Financing Your Organization - Why an accounting system is important*

Global Text Project

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Abstract

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Professional accountants look at the accounting records and reports of a business from two perspectives. The term they use to describe these two perspectives is **financial accounting** and **managerial accounting**. Wikipedia has good definitions of both perspectives in order to help you understand the difference between the two.

> *Financial accountancy (or financial accounting) is the field of accountancy[1] concerned with the preparation of financial statements[2] for decision makers, such as stockholders[3] , suppliers[4] , banks[5] , employees, government agencies[6] , owners, and other stakeholders. The fundamental need for financial accounting is to reduce principal-agent problem[7] by measuring and monitoring agents' performance and reporting the results to interested users.*

> *Financial accountancy is used to prepare accounting information for people outside the organization or not involved in the day to day running of the company.*

> *In short, Financial Accounting is the process of summarizing financial data taken from an organization's accounting records and publishing in the form of annual (or more frequent) reports for the benefit of people outside the organization.*

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[1]http://en.wikipedia.org/wiki/Accountancy

[2]http://en.wikipedia.org/wiki/Financial_statements

[3]http://en.wikipedia.org/wiki/Shareholder

[4]http://en.wikipedia.org/wiki/Vendor_(supply_chain)

[5]http://en.wikipedia.org/wiki/Bank

[6]http://en.wikipedia.org/wiki/Government_agencies

[7]http://en.wikipedia.org/wiki/Principal-agent_problem

Financial accountancy is governed by both local and international accounting standards". (Wikipedia 2009a). In addition, financial accounting records and financial statements are essential sources of information for the preparation of tax returns.

Management (or managerial) accounting, on the other hand, is concerned with the provisions and use of accounting information to managers within organizations, to provide them with the basis to make informed business decisions that will allow them to be better equipped in their management and control functions.

In contrast to financial accountancy information, management accounting information is:

- *usually confidential and used by management, instead of publicly reported*
- *forward-looking, instead of historical*
- *pragmatically computed using extensive management information systems and internal controls, instead of complying with accounting standards*

This is because of the different emphasis: management accounting information is used within an organization, typically for decision-making". here[8]

You will not need to be terribly concerned about financial accounting when your business is just beginning, inasmuch as the kinds of information you will need falls into the category of internal management information rather than information for external stakeholders. Also, note that financial accounting reports must be prepared in accordance with national and international accounting standards. In the United States the Financial Accounting Standards Board (FASB) has been the designated independent entity for established accounting reporting standards since 1973. Independent auditors of an organization's financial statements must provide written assurance in their report that such statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP). While, in theory, there can be many supportable ways of presenting accounting information on such topics as business combinations, subsequent events after the date of an audit, the fair value of financial instruments and the like, FASB will typically specify the ways such information should be reported. You can find more information on FASB on their website at http://www.fasb.org[9] .[10]

Since so many organizations are global in scope, a relatively new entity, the International Accounting Standards Board (IASB) has come upon the scene. According to their website, their mission "is to develop, in the public interest, a single set of high quality, understandable and international financial reporting standards (IFRSs) for general purpose financial statements" (IASB 2009). Finally, when your business reaches the point where you need to issue financial statements to external stakeholders, (e.g. banks, stockholders, regulatory agencies, etc.), your accountant will need to be familiar with and, ideally a member of, the national association of accountants in your country. The reason for this is that there may be national standards for generally accepted standards that are, in some ways, unique to your country. Examples of national associations are the Institute of Certified Public Accountants of Kenya (http://www.icpak.com/[11]), the Malaysian Institute of Certified Public Accountants (http://www.micpa.com.my/[12]), and the South African Association of Chartered Accountants (https://www.saica.co.za)[13] .

Accordingly, the balance of this chapter is focused on how you can use a well-designed accounting system as the basis for generating useful information to help you run your business.

[8] "Financing Your Organization - References" <http://cnx.org/content/m35496/latest/#id1170665548976>
[9] http://www.fasb.org/
[10] http://www.fasb.org/
[11] http://www.icpak.com/
[12] http://www.micpa.com.my/
[13] https://www.saica.co.za/