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Opinion

Contemporary Conditions for the Evolution of Accounting in Financial Reporting

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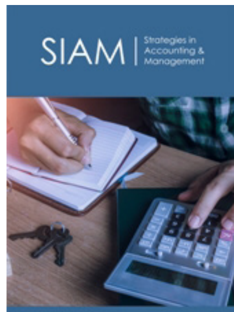

Tomczyk Mariusz*

Faculty of Management and Command, Institute of Logistics, War Studies University, Poland

***Corresponding author:** Tomczyk Mariusz, Faculty of Management and Command, Institute of Logistics, War Studies University, Poland

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Introduction

Accounting is a type of record-keeping system. It involves collecting, classifying, presenting and interpreting financial data regarding the business activities of a given entity. Accounting provides information about the financial condition of a given enterprise - it allows for determining its financial result, and at the same time it is necessary for the entrepreneur to fulfill the obligations imposed on him by the state: paying taxes, recording sales subject to VAT, etc. For these reasons, accounting is obligatory and regulated by law.

Financial reporting and management accounting

The purpose of general purpose financial reporting is to provide financial information about the reporting entity that is useful to current and potential investors, lenders and other creditors in making decisions about providing capital to the entity, including decisions related to holding management accountable for the resources entrusted to it. The decisions of capital providers made on the basis of information from financial reporting concern whether and how to allocate their resources in a given entity (whether and how to provide it with capital), as well as how to protect and increase the investment. In making such decisions, shareholders and lenders are interested in assessing the entity's ability to generate positive net cash flow and management's ability to protect and grow their investments. The company should equally satisfy the expectations of various interest groups (and not only the owners) resulting from its activities. It is difficult to assess whether and to what extent it constitutes an opposition to the approach focused on value for owners. On the one hand, it does not seem possible to meet the expectations of all stakeholders at the same time. Maximizing the owners' benefits may mean reducing the benefits of some other interest groups and vice versa. On the other hand, the company's attention to the needs of stakeholders translates into higher value for owners in the long run. The orientation of modern management accounting in enterprises results from the purpose of their activities, which is essentially to increase market value. The concepts and tools of modern management accounting are therefore also oriented towards shareholder value. Some concepts and methods are used directly to measure value, others allow the identification and quantification of value-creating factors, i.e. the so-called value generators. Still others support value-driven management. The basic difference between financial and management accounting is the recipients (users) of information, or rather their information needs resulting from a different location in relation to the enterprise. Financial accounting functions for the needs of external users. It is used to protect the interests of owners and creditors, as well as to settle accounts with the state. Management accounting is geared towards internal users. They are managers who make decisions at all levels of business entity management. The different needs of information users are the primary difference between both areas of accounting. The remaining differences are secondary in nature and are only its consequence. As long as

internal and external users need different information (in terms of content, form, frequency, etc.), the division into financial and management accounting will make sense (at least from a theoretical point of view). If it turns out that all secondary differences have disappeared, we will be dealing with one accounting, creating the same information simultaneously for two groups of users. The Table 1 below shows the traditional differences between financial accounting and management accounting.

Table 1: Financial accounting and management accounting - the traditional distinction.

Characteristic	Financial Accounting	Management Accounting
Users	External (capital providers ¬, contractors, government agencies, society)	Internal (managers at ¬various levels, employees making decisions within the scope of their powers)
Measurement (type of information)	Mainly valuable (financial information)	Valuable and quantitative (¬financial and non-financial information)
Scope (object) of information	Basically, the enterprise as a whole (or corporate group)	Both the entire enterprise and the components within it ¬and its environment (products, processes, customers, distribution channels, departments, employee teams, business segments, etc.)
The time dimension of information	Mostly past	Future
Frequency of providing ¬information (period covered by the information)	A precisely defined and standardized reporting period (year, quarter in the case of interim reports)	Various, non-uniform, resulting from specific needs; - from information ¬provided almost in real time to periodic reports (e.g. quarterly, annual, multi-annual); from information regarding short periods of time (e.g. a day or a week) to reports covering many years (e.g. product life cycle)
Regulations	Yes	No
Applicable rules	Certain overarching principles, criteria ¬for recognizing transactions and events, and valuation bases	Freedom to choose rules
Form of information	Standardized; financial statements with specific content and structure, published traditionally ¬or in electronic form (e.g. on the Internet)	Very different; standard reports with a specific structure next to ¬special information; communicated in various ways

So far, the domain of financial reporting was almost exclusively financial information (expressed in monetary terms). Nowadays, non-financial information is becoming more and more important. It is also worth mentioning the general requirement to present the key assumptions on which the estimates of individual significant amounts disclosed in the financial statements are based. These may include, for example, assumptions regarding the amount of sales, the degree of production capacity utilization, the life cycle of an asset, the level and structure of employment. Many companies optionally publish (as part of or alongside the financial statements) reports containing information on quality, environmental impact, social responsibility, intellectual capital, etc. These types of reports are, of course, dominated by non-financial information. The conclusion is obvious - in terms of the type of information, financial accounting no longer differs from management accounting. More and more information presented in financial statements (or used to prepare them) is prospective in nature. Anticipation of future events includes, among others: the basis for the valuation of many liabilities and receivables, determining the value of revenues (in the case of sales with the right of return or loyalty programs), and depreciation amounts. Many standards refer to operating budgets or long-term plans, as well as to the company's strategy. Looking to the future is as important as looking to the past. Financial accounting is undoubtedly becoming more prospective. It can be expected that one day, like management accounting, it will be more ex-ante than ex post oriented. Another feature that traditionally distinguishes financial accounting from management accounting is its strict regulation by external institutions (setting accounting principles). In turn, management accounting has always been shaped by the entity according to its needs. There have been major changes in this respect as well. The principles of preparing and presenting financial statements are, of course, regulated, but the most important principles of financial reporting that determine the nature of information, such as materiality and faithful reflection of reality (achieved, among others, by recognizing the superiority of economic content over legal and physical form), are consistent with the requirements set management accounting information. Financial and management accounting have a number of common elements. It is a chart of accounts, a database and an accounting policy that is strategic in nature. The similarity of the nature of the information provided means that the fields of knowledge necessary in the process of creating it also overlap to a large extent. There is no doubt that changes in financial reporting needs make financial accounting very similar to management accounting. The two become indistinguishable, or more precisely, almost indistinguishable. This does not apply (and probably will never apply) to only one of the essential features. It's about the frequency of information delivery. Information in management accounting is generated even every day, e.g. scoreboards in enterprises using lean management. This is due to the need for managers to quickly respond to market changes and disruptions in internal processes. The frequency of information is closely related to the detail. This quick information concerns elementary sections of the company's activity (e.g.: average unit cost of a product, equipment efficiency index, number of products

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of insufficient quality, percentage of on-time deliveries, number of products manufactured in a given time, etc.). In the case of financial statements, such frequency is unjustified. It's not even about reporting costs. External users simply do not need such frequent information (due to their location in relation to the enterprise and lack of influence on its current operations).

Even if we assume that some users (e.g. shareholders) would like to receive some information every day, it would rather concern the entire company (e.g. its value, financial result, revenues). It can even be considered rational that an external user needs certain basic information on a daily basis, for example regarding the current quality level of one of the products. Even if such information reflected one of the company's success factors, it would not give a complete picture of what determines its competitive and financial position. To complete this picture, other partial information would need to be made available to the external user. Their total number would exceed the possibilities of his perception. Therefore, while in management accounting a lot of detailed information is created and provided to users on a daily basis, in financial accounting this is not and will not be the case. It's just not useful for external users. The fact that financial accounting will never communicate the same information that is created in the management accounting system is additionally determined by the issue of confidentiality. Much of the information used by managers is a trade secret. These are primarily detailed data regarding critical elements of the strategy, resources that are a source of competitive advantage, innovative projects and solutions, etc. Making them public could weaken the company's competitive position.

Conclusion

From the considerations presented in this article, it can be concluded that financial accounting is similar to management accounting in terms of most of its features (convergence of financial and management accounting). It provides financial and non-financial information, often future-oriented, focused not only on the activities of the entire entity, but also on its individual sections. It is becoming more and more flexible - it largely takes into account the specific operating conditions of the enterprise. It is subject to almost the same general principles and is based on knowledge from the same fields. Even if the similarity in terms of the above-mentioned features were identical (today, of course, this is not the case), the information provided by financial accounting will not coincide with the information from management accounting. External users will not be provided with daily detailed data used by managers in basic areas of activity, as well as information covered by commercial confidentiality. For this reason, financial accounting will not fully resemble management accounting. Therefore, we cannot (and probably will never be able to) talk about one accounting creating and providing the same information to users inside and outside the enterprise. Distinguishing two areas (subsystems) of accounting still makes and will make sense. We just need to redefine the relationships and differences between them. Financial and management accounting are, of course, still two elements of one system (with all the consequences of being in one system, i.e., above all, interconnection). Financial accounting comes down to selecting what will be included in financial statements from the information created in management accounting. Therefore, from the entire information base created for management purposes (persons responsible in the company (substantively and formally) for financial reporting will select and include in the report the information that is required and that which, in accordance with the management board's policy, is disclosed voluntarily. A filter for information optional will be, on the one hand, the needs and perception capabilities of external users, and on the other - commercial secrets. In the presented relationship, everything points to management accounting as the primary element of the accounting system. Management accounting is the producer of information about the company's activities, some of which is sent to external users (in the manner and form specified by reporting standards). The fundamental nature of management accounting in the company's accounting system means that the team of employees responsible for the accounting process primarily needs knowledge of management accounting.

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