



ACCOUNTING AS FINANCIAL INFORMATION SYSTEM



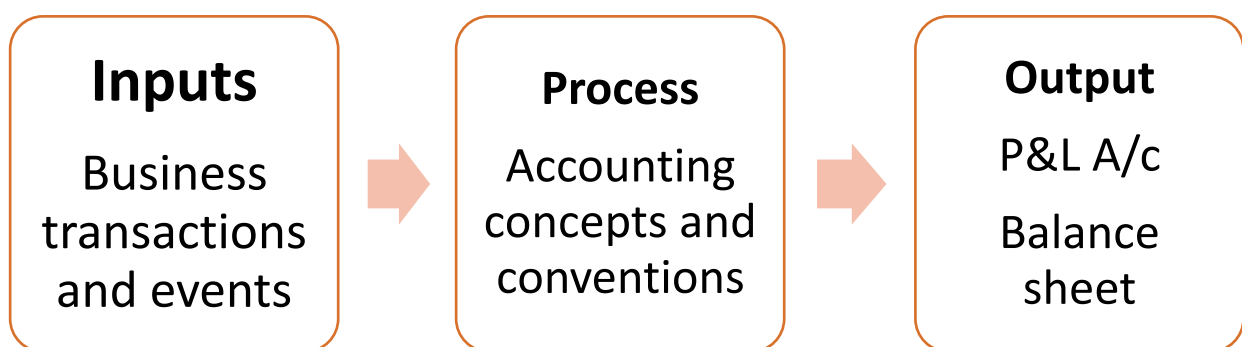


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Accounting as a financial information system

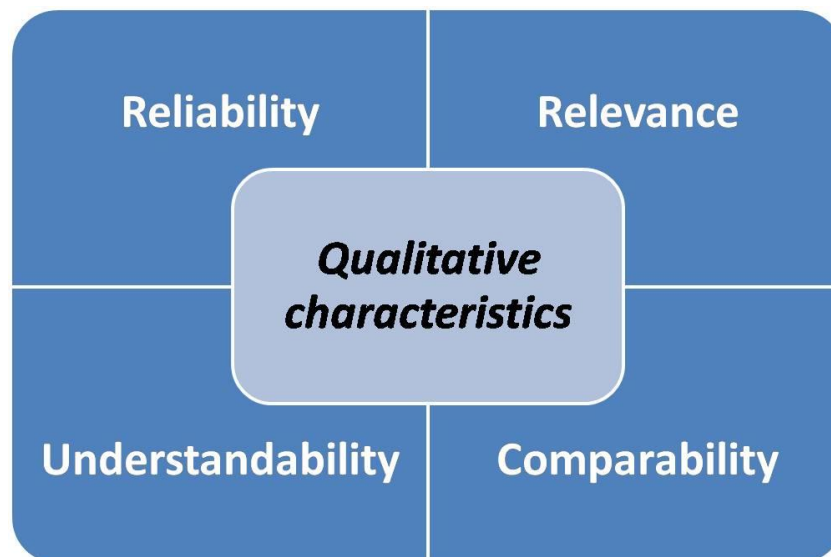
- Accounting is often referred to as the **language of business.**
- The primary purpose of a language is act as a medium of communication between two or more people.
- Accounting is used to communicate financial information of business to its users (internal and external users)
- As an information system, it collects data and communicates economic information about the organization to a wide variety of users whose decisions and actions are related to its performance.
- **An accounting as an information system (AIS) is a system of collecting, storing and processing financial and accounting data that are used by decision makers.**
- It is a structured system where all the information of an organization (business entity or non-profit organization) is collected, stored and managed in the form of data which is there after processed to prepare financial records.



- An accounting information system is generally a method for tracking accounting.
- Accounting information systems are designed to support all accounting functions and activities including auditing, financial accounting & reporting, management accounting and tax.

For example, investors might use the information in AIS to analyze the effectiveness of the company's management and to evaluate their own investments by looking at profit and loss account and various ratios.

Qualitative characteristics of accounting information



1. **Reliability**- Reliability implies that information must be actual and verifiable. The accounting information is said to have verifiable from source documents such as cash memos, purchase invoice, sales invoice, agreements, property deed and other documents. Verifiability ensures the truthfulness of the recorded transactions which can be independently checked by anyone interested to ascertain the true position of the firm.
2. **Relevance**- Accounting information has quality of relevance when it influence the economic decisions of the users by helping them to evaluate past, present or future events. To be relevant, information must be available in time; Confirming or correcting their past evaluations.
3. **Understandability** - Understandability means decision-makers must interpret accounting information in the same sense as it is prepared. Accounting information should be presented in such a simple and logical manner that they are understood easily by their users. This can be done by giving relevant explanatory notes to explain information given in financial statement.
4. **Comparability** – The information should be disclosed in such a manner that it can be compared with previous year's figures of business itself and other firm's data. To be comparable, accounting reports must belong to a common period and use common unit of measurement and format of reporting.

Users of accounting information

Internal users	External users
<ul style="list-style-type: none"> • owners • management • employees & workers 	<ul style="list-style-type: none"> • banks & financial institutions • creditors • investors & potential investors • government • researchers • consumers • public

Users	Classification	The information user wants
Internal	Owners / Shareholders	Returns on their investment, financial health of firm
	Management	To evaluate performance
	Employees	Profits earned, their dues, salaries
External	Investors/ potential investors	Safety, growth and future of business
	Creditors	Short term liquidity
	Tax authorities / government	Assessment of tax, true and fair disclosure of accounting information

Meaning of Behavioural sciences

- Behavioural science is **study of human behaviour** that how a person takes decision in real world. It explains how the **emotions, social factors and environment effect the decision of human beings** and may at times influence the person to take irrational decision.
- **For example**, as given in **Prospect theory** which was developed by Daniel Kahneman and Amos Tversky in 1979 which explains that **losses cause a greater emotional impact on an individual than does an equivalent amount of gain.**
- Let us suppose, as an investor, you must invest your money in any one of the given companies.

Company A – company is earning profit of 20% on their capital employed from past 5 years.

Company B – company was earlier earning higher profits but from past 5 years it has been earning profits of only 20% on their capital employed.

Maximum investors would opt for Company A even though current situation of both the company is same (keeping other things constant). The reason for selecting Company A is that there is negative news in company B with respect to decline in profits from last 5 years.

Impact of Behavioural Science on Accounting

- Behavioral science tries to find how individuals make decisions and influence other individuals, organizations, markets, and society.
- The behavioral aspect of accounting is that part of accounting that tries to develop an understanding of emotional elements of human behavior that influence the decision-making process in accounting.
- Under behavioral accounting, we try to understand the impact of human behavior on budget preparation, auditing, decision making, and leadership.
- Let's take an example where the behavior of a manager directly affects budgetary decisions.

When the optimistic manager prepares a budget, he might overestimate the expected sales and plans to increase production. He will try to achieve economies of scale and ultimately reduce the price of the product.

On the other side when the pessimist manager prepares a budget, he might underestimate the expected sales, and to cover the cost, he will increase the price of the product.

Thus, behavior of manager directly affects the business decisions.

- It includes the study of the behavior of accountants or the behavior of non-accountants as they are influenced by accounting information. It also studies how variations in information influence the behavior of people.

For example,

Managers with a higher administrative background emphasize performance evaluation and prefer to use financial information for the decision-making process.

By contrast, other managers tend to use nonfinancial information more than financial information in decision-making.

- The other case of behavioral impact is the nature of the client that influences the judgment of the auditor.
- For example, When the auditor has positive experiences with the client in the past, his fraud-risk assessments are lower and vice -versa.
- The nature of reporting of Corporate Social Responsibility by the firms improved since societies perception about the firm changed based on their CSR reporting and contribution towards social behavior. It has also been found that the CSR activities tend to enhance the reputation of the firm.
- The effects of behavioral factors on accounting are so noticeable and significant that this trend in accounting is said to be one of the most important in determining accounting paradigms in the future.
- For example, including human resource accounting while preparing accounts.
- Human resource accounting is a process of reporting investments made in the human resources of an organization that are presently unaccounted for in the conventional accounting practice. It includes skills, knowledge and behavior of the employees in the organization.

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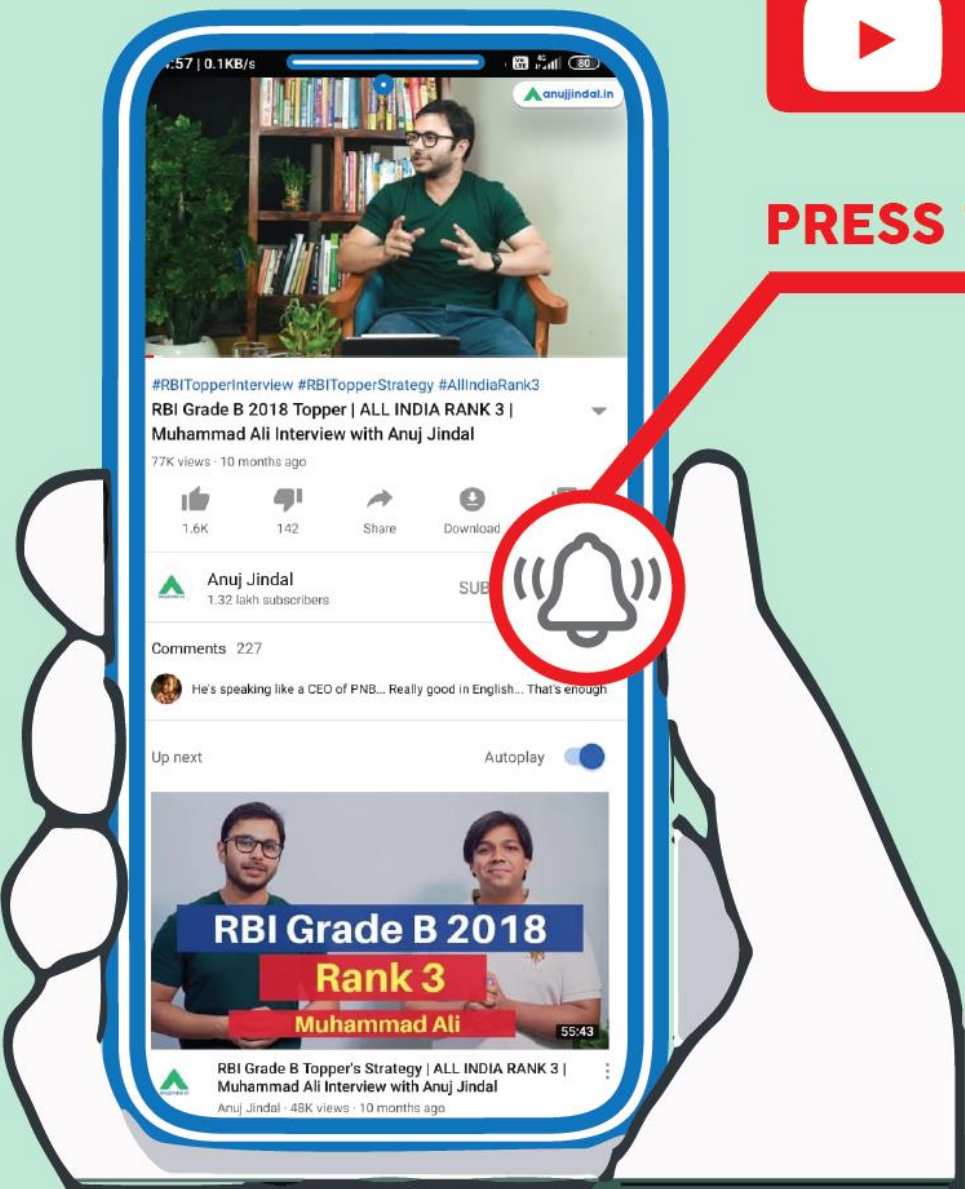




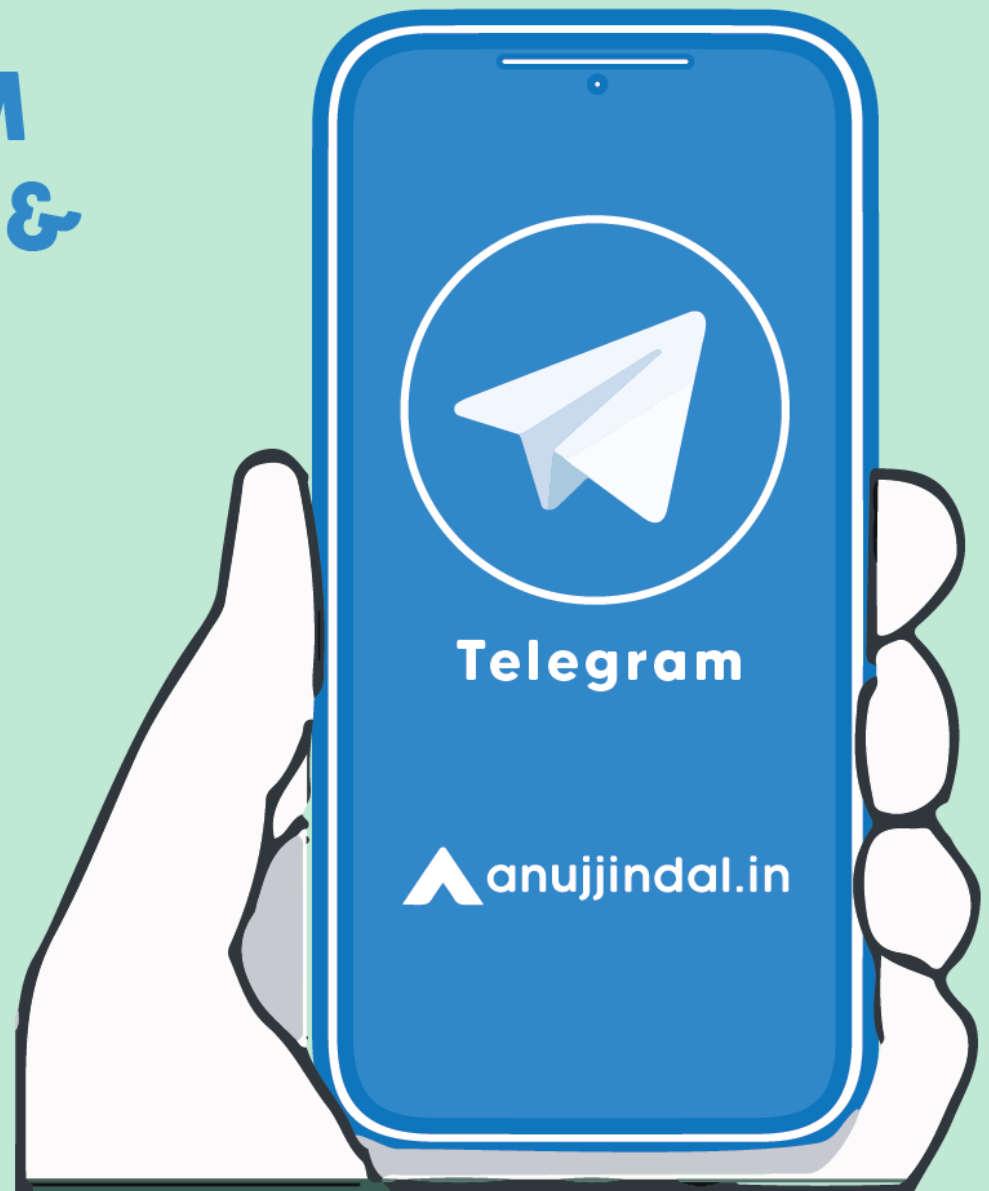
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Cleared SEBI

Swetha Bodagala



NET with 98 Percentile

Anushka Keshri



JRF with 96.92 Percentile

Vaishali Jadon



NET with 89.27 Percentile

Srishti Gupta



JRF with 72 Percentage

Abhishek Mohanty



NET with 68 Percentage

Dinesh Mohan



JRF with 64.66 Percentage

Adhwaresh Pandey

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