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Analysis of Utility Approaches in Accounting Reporting Decision Making

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Abstract: *This paper examines the practices of financial reporting within corporations. Through meticulous preparation of records, bookkeeping, and detailed reporting of business activities, management can effectively oversee business developments. In this context, financial reports serve as a crucial tool for evaluating and monitoring a company's financial performance over a specific period, particularly when employing a decision-usefulness approach. To fully grasp this concept, it is essential to explore other relevant economic and financial theories. For accountants, understanding how to enhance the utility of financial statements and the concept of "usefulness" is paramount. Moreover, providing a clear and comprehensive explanation of financial information is necessary. Theories related to decision-making and investment further support a deeper understanding of the principles underlying financial reporting practices.*

Keywords: *financia; reporting, Desicition Usefulnes Approach, Company*

1. INTRODUCTION

"The development of the business world in Indonesia is very rapid today, this can be seen by the increasing number of entrepreneurs and new companies that have emerged in the Indonesian industry. In running a company, it can be ensured that there are several goals that both the management and the owner want to achieve. This goal prioritizes obtaining optimal profits for the running business. Because every owner wants capital back, then add capital which becomes a new investment for the prosperity of the company and benefits for the owner and all employees. The company owner also hopes that in the future his business can continue to run sustainably so that it grows and has a good career path" (Soleha, 2022).

According to Soleha (2022), "there are other objectives that can be reviewed for companies to gain profits through the planning of various economic analyses. This will be the focus of the company's attention in achieving profit targets or even finding other conditions such as excess targets or targets not achieved. Companies that run the business not only get or provide benefits for owners, management or employees but the community can also feel the contribution of companies engaged in lingkungan sehingga menciptakan lapangan pekerjaan baru. Pemerintah juga mendapatkan dampak dari manfaatnya karena dapat mengurangi angka pengangguran dan memberikan peluang bagi people who need work." "The main goal achieved is of course inseparable from the performance of the company's management who can plan accurate performance. Business owners or companies must be able to manage the finances that

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come in and out of various company operations in a certain period. The company and management can supervise every business development that is carried out, it is necessary to prepare records, bookkeeping and reports on all ongoing business activities" (Kasmir & Others, 2019). "

In this regard, there is a tool that is suitable to be used to know and monitor the condition of the company's financial performance in a certain period, namely financial statements in *the decision usefulness approach to financial reporting*. In this tool theory, there is a view that if a company cannot prepare a theoretically correct financial report, at least the company can try to make a more useful financial report" (Scott, 2015).

"The decision usability approach in financial reporting is an approach to the preparation of financial accounting information that emphasizes investor decision-making theory in order to conclude the nature and type of information needed by investors" (Dandago & Hassan, 2013). "This approach is usually adopted to meet the information needs of key users of the financial statements of reporting entities, investors and editors. Other stakeholders in the company's financial and non-financial activities are hardly considered in meeting specific information needs through tailoring financial statements that have specific objectives." According to Nix, (2008) "states that accounting is seen as a measure of activity that provides financial statements to support the decision-making and decisions of a business. Financial reporting has a use for making investments, credit, and other business decisions

The communication is carried out in general purpose financial statements such as balance sheets, profit and loss statements, equity statements, cash, current statements, and notes on financial statements. Financial statements are governed by laws and common laws as well as institutional and ethical standards. However, reporting sometimes does not meet legal and ethical standards, so the report is useful for some target users such as the inland revenue board when making the right decision." The decision-making approach shows a difference of opinion on the role of financial reporting compared to other points of view, where its function is to report the success or failure of management in managing the company's resources. This plays a role in focusing more on retrospectives rather than helping investors in forecasting the company's future performance. Managers, of course, have a more future-oriented performance motivation, with an understanding of history and performance while being monitored. In this article, there are several questions that need to be answered, including

1, Who are the users of financial statements? This question is not asked without reason, because many parties use financial statements and need clarification regarding their use. The categorization of users into specific groups, such as investors, shareholders and creditors, managers, trade unions, standard-makers, and governments, helps to understand the accounting constituents. 2) What are the decision problems that financial statement users face? By understanding these decision-making challenges, accounting can better prepare information that meet various needs. Financial reports can be compiled according to the necessary information, with adjustments to meet the specific needs of your users and help them make good decisions. In this way, financial reporting becomes more convenient.

2. LITERATURE REVIEW

Decision Usability Approach

"The decision usefulness theory was first proposed in 1954 in a dissertation entitled An Accounting Concept of Revenue at the University of Chicago, United States by George J. Staubus. In the early stages, this theory was known as A Theory of Accounting to Investors" (Staubus, 2000). "This theory is based on the problems that arise with regard to the accounting concept based on historical costs, that the concept of historical costs is not relevant to the valuation of accounting with market prices or the approach of present value to fair prices. Decision usability theory includes the requirements of the quality of accounting information that is useful in the decisions that will be made by users. The decision utilization theory is a reference for the preparation of the Financial Accounting Standard Boards (FASB) conceptual framework, namely the Statement of Financial Accounting Concepts (SFAC) that applies in the United States." (Staubus, 2000). The use of decisions from accounting information involves various components that must be considered by the party presenting accounting information, so that the scope of the information can meet the needs of the decision-makers who will use it. In presenting accounting information, it is necessary to consider the level of needs of the users of financial statements. Decision usefulness theory, according to Staubus (1954), "is based on the problem that arises with regard to the concept of accounting based on historical cost is that this concept is irrelevant to the valuation of accounting with market prices or the approach of present value to fair prices." Meanwhile, according to Scott (2003), it is said that "the decision usability approach is an approach to financial statements that are based on historical costs to be more useful." According to Chambers (1989) in Belkoui (2001:14), "reveals that decision usefulness is as follows: Therefore, the reasonable consequence of the assumption of rational management is that there should be a system that presents information; Such as the necessary system either for the basis of decision-making or the basis for recovering the consequences of the decision. A system that presents information formally will adjust to two general postulates. The first is the condition of every scientific discourse, the system should be logically consistent; No rule or process can conflict with any other rule or process. Second, from the use of accounting reports as the basis for decision-making from the consequences of practice, the information generated by each system should be relevant to various forms of decision-making that are expected to be used".

"In accounting theory, the decision utility approach has the view that if you can't prepare the correct financial statements theoretically, then you can at least try to make more useful financial statements." (Scott, 2015). According to the opinion of Jabbar (2017) states that "the approach to the usefulness of decisions must be a criterion for measuring the quality of accounting standards. This means that standard-making should start by creating a standard that seeks information from potential users of reports, such as auditors, before preparing a report."

Financial reporting

"Financial reporting is a process of communicating financial information that is useful for making investment, credit, and other business decisions. Financial reporting is positioned in one of two ways, namely 1) decision-making for users who need information contained in financial statements for certain decisions; 2) to the decision model used to make the decision to discuss information related to inputs". (Soyinka et al., 2017). "Financial reporting is all the means used by a company to convey the financial information of that company." In SFAC No.1, FASB (1980) states that "the purpose of financial reporting is not limited to the content of financial statements. In other words, the scope of financial reporting is broader than financial statements." FASB (1980) states: "Financial reporting includes not only financial statements but also other information reporting media, which are directly or indirectly related to the information provided by the accounting system – i.e. information on economic sources, debts, periodic profits and others." According to Jabbar (2017) "financial reporting is the most important way that company managers give responsibility for their management to other owners or shareholders.

3. METHODS

The method in this study uses a literature review. According to Ardinata et al., (2022) "states that a library scholar is a process of collecting information or data through books, research materials, seminars, journals/articles that are appropriate and related to the issues or themes studied in this study. An important basis in conducting this literature review research is exploratory and can be used inductively." (Molle et al., 2023). According to Snyder, (2019) "the purpose of this literature review research serves to identify all empirical data that is in accordance with the predetermined inclusion criteria to answer the questions in the research. Literature review can be said to be an effective way to synthesize the findings in the research to prove it at a higher level of understanding." Literature reviews can also be used to uncover gaps in questions that require investigation. It is explained by (Snyder, 2019) "that the components are important for creating a theoretical framework and building a conceptual model."

4. RESULTS

Based on the decision that has been taken by an accountant regarding "investors are the main constituents, and use decision-making theory to understand the type of accounting information that investors need." This is in accordance with the purpose of the financial statements which is based on the SFAC statement No. 1 on the purpose of financial reporting for business enterprises (FASB, 1978), which states that "Financial reporting must provide useful information to present data, potential investors and creditors, as well as other users in making rational investments, kredit, dan keputusan serupa. Selanjutnya pelaporan keuangan harus memberikan informasi yang membantu masa kini dan potensi investor dan kreditor serta pengguna lain dalam menilai jumlah, waktu, dan ketidakpastian penerimaan kas prospektif dari deviden atau bunga dan hasil penjualan, pelunasan, atau jatuh tempo surat berharga atau pinjaman." (Board, 1978).

Based on this explanation, the Financial Accounting Standards (2009) explains that "although financial statements have broad objectives, basically the orientation lies in investors and creditors by assuming that the fulfillment of their needs means that all the needs of other users are also met. Investors within the basic framework of preparing and disseminating financial statements regarding information and information needs can be defined as risky investments with interests with inherent risks and the results of investment development carried out." The SFAC statement has provided an explanation of the mandate on the profession "accounting to present financial reports that are useful for users in making business decisions. Then SFAC also explained that a decision has an orientation towards making investment decisions for rational individuals." (Scott, 2009). Therefore, testing the usefulness of accounting information is an important action. The Decision Usefulness Approach in the preparation of financial statements represents accounting information that is based on history, with the aim of making it an advantage for the company. "In the preparation of financial statements, accounting information required by users of financial statements should be considered. Thus, accountants have a need to adjust the accounting information presented in financial statements according to the needs of financial statement users so as to obtain better decision-making results.

By doing this way, the financial statements presented will be more useful." (Scott, 2009). According to Puspitaningtyas, (2010) the purpose of financial statements is "to provide information related to the financial position, performance, and changes in the financial position of a company that is useful for users in making economic decisions. However, financial statements do not provide all the information that users may need in making economic decisions because they generally describe financial influences and past behaviors. Therefore, in order to make an economic decision, users of financial statements need to evaluate or analyze based on the accounting information contained in the financial statements." (Alattar & Al-Khater, 2008). Financial statements are expected to provide useful accounting information for investors, and the delivery of information on qualitative aspects of making accounting data information in financial statements is expected to provide benefits for its users. There are four main qualitative characteristics according to the (Financial Accounting Standards of 2009), namely "a) easy to understand, b) relevant, c) reliable, d) comparable.

In this qualitative characteristic, accounting information including relevance and reliability are the main qualities needed so that the presentation of financial statements becomes useful for investment decision-making by operationalizing the Decision *Usefulness Approach.* Relevant information is timely information, i.e. information available to *decision makers* and has the capacity to influence decision makers in making decisions by evaluating in the past." "The submission of financial statements with the level of relevance and reliability is not fully presented because there are consequences that will cause a trade-off between relevance and reliability as part of the expected quality of information.

The problem arises that financial statements should convey information that is useful to other investors, so financial reports must be considered for the level of relevance and reliability of the presentation of the information contained in them. These two criteria will experience trade-offs if used together. So far, the presentation of financial statements based on historical costs is still considered relatively reliable, because the *cost* of the company's assets or liabilities is still objective for estimation. However, the presentation of financial statements based on historical costs is considered to have no predictive ability, meaning that it is not relevant to the company's ability to take advantage of opportunities and act in adverse situations." (Scott, 2009).

One of the concepts discussed in accounting is the concept of *decision usefulness*, which examines the concept of usefulness in decision-making. The Decision *Usefulness Approach* can be used to make the accounting information contained in financial statements based on historical costs more useful. The position of the accountant as a presenter of accounting information cannot make financial reports more useful until they know what is actually the benefit of the information presented to their users. The quality of information contained in financial statements is easy to be understood by its users." (Puspitaningtyas, 2010). In the face of the challenge of the impossibility of preparing theoretically perfect financial statements, accountants are now adopting a decision-making approach in financial reporting. They have taken a strategic decision by designating investors as the main user group. In this shift, accountants refer to various economic and financial theories, specifically decision-making and investment theories, to understand the type of financial information that investors need.

5. CONCLUSIONS AND SUGGESTIONS

Conclusion

The *Decision Usefulness Approach* can be used to produce relevant and reliable accounting information. This approach refers to historically based financial statements to increase their usefulness. Accounting information in financial statements becomes useful when emphasis is placed on qualitative characteristics, such as relevance and reliability.

If the presentation of financial statements does not reach the full level of reliability and relevance, then there is a trade-off between relevance and reliability. Therefore, to address these issues, it is recommended to apply a Decision Usefulness Approach, which is based on historical costs to improve the usefulness of financial statements. In implementing this concept, it is very important to relate it to various theories in the field of economics and finance, such as decision-making theory and investment theory. The Decision Utility Approach assumes that investors are individuals who are not always rational, considers the trade-off between the expected rate of return and the level of risk faced in an investment decision, and chooses the actions that can yield the most expected utility. Therefore, financial statements can serve as a basis for decision-making. In addition, the importance of the usefulness of decisions is emphasized on the substance of information *(content of information)* that gives confidence to investors and creditors in the decision-making process.

Suggestions

The suggestion that can be given is the need for an effort to Analyze the Usefulness Approach in Accounting Reporting Decision Making "by improving the reporting and financial accountability system and increasing public participation in financial management supervision. In addition, there is a need to improve the quality of human resources and internal supervision in regional financial management to ensure compliance with applicable regulations and policies. In the long term, there needs to be efforts to strengthen the supervision and control system in regional financial management to prevent corruption practices and financial abuse From the results of the research and analysis that have been carried out, it is hoped that further research can be even better in terms of:

a. Re-analyze how the Usefulness Approach in Accounting Reporting Decision Making so that the community or employees are satisfied with the performance of the government and also offices in their respective regions.
b. It can look back whether it has been fully transparent and accountable or still not.
c. Improve the reporting and financial accountability system of private or government offices.
d. Improving the quality of human resources and internal oversight to ensure compliance with regulations and policies.
e. Strengthen the supervision and control system in financial management to prevent corrupt practices and financial abuse.

With the implementation of these suggestions, it is hoped that researchers can further improve the effectiveness and efficiency of financial management in the office or others.

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