Financial Reporting Vs Management Reporting: What's The Difference?

If you thought financial reporting and management reporting are one and the same, you're in for a surprise.

Though both of them deal with numbers, that's about where the similarities end.

Successful business owners rely on both to answer questions about their businesses and make educated decisions about where to take the business next.

What is Financial Reporting?

Financial reporting is for external users. It focuses on creating financial statements that can be shared outside the company. For public companies, financial reporting processes have to abide by a specific set of rules provided by the generally accepted accounting principles (GAAP).

This is the accounting standard adopted by the United States Securities and Exchange Commission (SEC) framework. Publicly held companies also have to follow additional rules that the SEC governs.

Financial reporting uses a chart of account that has been created for the company. Along with the chart of accounts, there are set policies and procedures to govern how transactions are to be posted to these accounts.

The ultimate goal is to create an accurate and factual financial statement for a specific period of time, to show the company's financial health for the statement period.

Financial accounting includes routine tasks like tracking accounts receivable balances and creating invoices, which is part of building financial reports.

Companies often use of managerial and financial reporting together, the main purpose of financial accounting is to disclose information about the Financial Health of a business to interested third parties including industry officials, investors, and financial institutions.

Third parties use this information to determine compliance which standards set by the Financial Accounting Standards Board (FASB) along with other regulators, like the International Accounting Standards Board (IASB), who issues the International Financial Reporting Standards (IFRS).

Financial accounting reports include things like:

- Income statement
- Profit and loss statement

- Accounts payable
- Accounts receivable
- Statement of cash flows
- Balance sheet

These reports reflect the financial standing of your business at specific points in time.

They provide an overall look at how your company is performing but lack insight into the specifics of operations.

They look backward and don't provide much information on how your business may perform in the upcoming month or year.

What is Management Reporting?

Management accounting and management reporting is not mandatory and is meant for internal use only. Your company is under no obligation to follow GAAP guidelines in producing the reports.

Management reporting focuses on segments of the business. Using segmentation, you can easily see more details and analyze the things that are driving the business.

Management reports such as profit and loss by Class, Department, job, or Team along with realization rate and utilization rate give you a look at operations.

For instance, management reporting can make it easy for you to analyze how the marketing department is performing for a certain length of time or how much profit one sales team member generates in a certain month.

If your top salesman comes to you and says their biggest client is retiring and closing their business at the end of the year, management accounting is about creating a plan to offset the loss of income as a result.

Knowing this, you look at your financial statement for the last six months and discover that revenue is down overall, you can call us staff meetings to help develop to increase revenue.

That plan may include expanding the sales territory and working to train newer salespeople faster.

Management reports are great for C-suite executives to get insight into certain parts of their business.

However, it's crucial to make sure you are getting the correct reports that your business needs to drive strategic decision-making. Don't invest time in creating reports that aren't being acted upon.

Common management reports include:

- Sales reports
- Inventory report
- Departmental reports

Some organizations only want to produce the required financial reports every month for a variety of reasons.

They believe it cost extra for managerial accounting reports and they don't have the time or don't believe it will help their company.

The fact of the matter is that if you're not receiving management reports every month, you could be missing out on data that can help your company grow or prevent you from implementing business processes or costly programs that don't provide an appropriate return on investment.

Your business needs financial reporting for compliance to make sure your numbers are adding up and to prevent cash flow issues but you also need management reporting to make better business decisions. Data-backed decision making is more likely to pay off in the long run.

> *The greatest chance of success, businesses need to be using both managerial accounting and financial accounting to build the appropriate report for both internal and external use.*

Core Differences

- Financial reports are used for external purposes and look backward
- Managerial reports are used internally and look forward.
- Managerial reports look at both financial and operational data while financial reports focus solely on financial data
- Financial reports provide information on the entire company while managerial reports Focus specifically on management's needs.
- Managerial reports are not required and managers can choose the information they need.
- Financial reports are mandatory for publicly held companies and the information that must be provided is based on outside regulators.

If you're training your employees on how to track their business expenses more efficiently, you are using managerial accounting but if you are using accounting ratios to determine how profitable your company is, you are using financial accounting.

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