

# Learning the accounting game

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It takes many skills and a broad knowledge base to operate a business successfully and guide its growth. Generally, the business owner has strengths in some areas of operating the business, but weaknesses in others. I frequently have clients question what types of classes or instruction would help them the most. Of course, there is no end to the training and learning someone can participate in, but my first response for most people is to learn the accounting. As an accountant, I guess I am prejudiced.

Accounting is deep and actually more variable than most would believe. There are certain assumptions and choices that can be made. It is not uncommon to see businesses that are reporting losses on their tax returns but making good money for the owners or alternatively, showing profits but have no cash available to pay the bills. Understanding the numbers becomes a major part of a successful business.

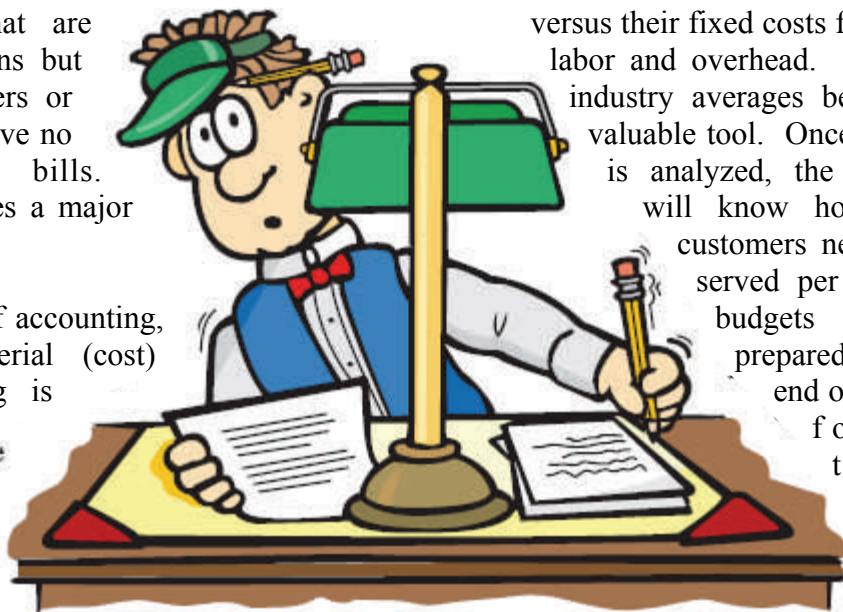
Traditionally, there are two types of accounting, financial accounting and managerial (cost) accounting. Financial accounting is what most of us are at least somewhat familiar with. This is the accounting that must take place to file tax returns or report to shareholders. Financial accounting deals a lot with after-the-fact information reported on Income Statements and Balance Sheets.

Managerial accounting is much broader. This tool

is for internal purposes. It helps you plan and control the operations of your business by analyzing costs to produce and operate. In managerial accounting such terminology as variable costs, fixed costs, direct and indirect costs, general and administrative costs, contribution margin and breakeven become part of the language you speak. Preparing detailed budgets and reporting performance data become a daily if not hourly tool to help the manager understand what is happening. While some of the information for financial accounting and managerial accounting are the same much more is added that involves planning, performing and analyzing at detailed levels such as job, product or department.

Much of the time, managerial accounting is thought to only be valuable for manufacturing types of businesses, but it is equally important for a service based business or even many that are considered retail. For example, a restaurant should know their variable costs for food and labor versus their fixed costs for, again, labor and overhead. Knowing industry averages becomes a valuable tool. Once the data is analyzed, the manager will know how many customers need to be served per day and budgets can be prepared. At the end of the day, follow-through analysis can define

whether performance met budget and variance analysis can define areas that need to be addressed. Prices can then be adjusted or cost controls can be



implemented. Additionally, ratio analysis can identify if the business is performing well against historical or industry standards.

Sound deep? Yes, and I am only touching on the surface. However, many of my students have expressed just how much more valuable learning and implementing this type of accounting is over the basic financial accounting. The question is how do you get there with your business.

Taking some classes is one direction to go. Here at Weber State, you must take the Introduction to Financial Accounting class as a prerequisite for the Introduction to Managerial Accounting class at three credit hours per class. This introductory class would be adequate for someone to learn what it is all about, but not to make a career as a managerial accountant. There are, of course, other institutions that teach these courses.

You could purchase a textbook and study for yourself. This experience may not be as rewarding as an instructed course, but still would prove very beneficial. You could look for training seminars and talk to consultants or, you could look to hire someone, either as an employee or for contracted services. Whatever routes you choose, feel assured that you will gain a further understanding of your business through the education and, hopefully, implementation of some of the managerial accounting practices.