NAME: ZIAULLAH

ID: 16229

Dept.: BBA

SECTION: A

INSTRUCTORE: Sir QUAID IQBAL

First off all we learned the definition of accounting, financial accounting, management accounting, tax accounting, eternal user of accounting, external user of accounting, characteristic of external reported, financial reporting and also financial statement, the concept of business entity, asset, cost principle, owner equity, accounting cycle adjusting entries, format of trial balance, rules of debit and credit and so on we have learned a lot of things now I want to define and also explain as will

First

What Is Accounting?
Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analyzing, and reporting these transactions to oversight agencies, regulators, and tax collection entities

What is the difference between financial accounting and

management accounting?

Definition of Financial Accounting
Financial accounting has its focus on the financial statements which are distributed to stockholders, lenders, financial analysts, and others outside of a corporation or other organization.
Definition of Managerial Accounting
Managerial accounting is focused on assisting management in the operation of the company. This will include analyzing a company's costs, assisting in financial decisions, profit planning, calculating break-even points

Tax accounting is a structure of **accounting** methods focused on taxes rather than the appearance of public financial statements

Internal Users of Accounting

Internal users are the primary users of accounting.

Following are the 3 types of internal users and their information needs:

Owners

Owners need to assess how well their business is performing.

Owners are also interested in knowing how risky their business is.

Accounting information helps owners in assessing the level of stability in business over the years and to what extent have changes in economic factors affected the bottom line of the business.

Such information helps owners to decide if they should invest any further in the business.

Managers

Managers need accounting information to plan, monitor and make business decisions.

Managers need to allocate the financial, human and capital resources towards competing needs of the business through the budgeting process.

In case of investment decisions for example, managers would require the return on investment calculation of a proposed project supported by reliable estimates of the costs and revenues.

Employees

For the employees operating in the finance department, using accounting information is usually part of their job description. This includes for example preparing and reviewing various financial reports such as financial statements.

Employees are interested in knowing how well a company is performing as it could have implications for their job security and income.

Many employees review accounting information in the annual report just to get a better understanding of the company's business.

In recent years, the increase in number of shares and share options schemes for employees particularly in startups has fostered a greater level of interest in accounting information by employees.

Moreover, potential employees are also interested to learn about the financial health of the organization they aspire to join in the future.

External Users of Accounting

External users are the secondary users of accounting.

Following are the 8 types of external users and their information needs:

Investors

Investors need to know how well their investment is performing. Investors primarily rely on the financial statements published by companies to assess the profitability, valuation and risk of their investment.

Investors use accounting information to determine whether an investment is a good fit for their portfolio and whether they should hold, increase or decrease their investment.

Lenders

Lenders use accounting information of borrowers to assess their credit worthiness, i.e. their ability to pay back any loan.

Lenders offer loans and other credit facilities on terms that are based on the assessment of financial health of borrowers.

Suppliers

Just like lenders, suppliers need accounting information to assess the credit-worthiness of its customers before offering goods and services on credit.

Customers

Most consumers don’t care about the financial information of its suppliers.

Industrial consumers however need accounting information about its suppliers in order to assess whether they have the required resources that are necessary for a steady supply of goods or services in the future. Continuity in supply of quality inputs is essential for any business.

Tax Authorities

Tax authorities determine whether a business declared the correct amount of tax in its tax returns.

Occasionally, tax authorities conduct audits of the tax returns filed by businesses in order to verify the information with the underlying accounting records.

Government

Government ensures that a company's disclosure of accounting information is in accordance with the regulations that are in place to protect the interest of various stakeholders who rely on such information in forming their decisions.

Auditors

External auditors examine the financial statements and the underlying accounting record of businesses in order to form an audit opinion.

Investors and other stakeholders rely on the independent opinion of external auditors on the accuracy of financial statements.

Public

General public may also be interested in accounting information of a company. These could include journalists, analysts, academics, activists and individuals with an interest in economic developments.