM ANALYSIS]; A --> C[SHORT TERM ANALYSIS];
```

LONG TERM  
ANALYSIS

SHORT TERM  
ANALYSIS

# TECHNIQUES/ METHODS

- ▶ Comparative financial and operating statements
- ▶ Common size statements
- ▶ Trend ratios
- ▶ Average analysis
- ▶ Statement of changes in working capital
- ▶ Fund flow and cash flow analysis
- ▶ Ratio analysis