ACCT2121
CHAPTER 1
Managerial Accounting and the Business Environment

Managerial Accounting: is concerned with providing financial information to managers within the organization who direct and control the operations.
Financial Accounting: is concerned with providing financial information to stockholders, creditors and others who have no direct financial interest in the company.

L.O. 1.COMPARISON OF MANAGERIAL AND FINANCIAL ACCOUNTING:

		Managerial Accounting	Financial Accounting
1.	Emphasis on the Future	Emphasis is on decisions affecting the future	Emphasis is on summaries of financial consequences of past activities
2.	Relevance of Data	Managers need information that is relevant even if it is not objective and verifiable. (Example – sales estimate)	Financial accounting data are expected to be objective and verifiable.
3.	Less emphasis on precision	Timeliness is more important than precision to managers. Precision of data is costly in time and resources, managerial accountings places less emphasis on precision. It also gives importance to non-monetary data such as customer satisfaction.	More emphasis on precision and only financial data.
4.	Segments of an organization	Detailed segment reports about departments, products customers and employees are prepared.	Only summarized data for the entire organization are prepared.
5.	Generally Accepted Accounting Principles (GAAP)	Managerial accounting is not bound by GAAP; the managers have their own rules concerning the content and form of reports. The only consideration is that it should be cost benefit (the benefit form using the information should outweigh the cost of collecting, analyzing and summarizing the data.	Financial accounting statements must be prepared in accordance with GAAP.
6.	Mandatory	Managerial accounting is not mandatory. No regulatory bodies or outside agencies specify what is to be done.	Financial accounting is mandatory .the Securities Exchange Commission (SEC) and the tax authorities require periodic financial statements.

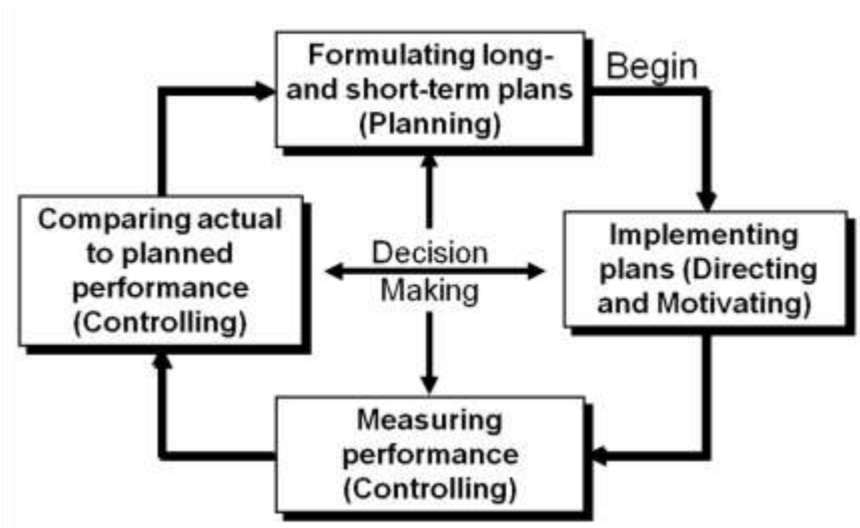
Managers carry out three activities; Planning, Directing and Motivating and Controlling

Planning: Planning involves selecting a course of action and specifying how the action will be implemented. The first step in planning is to identify alternatives and then to select from among alternatives the ones, which suit best to the organization's objectives. Plans are often expressed formally in budgets which are expressed in quantitative terms.

The plans of management are often expressed formally in budgets. The term budgeting is generally used to describe this part of the planning process. Budgets are usually prepared under the direction of controller, who is the manager in charge of the Accounting Department. Typically, budgets are prepared annually and represent management's plans in specific, quantitative terms.

Directing and Motivating: Managers must oversee day-to-day activities and keep the organization running smoothly by effectively motivating and directing people. Managers assign tasks to employees, settle disputes, answer questions and make any small decisions that affect customers and employees.

Controlling: Managers need to make sure that the plans are followed and to get feedback through detailed reports of various types. One of the reports is called Performance Report, which suggests where operations are not proceeding as planned and where some parts of the organization may require additional attention.



The planning and control cycle involves the smooth flow of management activities from planning through directing and motivation , controlling, and then back to planning again. All of these activities involve decision making, which is the center around which the other activities revolve.