1. Distinguish between management accounting and financial accounting.

Management accounting is the process of producing reports and providing useful financial information for decision-making purposes to the managers of an enterprise in the daily management of trading operations. However, financial accounting is the process of producing general purpose financial reports used by external parties such as shareholders, investors, lenders, suppliers, customers, employees and government.

1. Differences between internal and external reporting:

* *users - internal and external*

Internal financial reports are designed to be viewed only by individuals within the organisation, whereas external financial reports can be accessed by any person outside the organisation.

* *Regulation - accounting standards*

External reporting is controlled by legal, statutory and external obligations (i.e Reporting Entities, organisations with users relying on its reports as their source of information to assist them in making economic decisions about them, must abide by accounting standards) that internal reporting does not need to abide by.

* *Types of financial statements*

Financial external reporting involves sharing financial statements like balance sheets, income statements, cash flow statements, and statements of changes in equity - helping stakeholders assess financial health and performance of the company.

Internal financial statements are far more flexible than external ones and have a higher analytical component - may report by division, have more detail or be produced on a more frequent basis.

* *Types of reports*

Internal financial reporting may provide information about employees, customer behaviour and credit information - reports that are used to present management with enough information to help in the decision-making process. For example, when preparing sales reports of the last few months, management may want the accountant to include all transactions such as discounts and returns which affect net sales.

Other than financial statements, external reports can have non-financial reporting, such as environmental, social and governance factors (ECG), corporate social responsibility (CSR) initiatives, or other aspects of company performance and operations.

1. Internal audit and control, including:

* *Purpose of internal audit:*
* *Review of business procedures and policies*:
* *Detection and correction of errors and deficiencies*

The purpose of internal auditing is to continually review the procedures, systems and policies of the business to ensure that they’re being adhered to and working. It does this by evaluating a company’s internal controls, including its corporate governance and accounting processes. It detects and corrects errors and identifies deficiencies in business operation so improvements can be made.

The primary objective of the external auditor is to provide independent and objective assurance that the company's financial statements fairly reflect its financial position, performance and cash flows. They review financial statements to ensure they are a ‘true and fair’ account of past financial performance and current financial position.

1. The role and function of the accountant in managing business operations.

The most well-known role of the accountant is to control the company’s finances and the essential role of an accountant working for a business is to provide the managers of the business with the information they need to maximise the entity’s financial performance, including the roles of:

1. Recording financial transactions
2. Producing financial reports for the information of managers and external users
3. Cost accounting - determination and analysis of the cost of a product or service
4. Implementing strategies
5. The important financial principles of asset management.

* *Appropriate levels of investment in non-current assets*

Every business requires appropriate levels of investment because these are key to the business’ continued operations as well as leading to future growth.

* The purchase of non-current assets should be financed by long-term debt or equity financed, hence the cash flow to support these must be generated to ensure their repayment as well as the business being able to earn adequate profitability to receive a rate of return on their investment.
* An underinvestment in non-current assets may lead to stunted business growth, the business’ inability to operate effectively and failure to provide for customer needs.
* An overinvestment in non-current assets may be conducive to a lack in productivity, inability to repay debt and a poor rate of return.

There are several principles that should be applied by a business to the management of its non-current assets. These include:

* Security: assets should be kept safe and properly maintained. Those using them should be adequately trained and there should be appropriate safety protocols. Where necessary there should be adequate insurance.
* Productivity: assets should be used as effectively as possible to minimise under-productivity.
* Record-Keeping – adequate documentation should be kept about all assets and their usage to enable management to make decisions on their security, efficiency of usage, and possible need for replacement.
* Asset Usage – the investment in non-current assets must be sufficient to meet the demands of the business and not stifle productivity, but not so excessive that there is significant unused capacity. Surplus assets should, where possible, be disposed of to generate cash for use elsewhere in the business.
* Appropriate management of accounts receivable, inventory, and cash

Inventory:

* Significant cost in maintaining it.
* If the type/quantity of inventory is incorrect, can result in slow-moving items or stock being out of date or even deteriorating.
* To ensure good turnover of inventory and minimising costs, appropriate reorder points and quantities are necessary, as well as using discounts from bulk purchases.
  + Overinvesting in inventory creates an opportunity cost where funds used to purchase the unneeded inventory could have been used elsewhere
  + Underinvesting in inventory can lead to a loss of sales or disruption to production.

Accounts receivable:

* Large amounts of this figure can lead to bad debts, and hence, create an opportunity cost due to the loss of investment potential and an adverse effect on the business’ liquidity.
* But, the lack of credit facilities for customers can lead to potential loss of sales.
* Credit control is costly and timely, but necessary.
* Objectives must be identifying poor credit risks and couraging prompt payment of all debtors

Cash

* Vital to liquidity
* Sufficient amounts must be held to meet normal operational demands so debts can be rapid, expenses paid, assets acquired and advantage taken of discounts
* Cash budgeting is vital to this process so the business’ credit rating is not harmed
* Maintaining too much cash is costly as there are fees (e.g., bank fees) as well as low interest gained
* Hence, surplus cash should be invested in marketable securities as well as long-term investments where possible - as they provide better rates of return.
* If too little cash is held, however, this can lead to issues with liquidity.

Links:

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