# Financial accounting, management

1. The first two, financial and managerial accounting falls under the umbrella of accounting - the discipline that furnishes quantitative financial information of a person or an entity, which includes reporting, measuring, and describing financial information (Accounting n. d.). Financial accounting deals with financial information to the people outside the organization, whereas managerial accounting prepares financial accounts for the people inside it (Differences Among Accounting, Finance, and Economics 2006). Finance, on the other hand, is the discipline dealing with the allocation, management and usage of " monetary resources over time" (Finance 2006).

2. The role of Financial Accounting is to provide financial information to people outside the organization. Managerial accounting, on the other hand, furnishes financial information relevant for the executives and administrators within the organization. The two mentioned disciplines are focused mainly on compiling and reporting the financial information, while Finance is concerned on managing money and other monetary instruments. Accounting lays down the historical account of financial transactions while finance is more concerned on improving the future financial transactions of a firm.

3. A balance sheet provides a picture of a firm's financial position at a given time. It elaborates the financial position of the firm as being shown by its properties (assets) and what it owes (liabilities and net worth) in a given moment. It actually shows the potentials and the weaknesses that a business has and can also identify business trends particularly on its receivables and payables (Balance Sheets 2003).

Each of the accounting convention has different views in accounting for the entries made in the balance sheet. For example, in historical cost convention, transactions should be " recorded at the price ruling at the time," whereas for monetary measurement convention, items must be quantified in monetary terms (Accounting Concepts and Conventions 2006). Changing an accounting convention alters the standard by which we account transactions. The shifting of an asset valuation method to another also affects the way we record our transactions in the balance sheet. The method we value an asset is greatly reflected in the figures in the balance sheet. If, for example, the relative value models in asset valuation are used, only the prevailing market prices of the similar assets is considered, while the future value of an asset is greatly deemed upon if absolute value models are applied (Valuation 2006).

4. A profit and loss statement (also known as income statement) measures the income sources versus expenses incurred by the company for a given period. It depicts the financial performance of a firm: if the business is generating money or having financial loss over a given period (Lesonsky 1998).

The difference in the procedure of computing depreciation affects the final summation of the figures in the income statement. For example the depreciation method is changed from the Straight Line to the Sum of the Years Digits Depreciation Method, the figures will vary since in the first method, the depreciation cost will be spread evenly over its useful life, whereas the latter method greatly accounts the wearing out of the asset per year. Hence under the latter method the value of an asset will greatly decrease per year (Kennon 2006).

Inflation is one factor that will create the distinction of the cost of stock between a company using First-In, First-Out (FIFO) and one using Last-In, Last Out (LIFO) stock costing method. If prices are rising FIFO will cause an increased amount of net income, while net income will decrease if LIFO is used (Inventory Valuation For Investors 2002).

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