MANAGEMENT ACCOUNTING

MF328A

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In this report I am going to describe what financial accounting and management accounting are and what the main differences are. I am also going to explain how that management can use the info rmation that is provided can be used in any decision making process and can increase the efficiency and performance of the company.

To start with I will give a brief description of both financial accounting and management accounting then show you the main differences.

In financial accounting all of the transaction of the company are external which means that they are out with the company like customers, suppliers and shareholders. With regards to cost it only deals with the details of the expenses that the company has incurred. The profit that is shown in these accounts shows the profit of the whole business. People from outside the business only use the accounts of the business and these are normally put out every year or sometimes every six months. The accounts must be put out as it is a legal requirement for businesses. Financial accounts are to do with the costs that have already happened. Financial accounts are the area that includes the classification and also the recording of actual transaction s with regards to money. This has to be in relation to the concepts, principles, accounting standards and legal requirements. They then use these to give a precise a view as possible as to the effect of those transactions over a certain period of time.

Management accounting is where both internal and external transactions are recorded. More importance is put on the analysis of costs, this is because you are able to calculate the net profit of certain divisions, departments and products. The results of the analysis is to do with an individual responsibility therefore it can be used to monitor how well divisional and product managers are getting on. Management accounting is done for the people that are inside the business and are there to forecast for the future of the business for any future costs or profit. In management accounting information is gathered to help the company to come up with different business strategies to help the company plan and control the various activities of the business. This is done to help them use their recourses better and to give them improved performance and value enhancement.

There are five main differences between financial accounting and management accounting:

1. Legal requirements – in financial account there are statutory requirements for all public limited companies that requires them to show their annual financial accounts even if there own management thinks the information is going to be useful or not. But in management accounts it is the companies own individual choice as to whether they want show this information, they normally only show it if there is more of a benefit to the company.

2. The focus on the individual areas of the business – financial accounting reports show all of the different areas of the business but with management accounting they show only little parts of the business. For example cost or profitability of certain products. Management accounting also measures things as departments or divisions.

3. Generally accepted accounting principles – with financial accounting they must stick to the legal requirements and also the principles that are set out by various regulatory bodies such as the financial accounting standards board in the USA and the accounting standards board in the UK. These requirements are vital to keep the uniformity and help keep the consistency that must be there for any external financial statements. Outsiders need to know that these statements are prepared in relation to certain standards. Management accounts are not required to stick to any requirements when they giving any information that is required for internal sources. There main priority is to give management the information that they need to help them make decisions and also their planning and control function.

4. Time dimensions – Financial accounts report what has happened in the past year or so within the business. Management accounts is concerned with future events and so the management need to gather any details of the costs they expect in the future.

5. Report frequency – in financial accounting there a comprehensive set of accounts that are shown annually and a bit less detailed accounts shown every six months. Management need the information a lot more quickly if it is to do something about it. So therefore management accounting has reports on various activities, these may be printed monthly, weekly or even daily.

I am about to discuss the difficulty that most managers have with regards to the lack of information and how managers in making decisions, which could help increase the efficiency and performance of the business, use that information that is provided.

The decision making process and the control process

There are 5 stages of the decision making process:

1. Identifying the objectives
2. Looking for different courses of action
3. The gathering of information about the alternatives
4. Choosing the alternative course of action
5. Put the decision into practice

The decision making process is to do with deciding between alternatives and is the first decision making activity. There are two more stages and they represent the control process.

6. Compare the actual and planned outcome
7. Respond to any changes to the plan

In these two stages the process of comparing and correcting the actual performance to make sure that the different methods that are chosen and the plans for making them work are carried out.

Here are the above steps in a little more detail:

1. This first stage in the decision making process is there to state the specific goal or objective of the company. Some people believe that certain businessmen are happy to have a plan that provides decent profits rather than try to maximise their profits.

2. This is where there is a search for a number of different courses of action that could help the company to achieve their goal. If the management of the company focus on the present and does not think about the future then the company is in a dangerous position. Management needs to spot any potential opportunities or threats to the company and deal with them before it is too late. The company should at least think about using one of these courses of action.
    - Develop new products for sale in the current market
    - Develop new products for different markets
    - Develop new markets for existing products

3. This stage is where once the activities are found, management analysis the potential growth rate of the activities. Management must look at different things that are outside the decision maker's control, this could happen for each different course of action. Strategic decisions have an important effect on the future of the company and so it is vital that adequate information is found for the firm's ability and the market in which it operates.

4. The alternative course of action should be decided on a comparison of the cash flows. Each of the alternatives should have sufficient analysis of the benefits should be applied.

5. The budgeting process is one way that the company could choose, this is a financial way for bringing into practice different decisions.

6. & 7. In this stage you compare actual and planned output and respond if there is any change from the plan. Managers measure, report on and correct the performance of the company if needed in order to achieve the company's goals. To keep an eye on the performance the accountants give performance reports and give them to manager it involves, who then make the appropriate decisions. These reports give a comparison of actual and planned outcomes are given out at regular intervals. To have good control of the business they need the right course of action to be taken so actual output goes along with the planned output, also the plan may need to be changed if the plan is no longer a reasonable target.