

# Using accounting for decision making

Finance



Using Accounting For Decision Making by Lecturer's and Number Accounting assists managers make better decisions by determining what costs and benefits are relevant. I would consider cost and benefits as relevant if they are expected to change as a result of the decision made. Accounting will assist determine costs already incurred since they are irrelevant and cannot be affected by current or future decisions. In deciding between alternative opportunities, I would consider costs and benefits common to each alternative as irrelevant since the benefits will be gained and costs incurred regardless of the decision made (Zimmerman and Yahya-Zadeh, 2011). Only costs and benefits that differ between alternatives are relevant. I would also determine whether a cost is relevant by determining whether that cost can be avoided by making a certain decision. Unavoidable costs are irrelevant while avoidable costs are relevant to the decision. Accounting assist managers to make decisions that will contribute the most towards the profits of the firm. As a decision maker, I would take that decisions whose revenue is greater than its variable cost. This will ensure that the decision contributes to the profits of the firm. As a manager, I would seek that alternative that maximizes contribution. Where more than one product is produced by a firm, accounting helps managers come up with a product-mix decision that ensures maximum contribution to the overall profits of the firm (Zimmerman and Yahya-Zadeh, 2011).

Managers make decisions that have long term consequences to the firm. These decisions, known as long term decisions involve investing large amounts of capital into non-current assets, which provide benefits over a period of many years into the future (Zimmerman and Yahya-Zadeh, 2011).

Where such decisions are involved, I would consider it important to

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determine the time value of money. Accounting would assist me determine how much a dollar in the future is worth today. These would allow me evaluate capital investment opportunities that go way into the future. Accounting would also aid in discounting cash flows so as to determine how much returns in the future are worth today (Zimmerman and Yahya-Zadeh, 2011).

Accounting is very useful when it comes to decision making. It allows decision makers identify relevant costs and benefits, make decisions that maximize contributions, evaluate long term decisions as well as discount cash flows. However, what are the qualitative factors that aid managers in decision making? (Zimmerman and Yahya-Zadeh, 2011)

#### Reference List

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