

# Financial accounting versus managerial accounting matrix essay sample

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Compare and contrast financial accounting and managerial accounting by answering the following questions in the matrix provided. Cite any sources you use in accordance with APA guidelines.

Term or Concept

Financial Accounting

Managerial Accounting

What is the primary purpose of the accounting system?

The main purpose of financial accounting is to prepare financial reports that provide information about a firm's performance to external parties such as investors, creditors, and tax authorities. Must be performed according to GAAP (Generally Accepted Accounting Principles) guidelines. Managerial accounting differs from financial accounting in that managerial accounting is for internal decision making and does not have to follow any rules issues by standard-setting bodies. This data provided can be used to control or improve the operation of the business. What are the types of reports produced?

Holistic and historical accounts of the company's financial health: Balance Sheet (company's resources and financial obligations including assets, liabilities and owner's equity) Income Statement (provides detailed accounts of the company's revenues and expenses) Statement of Cash Flow (demonstrates how changes in the balance sheet and income statement affect cash and cash equivalents) Historical account of the business operation's performance as well as a forward-looking forecast: Sales and Revenue Forecasts (include forecasts of unit volumes or sales as well as the <https://assignbuster.com/financial-accounting-versus-managerial-accounting-matrix-essay-sample/>)

dollars or revenue associated with those sales. Variance explanations usually accompany sales and revenue forecasts. Budget Forecasts and Variance Explanations (these forecasts often use a cost accounting of activity based cost technique. Actual budget results are compared to original plans as well as forecasts. Variance explanations usually accompany revised forecasts.

Who are the primary users?

The primary users of Financial Accounting Reports are; investors, creditors, and regulators to assess the financial wellbeing of the organization.

(External) Managerial Accounting reports are primarily used by supervisors, line managers, process owners, as well as executives, to gain a better understanding of the current financial and operational health of the organization. (Internal) What portion of the company is the primary focus?

The primary focus of the Financial Accounting is the Company and Enterprise Level. The primary focus of the Managerial Accounting goes down to the Individual Operating Unit. What time periods are included?

Historical and Actual Results typically reported on a quarterly and annually basis. Plans, Actual Results and Forecasts that depends on management's needs; some daily some only once per year. Are there any requirements for the standards of report presentation? GAAP (Generally Accepted Accounting Principles) determine the content and format of financial statements. SEC (Securities and Exchange Commission) requires publicly traded companies to issue annual audit. Concerns are about adequacy of disclosure; and behavioral implications are secondary. Management determines what they would like to include in the report. No authoritative body requires managerial

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accounting reports. Management carefully considers behavioral implications, when designing the managerial accounting system. If accounting were your career choice, which of the two would you choose?

This decision would depend on the organization type, for instance if it were a publicly traded company. My interest is more in the managerial accounting which offers the freedom to use the reports that I feel are essential to the information that I desire to report versus the information that is mandatory to be reported — and that has to follow the GAAP and SEC guidelines established, because this information might not be essential in providing the results desired. Or the time frame that they are deemed to be reported might not be accurate to what I need to know and when. The information provided helps to give forecasts and better view on operational data, as well as projected which can be extremely useful.

## References

Financial versus Managerial Accounting. (2004-2015, July). Retrieved from Money-Zine: <http://www.money-zine.com/investing/investing/financial-versus-managerial-accounting/>