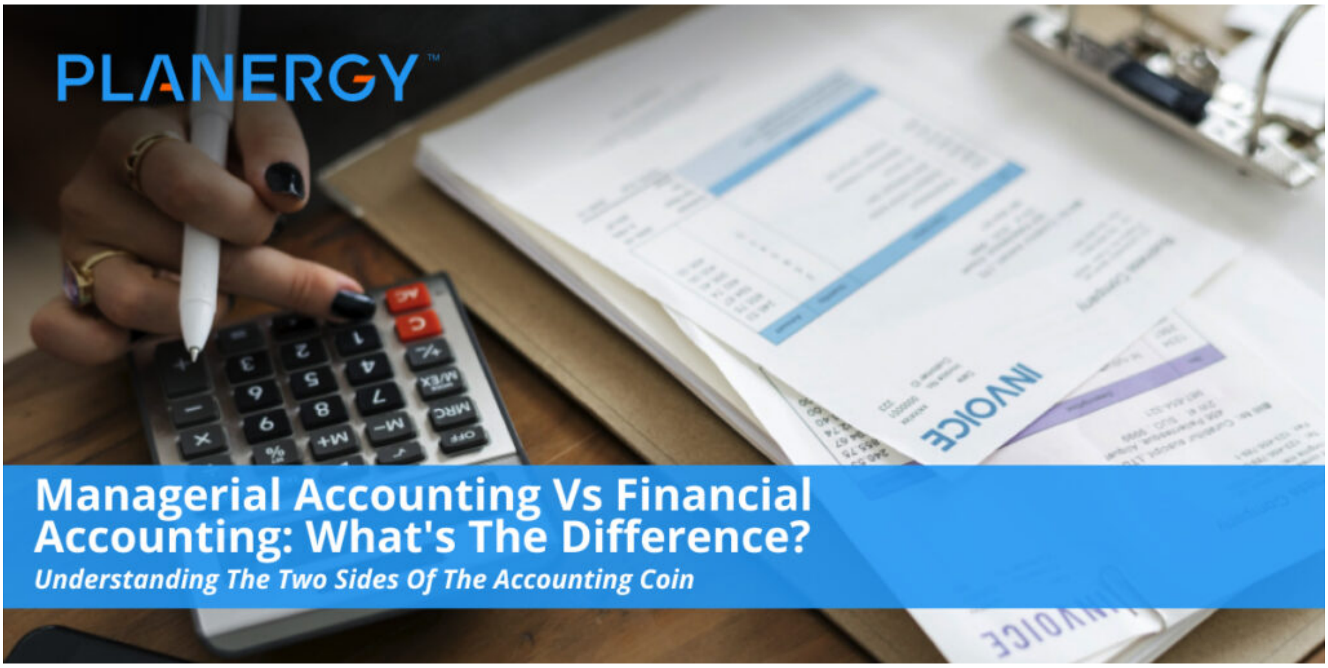
Managerial Accounting Vs Financial Accounting: What's The Difference?



Managerial Accounting Vs Financial Accounting: What's The Difference?

What do you think of when you hear the word accounting? More than likely you think of financial information and numbers. Now, what do you think of when you hear the words managerial accounting and financial accounting? If you think they're the same thing, you may be surprised to learn that while they both deal with numbers, the two are actually very different from one another.

What is Managerial Accounting?

Managerial accounting, also known as management accounting is a type of accounting that focuses on managing the internal needs of a business. For instance, if your top salesman notifies you that one of his customers is closing down at the end of the year, and that customer brings in a lot of revenue, you need to develop a plan to help your company offset the loss. But, once you review your financial statements over the last six months, you see that revenue is down overall. The next day, you and your staff develop a plan to bring in more Revenue starting with expanding your sales territory.

Let's say that during this staff meeting, you develop a training plan to get your newer salespeople up to speed. During this time you also estimate the amount of new revenue you need to make up for your expected loss next year. That is managerial accounting in a nutshell.

Managerial accounting focuses on business potential and performance so it mainly deals with the future and estimates of numbers. It focuses on problem-solving, and building strategies to make the company more profitable and efficient over the long term.

Financial accounting plays a role in managerial accounting because of the financial statements it offers. These financial documents are necessary when it comes to developing strategic plans, streamlining your operations, solving issues, and developing your business budget and forecasts.

What is Financial Accounting?

The focus of managerial accounting is internal, you could say that financial accounting focuses on the external. There is an emphasis on creating accurate financial statements, using accurate financial data to be shared outside of the company.

Any public company has to follow a specific set of rules provided by the Generally Accepted Accounting Principles, or GAAP. GAAP is the accounting standard adopted by the U.S. Securities and Exchange Commission (SEC). International companies are subject to the International Financial Reporting Standards or (IFRS), which is a similar set of standards.

Publicly held companies have other rules to follow that are governed by the Securities and Exchange Commission as well. This is to ensure that stakeholders are appropriately informed about what’s going on in the business.

Financial accounting relies on a chart of accounts that has been created for the company using a set of policies and procedures that are in place to govern how transactions are posted with these accounts. The end goal is to create factual financial statements that cover a specific period of time.

That said, routine tasks like checking accounts receivable balances and creating invoices are also part of the financial accounting process, since it’s tasks like this that contribute to the overall financial health of an organization.

The two types of accounting are frequently used alongside one another to disclose the financial health of a business to any interested third parties such as industry officials, investors, and financial institutions.

> *Management uses managerial accounting to better run the company. Financial accounting is used by external parties to determine compliance with standards set by the Financial Accounting Standards Board (FASB) and other industry regulators.*

Differences Between Managerial and Financial Accounting

Managerial accounting helps your business:

- Operate smoothly
- Determine income
- Value inventory
- Identify opportunities
- Find efficiency issues that are affecting the company's bottom line
- Forecast trend
- Set selling prices
- Set strategies
- Determine finance allocation

Managerial accounting is focused on:

- The parts of your business, rather than the whole.
- Problem-solving
- Estimates
- Internal Reports
- Few to no standards
- Systems
- The future
- Asset productivity

Unlike financial accounting, there are no set reporting deadlines. Managerial accounting staff can produce reports at any time – weekly, monthly, or whenever someone requests them.

Managerial accounting reports include:

- Budget reports
- Accounts receivable aging reports
- Cost managerial accounting reports
- Performance reports

Financial accounting:

- Tracks and calculates business income and expenses
- Is essential for tax preparation (and is often responsible for it
- Generates financial statements like balance sheets, cash flow statements, income statements, and stockholder equity statements.

Financial accounting is focused on:

- The business as a whole, rather than the individual parts
- Profitability – financial accounting really only cares if a business is making a profit or not. You can get some insight into business efficiency, but other than that the numbers won't be able to tell you where any problems are or how to fix them
- Facts – everything must be accurate and precise for tax and investment purposes
- Reports for external users like lenders
- High standards – consider that the U.S Teac code has more than 73,000 pages and this is just one of the things financial accounting has to address. Then it's easy to see why they have to be so strict about everything
- Profits – there's no focus on individual systems here. Instead, all that matters is if the business is generating profit. If any financial accounting report indicates the business as a whole is dealing with a loss, then the managerial accounting department steps in to conduct reports to find and fix the issues.
- The past – a big part of how financial accounting differs from managerial

accounting is that here managerial accounting makes estimates for the business' future, financial accounting reports on the facts based on what has already occurred within the business. Financial reports are put together according to strict accounting standards and built into a format that's easy to understand. When you read a financial report, you're looking at information based on what happened last month, last quarter, last year, or maybe even last week – depending on how quickly the report was generated.

- Asset valuation – where managerial accounting is concerned with whether or not an asset like an assembly machine is productive, financial accounting is in charge of knowing how much the machine is worth (its value) after three years in full-time service on the production line.

The Difference Between a Certified Management Accountant and a Certified Public Accountant

Accountancy requires a different level of training and certification. A Certified Management Accountant or CMA practices managerial accounting while a certified public accountant or CPA practices financial accounting. In the case of corporate finance, CPAs are the more common role.

Managerial accountants have experience with accounting principles, financial research, and report writing but their duties vary based on the management and financial needs of the organization. Managerial accountants are often responsible for monitoring company Investments long side other managers. They participate in tax planning, risk management, and preparing financial statements. They may also supervise bookkeepers and other office staff.

According to the US Bureau of Labor Statistics, employers prefer accounting candidates who have a master's degree in accounting or business administration with a constant concentration in accounting. For financial managers, which is a job category that overlaps managerial accountants, the top candidates often have a master's degree in Business Administration, Finance, accounting, or economics.

Managerial accountants who have the responsibility of filing reports with the SEC are required to be certified public accountants. In other managerial accounting positions, certification is not mandatory but may be helpful for career advancement. The Certified Management Accountant Certification program is offered through the Institute of Management Accountants. Financial accountants who go on to become CPAs don't often handle much of the managerial side of accountancy.

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