

Article summary (financial planning and accounting)



**ASSIGN
BUSTER**

Article Summary (Financial Planning and Accounting) The essay aims to address the following questions after a review of three articles on the subject of finance, accounting or ethical standards, to wit: (1) discuss the key differences in accounting and finance; (2) discuss the types of reports accounting and finance personnel generate and the purpose of the reports; and (3) compare and contrast the types of business decisions that can be made using accounting and finance information. Article Summary (Financial Planning and Accounting) The subjects of finance, accounting, managerial finance or accounting, and ethics are all practical and applicable in contemporary organizations. Lynch and Williamson (1976) averred that “accounting has been described succinctly and accurately as ‘ measurement and communication of financial and economic data’. The accountant is the major channel through which quantitative information flows to management” (Lynch & Williamson, 1976, 6). The essay aims to address the following questions after a review of three articles on the subject of finance, accounting or ethical standards, to wit: (1) discuss the key differences in accounting and finance; (2) discuss the types of reports accounting and finance personnel generate and the purpose of the reports; and (3) compare and contrast the types of business decisions that can be made using accounting and finance information. Key Differences in Accounting and Finance Dr. Castro of LeTourneau University briefly presented the differences in accounting and finance by examining their primary functions. Accordingly, accounting is focused on the development and generation of data that measure the accurate quantitative performance of an organization, evaluating its financial status, and to compute for the taxes the firm has to pay. On the other hand, finance’s primary function is centered on making

<https://assignbuster.com/article-summary-financial-planning-and-accounting/>

use of the accountants' information to make relevant decisions. Castro (n. d.) averred that " a financial manager has to deal not only with finance, but also with economics, accounting, statistics, math, and management" (Castro, n. d, 1). Types and Purpose of Reports Accountants prepare financial statements, primarily balance sheet, income statement, cash flow statement and statement of capital or net worth, among others (Epson, 2011, 1). These reports are needed by management in determining the financial performance and status of the organization at different points on time. On the other hand, finance people generate the inputs provided by accountants to generate annual reports and financial reviews to be presented to management for decision making purposes. They are requested to provide financial highlights, proforma statements, and financial ratio analysis on a comparable time basis for the perusal of management in future investments, expansion, diversification, among others. Types of Decisions: A Comparative Analysis Accounting information and reports are used for management decisions particularly in terms of steering the company to growth and expansion, or to merely indicate the accurate financial status and condition of the organization to various stakeholders and even external organizations (banks and the public). The data revealed in the financial statements would indicate if there are enough resources to declare dividends and profit sharing, as dictated by the organizations' various stakeholders. Other information on problems in liquidity and financial loss would indicate the need to close branches, streamline operations, declare bankruptcy and ultimately stop the organizations' transactions, as necessary. On the other hand, finance managers use financial reports to guide management into decisions relative to making investments in the stock market, or in other

<https://assignbuster.com/article-summary-financial-planning-and-accounting/>

endeavors parallel with the organizations' mission and goals. As Castro (n. d.) indicated, " people working with stocks and bonds have to understand and analyze how the underlying companies are performing. How a given company is going to perform during recession? Should they sell or buy stocks or bonds. How a decrease in the interest rate in England may affect the projects a company has in that country. Finance also deals a lot with risk. Derivative securities (options, futures, swaps, etc) are used to hedge against possible increase in risk" (Castro, n. d., 1). References Castro, D. (n. d.) Finance: An Exciting Career. Retrieved 17 February 2011. < www.letu.edu/people/.../Finance_files/What%20Finance%20is.doc> Epson. (2011). Common Financial Reports. Retrieved 17 February 2011. < <http://www.allbusiness.com/accounting-reporting/reports-statements/1259-1.html>> Lynch, R. M. Williamson, R. W. (1976). Accounting for Management: Planning and Control. McGraw Hill, Inc. Woelfel, C. (2011). Financial Statements. Retrieved 17 February 2011. < <http://www.referenceforbusiness.com/encyclopedia/Fa-For/Financial-Statements.html>>