

Accounting in Practice

by Sophia



WHAT'S COVERED

This tutorial will cover accounting in practice, focusing on financial and managerial accounting, as well as major roles in the field of accounting.

Our discussion breaks down as follows:

1. Managerial vs. Financial Accounting

Managerial accounting is a branch of accounting that is focused on internal reporting to assist internal management with decisions, structure, and goals.

Financial accounting, on the other hand, is a branch of accounting that is focused on external reporting of financial status to provide information to decision makers and interested parties.

Now, what is the common thread between managerial and financial accounting? Well, they both provide information to decision makers; therefore, they play an important role in decision-making. Managerial accounting plays a role in *internal* decision-making, while financial accounting plays a role in *external* decision-making.



TERMS TO KNOW

Managerial Accounting

A branch of accounting focused on internal reporting to assist internal management with decisions, structure, and goals.

Financial Accounting

A branch of accounting focused on external reporting of financial status to provide information to decision makers and interested parties.

2. Budget vs. Actual Reporting

The budget is created through planning and it serves as the business's plan for the period ahead. The budget is typically done at least one year in advance, and the business uses it to predict the future. Essentially, it is their best prediction of how the business is going to perform in the future.



Actual reporting is related to the budget, yet differentiated. Actual reporting is the result of the actual activity of the business. The actual activity can be one of three things:

- Same as the budget
- Higher than the budget
- Lower than the budget



THINK ABOUT IT

Question: Which of these three options do you think is most likely to be the case?

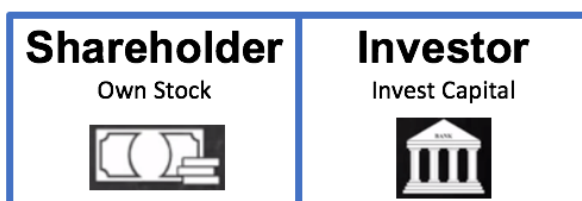
Answer: Typically, the actual results are going to be higher or lower than the budget. This is because it's very difficult to forecast exactly what will happen for a business, which will produce variances where the budget does not equal the actual.

However, there's no need to panic. Why? Because accounting can help to explain those variances, and explain why the actual activity was higher or lower than the budget. It is important to remember that it is very difficult to forecast exactly what's going to happen for a business when you're planning so far in advance.

3. Roles of Stakeholders

Next, we will cover some roles of stakeholders, starting with the **shareholder**. The shareholder is an individual or organization that legally owns one or more shares in a company. Think of this arrangement as owning stock, such as in a publicly traded company, for instance. Similar to owning stock in a business, shareholders own one or more shares in the company.

Another stakeholder is the **investor**, an individual who has dedicated capital to a company with an expectation of a return on their investment. Think of them as a bank—they've invested capital with a business hoping to earn a return on that investment.



TERMS TO KNOW

Shareholder

An individual or organization that legally owns one or more shares in a company.

Investor

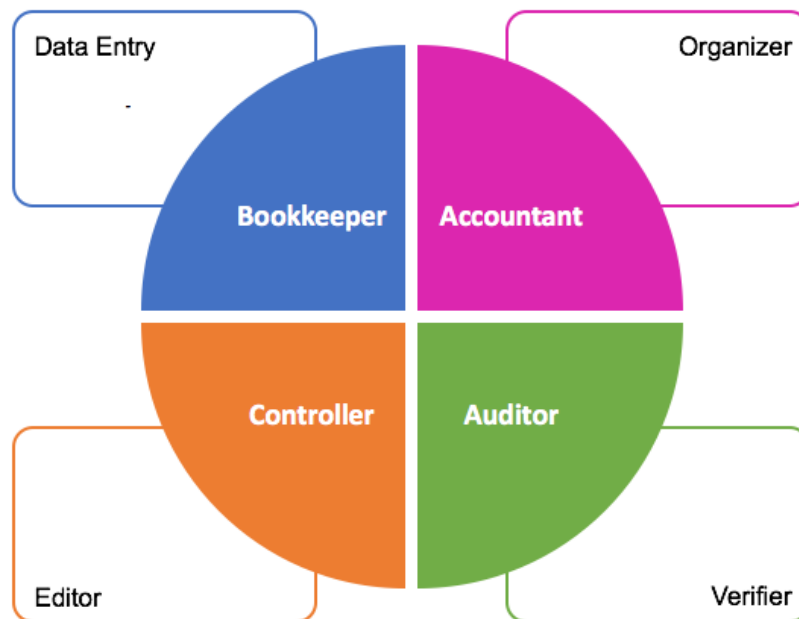
Investor

An individual who has dedicated capital to a company with an expectation of a return on their investment.

4. Roles Within an Accounting Department

Now let's review the roles within the accounting department itself.

- **Bookkeeper:** An individual who documents an organization's monetary transactions. Think of them as the data entry.
- **Accountant:** An individual who is a practitioner with acquired skills in the field of accountancy. An accountant is the organizer within an accounting system.
- **Controller:** An individual within an organization accountable for all aspects of financial reporting and accounting. Think of the controller as the editor—they are responsible for verifying the completeness of facts and proper organization.
- **Auditor:** An individual who conducts an objective appraisal of accounting processes and data within an organization. Think of the auditor as the verifier. They can either be internal or external to an organization, and they verify the work completed by the accounting department relative to regulatory and industry requirements.



TERMS TO KNOW

Bookkeeper

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Accountant

A practitioner with acquired skills in the field of accountancy.

Controller

An individual within an organization accountable for all aspects of financial reporting and accounting.

Auditor

An individual who conducts an objective appraisal of accounting processes and data within an organization.



SUMMARY

Today we learned about the difference between **managerial and financial accounting**. Managerial accounting is used for internal reporting, while financial accounting is used for external reporting. We learned about **budgeting versus actual reporting**, noting that there are typically variances, but that we can use accounting to explain those variances.

We also learned about the **roles of stakeholders**: shareholders and investors. Shareholders are those individuals or organizations that own one or more shares in a company, and investors have dedicated capital with the expectation of earning a return on their investment. Lastly, we learned about the four individual **roles within an accounting department**: bookkeeper, accountant, controller, and auditor.

Source: Adapted from Sophia instructor Evan McLaughlin.



TERMS TO KNOW

Accountant

A practitioner with acquired skills in the field of accountancy.

Auditor

An individual who conducts an objective appraisal of accounting processes and data within an organization.

Bookkeeper

An individual who documents an organization's monetary transactions.

Controller

An individual within an organization accountable for all aspects of financial reporting and accounting.

Financial Accounting

A branch of accounting focused on external reporting of financial status to provide information to decision makers and interested parties.

Investor

An individual who has dedicated capital to a company with an expectation of a return on their investment.

Managerial Accounting

A branch of accounting focused on internal reporting to assist internal management with decisions, structure and goals.

Shareholder

An individual or organization that legally owns one or more shares in a company.

