

## **Lecture 26**

### **Problems in Accounting Systems**

#### **Limitations of Financial Accounting**

Financial Accounting though may help the management to have a proper financial information to make a practical managerial decision making, the following limitations are also to be borne in mind while considering the financial statements.

- a. Financial accounts normally deal only with monetary transactions and non-monetary transactions or events however significant, are not reflected in the financial accounts.
- b. Financial accounts are more related to the historic events and the future is projected based on it and will be useful only if realistic assumptions are made.
- c. Financial accounts are drawn in certain instances on the basis of subjective assessment of the financial policies and the inferences made there will depend upon the impact of such policy changes.
- d. Financial accounts records the transactions on cost basis and no due attention is paid for the value aspect of the transactions.

#### **Financial Accounting Vs Management Accounting**

Management Accounting is the term used to describe the accounting methods, systems, and techniques which coupled with special knowledge and ability assist management in its task of maximizing profits or minimizing losses. Thus it may be seen that it is not correct to assume that both financial accounting and management accounting are one and the same and the following important differences may be pointed out between them.

Management Accounting concerns with the use of the accounting statements for the purpose of managerial decision making whereas the financial accounting concerns with the maintenance of financial records for the purpose of finding out the financial performance and the financial position of an organization.

Financial Accounting gives input to the management accounting.

Financial accounting restricts itself to historic events whereas the management accounting tries to analyze and judge the future.

Financial accounts remain more as *data* whereas the management accounting attempts to convert the data into valuable *Information*.

The techniques that are used in the financial accounting are based on the well-laid accounting principles whereas the management accountant can adapt the common techniques to his requirements.