**Managerial accounting** is concerned with providing information to managers— that is, people inside an organization who direct and control its operations. In contrast, **financial accounting** is concerned with providing information to stockholders, creditors, and others who are outside an organization. Managerial accounting provides the essential data that are needed to run organizations. Financial accounting provides the essential data that are used by outsiders to judge a company’s past financial performance. Managerial accountants prepare a variety of reports. Some reports focus on how well managers or business units have performed—comparing actual results to plans and to benchmarks. Some reports provide timely, frequent updates on key indicators such as orders received, order backlog, capacity utilization, and sales. Other analytical reports are prepared as needed to investigate specific problems such as a decline in the profitability of a product line. And yet other reports analyze a developing business situation or opportunity. In contrast, financial accounting is oriented toward producing a limited set of specific prescribed annual and quarterly financial statements in accordance with generally accepted accounting principles (GAAP).

**The key distinctions between financial and management accounting**

1. **Emphasis on the Future**

Since planning is such an important part of the manager’s job, managerial accounting has a strong future orientation. In contrast, financial accounting primarily summarizes past financial transactions. These summaries may be useful in planning, but only to a point. The future is not simply a reflection of what has happened in the past. Changes are constantly taking place in economic conditions, customer needs and desires, competitive conditions, and so on. All of these changes demand that the manager’s planning be based in large part on estimates of what will happen rather than on summaries of what has already happened.

1. **Relevance of Data**

Financial accounting data should be objective and verifiable. However, for internal uses managers want information that is relevant even if it is not completely objective or verifiable. By relevant, we mean appropriate for the problem at hand. For example, it is difficult to verify estimated sales volumes for a proposed new store at Good Vibrations, but this is exactly the type of information that is most useful to managers. Managerial accounting should be flexible enough to provide whatever data are relevant for a particular decision.

1. **Less Emphasis on Precision**

Making sure that dollar amounts are accurate down to the last dollar or penny takes time and effort. While that kind of accuracy is required for external reports, most managers would rather have a good estimate immediately than wait for a more precise answer later. For this reason, managerial accountants often place less emphasis on precision than financial accountants do. For example, in a decision involving hundreds of millions of dollars, estimates that are rounded off to the nearest million dollars are probably good enough. In addition to placing less emphasis on precision than financial accounting, managerial accounting places much more weight on nonmonetary data. For example, data about customer satisfaction may be routinely used in managerial accounting reports.

1. **Segments of an Organization**

Financial accounting is primarily concerned with reporting for the company as a whole. By contrast, managerial accounting focuses much more on the parts, or **segments,** of a company. These segments may be product lines, sales territories, divisions, departments, or any other categorization that management fi nds useful. Financial accounting does require some breakdowns of revenues and costs by major segments in external reports, but this is a secondary emphasis. In managerial accounting, segment reporting is the primary emphasis.

1. **Generally Accepted Accounting Principles (GAAP)**

Financial accounting statements prepared for external users must comply with generally accepted accounting principles (GAAP). External users must have some assurance that the reports have been prepared in accordance with a common set of ground rules. These common ground rules enhance comparability and help reduce fraud and misrepresentation, but they do not necessarily lead to the type of reports that would be most useful in internal Management must accomplish its objectives by working through people.

**Managerial Accounting—Not Mandatory**

Financial accounting is mandatory; that is, it must be done. Various outside parties such as the Capital Markets Authority (CMA) and the tax authorities require periodic financial statements. Managerial accounting, on the other hand, is not mandatory. A company is completely free to do as much or as little as it wishes. No regulatory bodies or other outside agencies specify what is to be done, or, for that matter, whether anything is to be done at all. Since managerial accounting is completely optional, the important question is always, “Is the information useful?” rather than, “Is the information required?”