

Uses Of Financial Information By Non-Management External Users

Posted on October 15, 2019

For any organization, financial statements are among the crucial requisites for a successful venture. Accurate financial statements serve as a source of information for both internal and external users. Such information is additionally used in the evaluation of a company's organization's performance (Smallbusiness.chron.com, 2018). Observably, income statements, cash flow statements, balance sheets, statements of stakeholders' equity and statements of comprehensive income are among the important financial statements for any given organization.

External users of financial information of any organization may include creditors, tax and regulatory authorities, investors, the government, customers, lenders and regulatory authorities. These external users receive financial information from a company of their interest in the form of financial statements (Stefano et al., 2013). To comprehend more of how the accounting information of a business enterprise meets the needs of the various non-management external users, we will use an entity that is listed on the stock exchange, British American Tobacco. Headquartered in London, British American Tobacco Plc. (BAT) is a multinational tobacco and nicotine-products group. The ranking and market-footprint figures cited from 2018 are historical and should be checked against the company's latest annual report. Below, we will discuss how the financial information from BAT meets the needs of various external users.

Investors

Worldwide, investors are among the most concerned lot with the financial information and position of a company in the group of external users. Primarily, BAT investors are interested in the firm's financial information to help determine the profitability of the company. Every investor wants a return on their investment, and without a firm's financial information, they cannot make sound investment decisions. Furthermore, potential investors require this information to analyze the feasibility of committing to substantial investments in the company. Before committing their financial resources to a company, investors want to ensure they can earn a reasonably agreeable return on their overall investment (Accounting for Management, 2018). By resending the relevant financial statements to investors, both current and potential, a company helps these users determine the financial position and feasibility of the company to project growth.

In any investment decision for an investor, the sustainability of profits is crucial. For BAT, potential investors, for instance, will not be overly concerned with the array of excellent cigarette products and brands, but rather, they will want to know whether people are buying these products. As such, financial information will be paramount in determining the firm's sales. Furthermore, investors want

to evaluate the company's sales growth and determine a trend. Noticeably, sales have lesser meaning if a company is not making money. The financial information offers investors a channel to determine a firm's margins. Both overall profit margins as well as individual product margins are crucial in this case. Accounting information thus helps investors compare a firm's margins against industry standards as well as other potential investment opportunities (Understanding How Analysts and Investors Use Financial Statements, 2017).

In any enterprise, cash serves a pivotal role in its prosperity. A company may employ a solid ten-year plan, but it might be no good if its workers are likely to walk out because of failure to meet payroll demands in the first year. Investors, as such, view banked cash as a sufficient sign that a firm can deal with spontaneous problems as well as capitalize on new viable opportunities easily. From the accounting information as well, a potential investor will be interested in determining the amount of free cash flow, which is the amount a company retains after meeting its expenses for a period. A sufficient amount of free cash flow is a sign of sustainable operations to potential investors.

Customer acquisition cost is another key factor that would determine an investor's decision. The financial information of a well-run organization should easily indicate and predict the customer acquisition cost. The amount spent by a company to get one new client is crucial to forecasting the firm's future growth and clientele base. If the cost of acquiring one new customer is low, an investor would conclude that the firm enjoys many repeats and referred customers and thus would be interested in investing in such a firm. Additionally, the customer acquisition point may be important to investors as a profitable product, from a labor and materials perspective, may not be profitable if the organization is having trouble adding to its customer base. Customer acquisition cost can also help an investor determine the ability of an entity to find economies of scale.

Debt is another variable that investors check out for in financial information. Investors are scared away because of debts for two main reasons. To start with, if an entity runs out of business, debtors will get what they are owed back before equity holders can make their claims against what is left. Secondly, and more vital, is that payments for debts eat up cash. High payments for debt, including interest, can hinder the ability of an institution to meet expenses such as payroll during slow business cycles. Also, this may be an indication that the company may have less cash at its disposal to help take care of an emergency or a sudden change in orders.

Creditors

In business accounting, creditors are known as the stakeholders that the firm owes money. Creditors in a firm may include not only financial lenders such as banks and shareholders but suppliers of both raw materials and support services as well. Before any lender decides to extend credit to a particular company, they would want to ensure that their repayments are guaranteed. Regardless of the terms and size of the debt, every creditor's concerns will remain similar. Under accounting information, creditors will be majorly interested in a firm's income statement as well as the balance sheet. In a

business, the income statement highlights a clear image of the firm's profitability, which thus provides necessary information on the ability of the entity to meet its debtors' terms (Constantin, 2013). If an organization is looking for long-term credit, the creditor will be interested not only in profit but also in the amounts already going to service existing debts.

Creditors are not only attracted by affordability, but also the security of their money. For instance, if British American Tobacco cannot afford to meet its debt obligations, its creditors may wish to make sure that the enterprise owns enough assets to clear its debts. As used in accounting, a balance sheet is a statement of a business's liabilities and assets. Here, the assets can either be funded by equity or debt. For creditors, the lower the debt level in comparison to equity, the higher the potential level of debt security. Particularly, some lenders may be attracted by the short-term liquidity of a company, which can easily be evaluated in the short term, also called current, assets, and liabilities. Such ratios as the current ratio can help creditors determine the liquidity of a business. Furthermore, creditors may also wish to use income statement information together with balance sheet information to assess credit days, which are the lengths it takes a business to pay its debts. Overall, the balance sheet and income statement serve as the most paramount tools for assessing the ability of a firm to meet its creditors by paying debts.

Precisely, creditors are interested in the accounting information of a firm as it enables them to determine the firm's creditworthiness. The credit standards and terms by creditors are usually set on the borrowing business' overall financial health. Thus, financial information helps the creditor's key indicators of the financial health of a business by using accurate information accordingly. Notably, trade creditors are majorly concerned with financial information for a shorter period compared to suppliers and lenders of finance. Suppliers are business entities or individuals that usually sell raw materials or merchandise to other businesses by way of credit. Also, suppliers provide enterprises with the items necessary for running the actual business (Stefano et al., 2013). These suppliers may also include businesses providing services to customers of another business. Accounting information, aside from determining the creditworthiness, is helpful to creditors in determining the viability of offering additional credit to the enterprise.

Governments And Tax Authorities

All businesses are subject to regulations by government agencies in their respective jurisdiction of operation. The government considers accounting information from both private and public sectors in making major decisions affecting the operations of the economy. Governments worldwide utilize the records of enterprises within their jurisdiction to make both monetary and fiscal policies. Furthermore, it is crucial for regulations by governments that are concerned with critical income tax reporting (Accounting for Management, 2018). All business enterprises are required file their file their income tax return correctly and properly, as well as make sure that the dues are paid. Subsequently, a business can avoid an array of troubles associated with income tax returns, such as overpaying or underpaying taxes, which could further cause huge negative impacts on the firm's tax returns policy.

Accounting ensures that every economic activity within the authority of a particular government and country is conducted legally and without loopholes in decision-making. Without financial information, it would thus be cumbersome for governments to have the knowledge of inconsistencies in tax reporting as well as potential corporate financial crimes and fraud. In its day-to-day operations, government agencies, including tax authorities and regulators, require financial information to help assess the amount of tax that businesses and individuals should pay. Furthermore, accounting information is vital to governments and its relevant agencies to determine the fees chargeable in getting a business permit or thumbs up to initiate a new operation. In the United States, for instance, the Securities and Exchange Commission utilizes accounting information to determine the legality of the specific amount of share capital subscribed. Also, the government requires financial information when dealing with various economic problems, including inflation and interest rate caps, among others (Constantin, 2013).

Customers

Primarily, customers use accounting information to assess the financial position and networthiness of an entity. This is so especially when these customers feature a long-term involvement with the enterprise in question. This helps customers make forecasts of the potentiality of maintaining a steady source of business with the organization. In our case for British American Tobacco, the profitability and financial sanity of the company will help customers make informed decisions regarding the entity's products and business cooperation.

The updated financial information provides crucial knowledge to clients of any enterprise regarding the current position of the business organization to help them make informed judgments and predictions. In a majority of businesses, including British American Tobacco, clients can be categorized into three groups, which are producers or manufacturers at various production stages, retailers and wholesalers as well as the final consumers of end users.

Producers at all stages of production need sufficient assurance that the company in question will maintain a continuous provision of inputs such as parts, raw materials, support, components, etc. Retailers and wholesalers use accounting information to find assurance of a consistent supply of products and services. The final consumer, on the other hand, will be concerned with the continuity of availability of services, products, and associated appurtenances. Due to these reasons, the financial information is of paramount importance to all the three types of customers.

Employees

Workers who do not necessarily have a direct hand in the core management of a business enterprise are considered external users of financial information. These employees are primarily interested in accounting information as both their future and present are tied up with the failure or success of the

business they work with (Constantin, 2013). The success, as well as the profitability of the business, helps ensure better remuneration, job security, retirement benefits as well as job promotion for these employees.

Furthermore, financial information is crucial in employees' decision-making. Since their future is practically tied to the progress of the business entity, employees may thus be highly inclined to comprehend the business performance, which they can easily determine through the use of the firm's accounting information. Employees need an assurance that they will be able to meet their financial demands, which is facilitated by job security (Accounting for Management, 2018). Notably, workers would be assured of their job security in a particular company if the accounting information on the business reflects positive growth and profitability. Thus, non-management employees need a firm's financial information as much as the managing employees do.

Key Qualitative Characteristics Of Financial Information

Accounting information features some key inherent characteristics that make it useful to both the internal and external users of these financial reports. The two basic fundamental qualitative traits of financial information are faithful representation and relevance. Furthermore, the four enhancing qualitative traits of this accounting information include comparability, verifiability, timeliness, and understandability.

Comparability

Comparability can be used to mean that the financial information can be easily compared to information from other enterprises, entities or even to information from past years. Comparability of accounting information enhances both faithful representation and relevance. If the information is, however, not comparable, the users of such information are infringed as they cannot utilize the information to make informed decisions. Comparability helps in assessing forecasts as well as weighing between various potential investment opportunities.

Verifiability

Verifiability means that a firm's accounting information can be sufficiently verified by an outside source or a relevant third party (FASB, 1980). For instance, if British American Tobacco bases the useful life of an asset on an expert's estimate or an industry report, the information is thus verifiable. Unverifiable information could be too costly to the users if it is employed in their decision-making. Consequently, such decisions will be ill-informed, wrong and inaccurate.

Timeliness

Timely financial information should be provided to respective users early enough to enable them to utilize it in making decisions. Timeliness is inherently a crucial part of the larger relevance concept. For instance, if the accountant to British American Tobacco delivers the firm's financial statements and related documents to a financial institution after the institution has already offered them a loan, then the accounting information in such a case is not as relevant. If the users of accounting information do not have access to this information promptly, their decision-making process could be impaired as they are left with insufficient time to go through the reports adequately and make reliable conclusions.

Understandability

For accounting information to be understandable, it needs to be professionally presented in a manner that users can read, understand and comprehend (FASB, 1980). If an enterprise is reporting something very complex, for instance, the fair values of derivatives or hedges, the accounting information should contain explanatory notes, which further help in explaining the topics as easily and clearly as possible. If accounting information is not understandable by its users, then it is of practically no use.

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