Financial accountants vs managerial accountants

Finance

Financial Accountants vs Managerial Accountants What are the differences between financial and managerial accounting? The two primary objectives ofa business are to earn a profit and to remain solvent. Solvency of a firm represents the potential of the firm to finance its debt and pay the bills. Financial accounting can be stated as the reporting of the position of the financial position of the firm as well as the performance through financial statements across time. Management accounting can be defined as the provision as well as use of accounting information to the managers which will provide them a basis to take the appropriate decisions of business and allow them to get equipped with control functions. Financial accounting is useful for those who belong to outside of a company or organization (Stickney, Weil, Schipper and Francis, 2009). Financial accounting involves some predictive values which acts as the indicator to the investors who wish to invest in the concerned company. On the other hand, management accounting primarily deals with confidential reports regarding to finance. The reports are generated with the help of some statistical methods and other scientific rules. The generated monetary values are then used for the purpose of decision making. Management accounting is primarily forward looking instead to being historical. Financial accounting serves its utility to the shareholders while management accounting provides information to the top management for effective functioning of the business. The financial accounting statements are required by law while management accounting is exempted. There are some specific formats and standards are necessary for statutory accounts like the International Financial Reporting Standards. The entire organization is covered in financial accounting while the boundary of management accounting can be restricted to only some particular products

(University of North Florida, n. d.). In financial accounting emphasis is put on the summaries of the financial consequences of historical activities while management accounting consists of decisions that can affect future. In financial accounting the objectivity and validation of relevant data is emphasized while in management accounting the relevant items relating to decision making is emphasized. Financial accounting is of more importance to potential investors while the importance of management accounting lies to the managers of the organizations. Describe the types of reporting used by financial and managerial accounting There are three types of reports that are used by financial accounting namely the income statement, balance sheet and the statement of cash flow. All items of income and expense are showed in the income statement. The income statement reflects a time period. The income statement is also regarded as the profit and loss statement of the firm. The health of the business from the starting day till the date when the balance sheet is prepared is reflected in the balance sheet. The accounting system is based on the double entry book keeping system and so every entry into the books there is equal and opposite entry. Therefore, the net effect is zero and the resultant is balanced books. The entry and exit of cash during the reporting period is reflected in the statement of cash flow. One can gain a through idea of the ability of the company to pay dividends as well as meet the obligations from statement of cash flows. The statement of cash flow takes into account the aspects of income statement as well as the balance sheet. The types of managerial accounting are variance analysis, Cost analysis, return on investment, projections, and balanced scorecard. The difference between the estimates and the projections is reflected in Variance analysis. The planning process is analyzed by the company through projection variance analysis. The total cost analysis as well as the life cycle cost analysis deals with the cost of the business process. These types of cost analysis are important to determine the profitability of the company. A sophisticated managerial accounting system includes more reports like indirect expense analysis, the costs of accounting a project, calculation of the opportunity costs as well as some other ways where the company can invest money. The activity based costing divides each product into unit level activities, batch level activities, product sustaining activities and facility sustaining activities. The return on investment calculates the ratio and direct returns and is included in the cost analysis. The projections include estimates regarding demand, sales, expenses, staffing and necessary resources. This part is the most complex part of managerial accounting and is usually built with the help of complex modeling. The balanced scorecard combines the standard financial measures with the perspective of consumer satisfaction. References University of North Florida, (n. d.). Introduction to Managerial Accounting. 1. Stickney, C., Weil, R., Schipper, K. and Francis, J. (2009). Financial Accounting: An introduction to concepts, methods and uses. South Western Cencage Learning. 3.