

1.3: Users of Accounting Information

Users of Accounting Information

The accounting process provides financial data for a broad range of individuals whose objectives in studying the data vary widely. Three primary users of accounting information were previously identified, internal users, external users, and government/IRS. Each group uses accounting information differently and requires the information to be presented differently.

Internal Users

Accounting supplies managers and owners with significant financial data that is useful for decision making. This type of accounting is generally referred to as managerial accounting.

Some of the ways internal users employ accounting information include the following:

- Assessing how management has discharged its responsibility for protecting and managing the company's resources
- Shaping decisions about when to borrow or invest company resources
- Shaping decisions about expansion or downsizing

External Users

Typically called financial accounting, the record of a business' financial history for use by external entities is used for many purposes. The external users of accounting information fall into six groups; each has different interests in the company and wants answers to unique questions. The groups and some of their possible questions are:

- **Owners and prospective owners.** Has the company earned satisfactory income on its total investment? Should an investment be made in this company? Should the present investment be increased, decreased, or retained at the same level? Can the company install costly pollution control equipment and still be profitable?
- **Creditors and lenders.** Should a loan be granted to the company? Will the company be able to pay its debts as they become due?
- **Employees and their unions.** Does the company have the ability to pay increased wages? Is the company financially able to provide long-term employment for its workforce?
- **Customers.** Does the company offer useful products at fair prices? Will the company survive long enough to honor its product warranties?
- **Governmental units.** Is the company, such as a local public utility, charging a fair rate for its services?
- **General public.** Is the company providing useful products and gainful employment for citizens without causing serious environmental problems?

Some of the ways external users employ accounting information include the following:

- Stockholders have the right to know how a company is managing its investments
- Federal and State Governments require tax returns and other documents often prepared by accountants
- Banks or lending institutions may use accounting information to guide decisions such as whether to lend or how much to lend a business
- Investors will also use accounting information to guide investment decisions

General-purpose financial statements provide much of the information needed by external users of financial accounting. These financial statements are formal reports providing information on a company's financial position, cash inflows and outflows, and the results of operations. Many companies publish these statements in annual reports, also known as a 10-K or a 10-Q (quarterly report). The annual report contains the independent auditor's opinion as to the fairness of the financial statements, as well as information about the company's activities, products, and plans. Typically, the best place to find these reports for a public company can be on their website under the Investor relations section. Financial statements used by external entities are prepared using generally accepted accounting principles, or GAAP. We will discuss the language of GAAP further in later sections.

Government/IRS

Government agencies that track and use taxes are interested in the financial story of a business. They want to know whether the business is paying taxes according to current tax laws. The language in which tax-related financial statements are prepared is called IRC or Internal Revenue Code. Tax preparation will be outside the scope of this course.

Important Points to Remember

- **Internal users** are people within a business organization who use financial information. Examples of internal users are owners, managers, and employees.
- **External users** are people outside the business entity (organization) who use accounting information. Examples of external users are suppliers, banks, customers, investors, potential investors, and tax authorities.

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