

# **Difference between Financial, Cost and Management accounting**

## **Financial Accounting**

Financial Accounting is a branch of Accounting that tracks the company's financial transactions. With standard guidelines, transactions are recorded, summarized, and presented in a financial report or financial statement such as the income statement or balance sheet.

Companies release financial statements on a routine schedule. The data is external because it is given to people outside the company, with the primary recipients being the owners / shareholders, as well as some lenders. If the company's shares are publicly traded, its financial statements (and other financial reports) tend to be widespread, and the information is likely to reach secondary beneficiaries such as competitors, customers, employees, labor organizations, and investment analysts.

## **Cost Accounting**

Cost accounting is a commercial practice in which we record, examine, summarize and study the cost of a company that is spent on any process, service, product, or anything else in the organization. This helps the organization control cost, make strategic planning, and make decisions about improving cost efficiency. These financial statements and ledger books give management an insight into their cost information. Management gets an idea where they have to control the cost and where they have to increase more, which helps create a vision and a future plan. There are different types of cost accounting such as marginal cost, activity based cost, standard cost accounting, and lean accounting.

## **Management Accounting**

Management accounting is also known as managerial accounting can be defined as a process for providing information and financial resources to managers in the decision-making process. Management accounting is used only by the organization's internal team, and this is the only thing that makes it different from financial accounting. In this process, financial information and reports such as invoice and financial statement are shared by the financial department with the company's management team. The goal of management accounting is to use this statistical data and make better and accurate decision-making, corporate control, business activities, and development.

## Difference between financial accounting and cost accounting

| BASIS FOR COMPARISON                      | COST ACCOUNTING   | FINANCIAL ACCOUNTING   |
|---|---|--|
| Meaning                                   | Cost Accounting is an accounting system, through which an organization keeps the track of various costs incurred in the business in production activities.    | Financial Accounting is an accounting system that captures the records of financial information about the business to show the correct financial position of the company at a particular date. |
| Information type                          | Records the information related to material, labor and overhead, which are used in the production process.  | Records the information which are in monetary terms.   |
| Which type of cost is used for recording? | Both historical and pre-determined cost   | Only historical cost.  |
| Users                                     | Information provided by the cost accounting is used only by the internal management of the organization like employees, directors, managers, supervisors etc. | Users of information provided by the financial accounting are internal and external parties like creditors, shareholders, customers etc.   |
| Valuation of Stock                        | At cost   | Cost or Net Realizable Value, whichever is less.   |
| Mandatory                                 | No, except for manufacturing firms it is mandatory.   | Yes for all firms.   |

| <b>BASIS FOR COMPARISON</b> | <b>COST ACCOUNTING</b>  | <b>FINANCIAL ACCOUNTING</b>   |
|-----------------------------|---|---|
| Time of Reporting           | Details provided by cost accounting are frequently prepared and reported to the management. | Financial statements are reported at the end of the accounting period, which is normally 1 year.  |
| Profit Analysis             | Generally, the profit is analyzed for a particular product, job, batch or process.          | Income, expenditure and profit are analyzed together for a particular period of the whole entity. |
| Purpose                     | Reducing and controlling costs.   | Keeping complete record of the financial transactions.  |
| Forecasting                 | Forecasting is possible through budgeting techniques.                                       | Forecasting is not at all possible.   |

### **Difference between Financial Accounting and Management Accounting**

| <b>BASIS FOR COMPARISON</b> | <b>FINANCIAL ACCOUNTING</b>   | <b>MANAGEMENT ACCOUNTING</b>  |
|-----------------------------|---|---|
| Meaning                     | Financial Accounting is an accounting system that focuses on the preparation of financial statement of an organization to provide the financial | The accounting system which provides relevant information to the managers to make |

| <b>BASIS FOR COMPARISON</b> | <b>FINANCIAL ACCOUNTING</b>                    | <b>MANAGEMENT ACCOUNTING</b>   |
|-----------------------------|--|--|
|                             | information to the interested parties.         | policies, plans and strategies for running the business effectively is known as Management Accounting.                 |
| Is it compulsory?           | Yes  | No   |
| Information                 | Monetary information only.                     | Monetary and non-monetary information  |
| Objective                   | To provide financial information to outsiders. | To assist the management in planning and decision making process by providing detailed information on various matters. |

| <b>BASIS FOR COMPARISON</b> | <b>FINANCIAL ACCOUNTING</b>  | <b>MANAGEMENT ACCOUNTING</b>   |
|-----------------------------|--|--|
| Format                      | Specified  | Not specified  |
| Time Frame                  | Financial Statements are prepared at the end of the accounting period which is usually one year. | The reports are prepared as per the need and requirements of the organization. |
| User                        | Internal and external parties  | Only internal management.  |
| Reports                     | Summarized Reports about the financial position of the organization                              | Complete and Detailed reports regarding various information.                   |
| Publishing and auditing     | Required to be published and audited by statutory auditors                                       | Neither published nor audited by statutory auditors.                           |

## Difference between Cost Accounting and Management Accounting

| <b>BASIS OF COMPARISON</b> | <b>COST ACCOUNTING</b>  | <b>MANAGEMENT ACCOUNTING</b>   |
|----------------------------|---|--|
| Meaning                    | The recording, classifying and summarising of cost data of an organisation is known as cost accounting. | The accounting in which the both financial and non-financial information are provided to managers is known as Management Accounting. |
| Information Type           | Quantitative.   | Quantitative and Qualitative.  |
| Objective                  | Ascertainment of cost of production.  | Providing information to managers to set goals and forecast strategies.  |
| Scope                      | Concerned with ascertainment, allocation, distribution and accounting aspects of cost.                  | Impart and effect aspect of costs.   |
| Specific Procedure         | Yes   | No   |
| Recording                  | Records past and present data   | It gives more stress on the analysis of future projections.  |
| Planning                   | Short range planning  | Short range and long range planning  |

| BASIS OF COMPARISON | COST ACCOUNTING                                 | MANAGEMENT ACCOUNTING                        |
|---------------------|---|--|
| Interdependency     | Can be installed without management accounting. | Cannot be installed without cost accounting. |

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