FINANCIAL AND MANAGERIAL ACCOUNTING

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[Institutional Affiliation(s)]

Author Note

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**Financial accounting:**

This branch of accounting tracks the financial transactions of the company. The transactions are noted, summarized and then shown in a financial statements using systematic instructions (Averkamp, 2004).

**Managerial accounting:**

It is also known as cost accounting or management accounting. It is concerned with the recognition, quantification, analysis and simplification of accounting statistics that help managers during the process of decision making and handling company’s performance (Tarver, 2018).

A detailed comparison between financial accounting and managerial is given below in table 1.

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| **Categories** | **Financial accounting** | **Managerial accounting** |
| **Aggregation** | It describes the results of whole business | It always describes the specific and elaborated results, similar to [profits](https://www.accountingtools.com/articles/2017/5/14/profit) by product, [product line](https://www.accountingtools.com/articles/2017/5/16/product-line) |
| **Efficiency** | It describes the [profitability](https://www.accountingtools.com/articles/2017/5/14/profitability) and ultimately efficiency | Specifically, it is concerned with the causes of problems and methods to fix them. |
| **Verified information** | It needs the information to be kept with considerable accuracy, to show that the financial statements are correct. | Instead of proven and verifiable facts, it often deals with estimates. |
| **Reporting focus** | It intends to create financial statements that are dispersed within and outside a company. | It deals with such operational reports that are only dispersed inside the company. |
| **Standards** | It must meet various standards of accounting | When data is organized for internal utilization, it does not have to meet any standards |
| **Systems** | It is only concerned by the outcome of company instead of complete system that is used by a company for generation of profit. | It is interested in revealing the restricted operations, and the different ways to increase profits by solving these problems. |
| **Time period** | It deals with the financial results already achieved by a company , so it has a historical orientation | It deals with the estimated incomes, expenditures and [forecasts](https://www.accountingtools.com/articles/2017/5/10/forecast), and so it may have an orientation in coming times. |
| **Timing** | It requires the issuance of financial statements after an accounting period has ended. | It may issue reports much more frequently, as the data it gives is most relevant when managers are able to check it immediately. |
| **Valuation** | It deals with proper estimation of [assets](https://www.accountingtools.com/articles/what-is-an-asset.html) and [liabilities](https://www.accountingtools.com/articles/2017/5/13/liability), including [impairments](https://www.accountingtools.com/articles/2017/5/10/impairment) and revaluations. | It is just concerned with the productivity not with the worth of these commodities. |

Table 1: comparison between financial accounting and managerial accounting (Bragg, 2018)

 Let's assume there is a company that supports cloud computing services with Amazon Web Services. Rates for hiring the space in the cloud from Amazon are increasing on monthly basis. In order to minimize the costs and to enhance functional efficiency, web managers can utilize budgets so that they can observe if price is increasing the cost in an excessive amount.

If this company has assigned $1000 in a week in order to access the cloud services and an existing weekly expenditure consists of $2000, the web managers realize that there is a huge difference between assigned amounts and existing prices and this is obviously a bad signal. Here cost accounting indicates that the web managers should rise their assumptions regarding prices or go for some other supplier (Tarver, 2018).

# References

Averkamp, H. (2004). *Financial Accounting*. Retrieved april 22, 2019, from AccountingCoach: https://www.accountingcoach.com/financial-accounting/explanation

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Tarver, E. (2018, july 21). *When is managerial accounting appropriate?* Retrieved april 22, 2019, from Investopedia: https://www.investopedia.com/ask/answers/062315/what-are-common-scenarios-which-managerial-accounting-appropriate.asp