Unit-2(Theory Notes)

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Distinction Between Financial, Cost, Management

Basis	Cost Accounting	Management Accounting
Meaning	Cost accounting is an accounting system that aspires to capture an enterprise's costs of manufacturing by evaluating the input costs of every step of manufacturing as well as the fixed costs, namely, depreciation of capital equipment.	Management Accounting refers to the outlining of financial and non-financial data for the utilisation of management of the enterprise. It is also known as managerial accounting.
Data type	Quantitative	Both Quantitative and Qualitative
Scope	Focused on distribution, allocation, determination and accounting factors of the cost	Convey (impart) and effect factor of the cost
Objective	Determined in cost production	Furnishing data to the managers to fix goals and anticipate strategies
Specific procedure	Yes	No
Planning	Short term planning	Both Short and long term planning
Recording	Records both past and present data	Focuses more on scrutinizing for future projects
Interdependency	Can be installed without a Management accounting	Cannot be installed without cost accounting

MEANING OF FINANCIAL STATEMENTS

- Financial statements are written records that convey the business activities and the financial performance of a company.
- Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes.
- **Financial statements** (or **financial reports**) are formal records of the financial activities and position of a business, person, or other entity.

CHARACTERSTICS OF FINANCIAL STATEMENTS

- **Understandability**: **The information must be readily understandable to users of the financial statements.** This means that **information must be clearly presented, with additional information supplied in the supporting footnotes as needed to assist in clarification.**
- **Relevance**: **The information must be relevant to the needs of the users**, which is the case when the information influences their economic decisions. **This may involve reporting particularly relevant information**, or information whose omission or misstatement could influence the economic decisions of users.
- **Reliability**: The information must be free of material error and bias, and not misleading. Thus, the information should faithfully represent transactions and other events, reflect the underlying substance of events, and prudently represent estimates and uncertainties through proper disclosure.
- **Comparability**: The information must be comparable to the financial information presented for other accounting periods, so that users can identify trends in the performance and financial position of the reporting entity.

TYPES OF FINANCIAL STATEMENTS

- There are four main financial statements. They are AS FOLLOWS:
- **BALANCE SHEET**
- **INCOME STATEMENTS**
- **CASH FLOW STATEMENTS**
- **STATEMENT OF SHAREHOLDERS EQUITY**