

BUSINESS ACCOUNTS

→ Accounting: recording, organizing, analyzing & communicating of information.

→ Need for accounting

Internal users of accounting information

Business managers – decisions on daily business – finance arranged

Workforce – profitability as wages and house are associated

Owners – profitability and status of business

assets of business

show a certain position

External users

Government – employment, wage rates

Tax collectors – profile

Lending Institutions – Banks – growing ratio

Suppliers – performance, doubtful debts, ability to pay

Investors – profitability

Communities as a whole

Competitors – status of business

This information is only available for public limited company but private limited companies and unlimited ones are not liable to show them.

Limitation of published accounts

- predicted or future plans of profits are not given

- qualitative information

As employees work force is an asst which isn't shown directly like their commitment and loyalty of the workers.

- only quantified info is present which is based on bank information

Window dressing – trying to make the business appear better than it actually is.

Q.1. Differentiate between financial accounting & management accounting.

Ans. The two most common types or branches of accounting are financial accounting and management accounting. Financial accounting is that part of accounting that is concerned with external reporting to shareholders government and other interested parties. It's the preparation of published accounts of the business. Management accounting is concerned mainly with internal reporting to the managers. It is the preparation of detailed and frequent information for internal use by the managers who have to control the firm and take decisions for future success.

MANAGEMENT ACCOUNTING

1. Collection of data on daily transaction. Preparation of published reports and accounts – balance sheet, profit / loss accounts cash statements.
2. Information is used by external groups.
3. Accounts usually prepared once or twice a year.
4. Accountants bound by the rules and concepts of accounting profession. Company accounts must observe requirements of company accounts.
5. Covers past periods of time.

MANAGEMENT ACCOUNTING

1. Preparation of info. for managers on any financial aspect of a business, its departments and products.
2. Information is only made available to managers and internal users.
3. Accounting reports and data prepared as and when required by managers and owners.
4. No set rules – accountants will produce information in the form requested.
5. Can cover past periods, but can also be concerned with present or on projections into the future.