CHAPTER - 8

Recent Developments in Financial, Cost and Management Accounting

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ABSTRACT

Accounting is a dynamic phenomenon in which the practices, tools, and ideas related to both management and financial accounting are always changing. Environmental management accounting (EMA) theory and practice emerged in recent decades in response to the environmental problems' rising severity. One of the many environmental issues on the government's policy agenda has already been planned by a particular working group chaired by the China Executive Management Institution: the development of an environmental reporting system. The overall conclusion of the study is that future management accounting research on performance outcomes still has space for improvement. While research has historically added to the body of knowledge by performing cross-sectional evaluations of the behavioral effects of managers, promising recent developments and knowledge gaps may potentially offer intriguing avenues for future investigation. It is advised that an increasing number of other performance outcomes, such as accounting-based, social, and environmental outcomes, and relative-to-peer assessments in various contexts, may be analyzed concurrently.

Keywords: *Accounting; Environmental reporting; Financial accounting; Government policy; Management accounting; Recent developments.*

1.0 Introduction

Accounting is a dynamic phenomenon in which actions, technologies, and concepts associated with both management

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accounting (MA) and financial accounting (FA) are continually evolving, renewing themselves, and gradually entangling to form convergent realities (Taipaleenmäki & Ikäheimo, 2013). Forward-looking MA will evolve when FA shifts its perspective to one of the futures. They voiced dissatisfaction with the way accounting research is separated into MA and FA, which are seen as two distinct realities (Scapens, 1984).

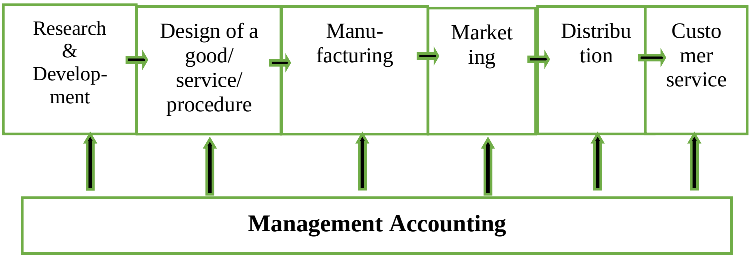
Although accounting is a common language in business and offers a wealth of useful information, it has serious flaws as a tool to meet time demands, including invalidity, incompleteness, infrequency, inaccuracy, inconsistency for long-term effects, misunderstanding, and measurement of the wrong variables (Bhimani & Bromwich, 2009).

By providing "the push that propels accounting operations," IT (information technology) has served and will continue to perform a significant function in the creation of accounting information systems (AIS). For instance, the implementation of enterprise resource planning (ERP) systems has improved accounting information accuracy, timeliness, and accessibility for management (Datta, 1993). It has also improved transaction processes and given businesses more flexibility in managing earnings and releasing earnings at the right times. Despite the fact that the importance of IT within MA and FA is acknowledged with the obvious message that accounting and control cannot be studied independently from IT, no research has yet evaluated the role of IT in the relationship between MA and FA (Hussain *et al.*, 1998).

Management accounting and financial accounting are frequently distinguished in practice. Management accounting collects, evaluates, and disseminates financial and non-financial data with the primary purpose of assisting managers in achieving the objectives of the organization (Roslender & Hart, 2003). Professional management accountants use accounting and financial management concepts to build, defend, maintain, and grow value for shareholders of for-profit and not-for-profit businesses in the public and private sectors (Roslender & Hart, 2003). They could work on the collection, creation, presentation, interpretation, and utilization of pertinent data pertaining to (Roslender & Hart, 2003)

- develop business strategy and provide information for strategic considerations
- create a long-term, medium-term, and short-term operating strategy 3. choose a capital structure and fund it
- create incentive plans for executives and shareholders
- enlighten operational choices
- oversee operations and guarantee resource usage is effective
- evaluate and communicate to management and other stakeholders the financial and non-financial performance.
- implement risk management, internal controls, and corporate governance policies
- look at the possibility of creating management and organizational value

Figure 1: The Value Chain of Business Functions



Source: Horngren et al., 2009

Financial accounting places a heavy emphasis on authoritatively mandated external reporting. In making financial reporting to outside parties, organizations must adhere to certain rules. Prescribed accounting standards serve as a framework for financial accounting (Xiaomei, 2004). Principles outline the set of guidelines for calculating income and costs as well as the categories of items that balance sheets should classify as assets, liabilities, or owners' equity. Different countries have different sources of authority for accounting regulation. For this reason, the government in Spain has chosen the Instituto de Contabilidady Auditoria de Cuentas (ICAC). In the UK, the publication of accounting standards is permitted by the Financial Reporting Council (FRC) (Kamal, S., 2015).

While there are some significant variations between management and financial accounting, their job is often organization-specific. These are possible categories for them (Kihn, 2010):

- *Regulations*: Reports on management accounting are typically created for internal use and are not subject to any external restrictions. On the other hand, financial accounting reports must typically be created in accordance with the rules and regulations of accounting set out by the law and the field of accounting (Kihn, 2010).
- *Details and a range of information*: Financial, non-financial, and qualitative information that is highly aggregated or comprehensive may be included in management accounting reports. Financial accounting often covers a wide range of topics, lacks specifics, and is designed to give a broad picture of an organization's situation and performance through time. It frequently focuses on financial data (Kihn, 2010).
- *Reporting period*: Reports in management accounting might be generated on a consistent basis, maybe hourly, daily, or weekly over a long period of time. The time period for which management accounting information is supplied will depend on the Information consumers' requirements for decision-making and control. However, annual accounting financial reports are created. Additionally, a few of major companies offer quarterly and semi-annual reports (Kihn, 2010).
- *Time period*: Reports on management accounting frequently include information on anticipated future performance and activities in addition to historical and present data. Reports on financial accounting include details on an organization's standing and performance during a specific time period. They frequently gaze backward (Kihn, 2010).

Financial and non-financial data on the organization’s resource purchase or usage are measured and reported through **cost accounting**. The information it provides can be used in both management and financial accounting [10]. For instance, determining a product’s cost is a cost accounting function that satisfies the demands of both the management accountant (who decides how to price items and which products to promote) and the finance accountant (who needs to value stocks). However, the majority of accounting professionals today adopt the viewpoint that cost data is a component of the management accounting data gathered to aid in management decisions (Kaplan, 1984).

The word “**cost management**” refers to the activities managers carry out in both short- and long-term cost planning and control in order to raise customer value and reduce product and service expenses. Recognizing that earlier management actions frequently bind the organization to the incurrence of expenses in the future is a crucial part of cost management (Boyns & Edwards, 2006). Think about the price of material handling at a manufacturing facility. Generally, choices on plant structure and the quantity of physical transit of materials required for manufacture are made prior to the commencement of production. Once production begins, these decisions have a substantial influence on the cost of everyday material handling. Cost management has a broad focus as a result (Holzer & Norreklit, 1991). It generally encompasses the product’s whole life cycle, from product development to deletion, and continuously reduces costs. The execution of general management methods frequently includes cost management as a crucial component (Klychova *et al.*, 2015)

Despite the fact that many management accounting ideas from the conventional industrial and service sectors are still in use, new situations are also changing how management accounting is done. For instance, some businesses make investments in projects involving digital transformation that may make use of many technologies such as cloud computing, the Internet of Things, big data, and artificial intelligence (Gray *et al.*, 1996).

The primary method for analyzing such important issues as how probable it is for managers to be successful with their management accounting and control systems (MCS) in diverse contexts has evolved throughout time. It is impossible to mention every method of empirical study that has been used or every issue that has been examined in this article. Three research traditions may be highlighted, nevertheless (Xiaoping, 2003). Research in behavioral accounting is the first. The behavioral sciences have studied, among other things, how individuals affect budgets and how budgetary control affects individual performance. These studies have investigated individual variations in motivation, personality, and risk aversion, for example, and have improved our understanding of the complexity and range of human behavior (Ambler & Kokkinaki, 1997). It is challenging to define the extent of management accounting as an area of study. Although there is no universally recognized definition of accounting, it might be considered a subfield of accounting in general.

Environmental accounting's positive societal impact is well acknowledged. Business businesses' environmental reports outline their inputs, outputs, and level of commitment to environmental protection. Stakeholders typically keep an eye on businesses to make sure they follow current environmental protection legislation (Eid & El-Gohary, 2013). Additionally, they would be interested in gaining a thorough knowledge of the business, including not just the traditional accounting data, such as the financial situation of the company, but also the broader social, economic, and environmental ramifications of its operations (Kaplan, 1984). All of this aids in guiding the movement of social capital. Establishing a comprehensive set of environmental accounting systems for identifying, measuring, logging, and reporting, however, is not that simple. An organization must have an environmental management system in place before the goals of environmental accounting may be incorporated into conventional accounting procedures (Eusebio *et al.*, 2006) A firm's annual report should include environmental outcomes in addition to financial results, thus the internal management accounting system should be changed to external reporting of environmental information (Scott, 2015).

Since there are many facets to the existing link between MA and FA, this study's primary goal is to start a conversation about them. Therefore, the aspirations of the chapter are to (Stratopoulos *et al.*, 2000):

- hypothesize and comprehend the MA-FA connection, notably its confluence (Stratopoulos *et al.*, 2000); and
- Explain how this convergence of MA and FA is mirrored in the behavioral and organizational domains, as well as how it manifests in the technical and technological domains (Stratopoulos *et al.*, 2000).

In response to the escalating environmental issues, environmental management accounting (EMA) theory and practice arose in recent decades. A particular working group led by the China Executive Management Institution has already scheduled the creation of an environmental reporting system as one of the numerous environmental concerns on the government's policy agenda (CEMI) (Kihn, 2010). The CEMI group has already provided the government with several recommendations on how to assist businesses in establishing an environmental reporting system. China is in the process of reforming and establishing a consistent accounting system. The following are the key issues with completely and methodically providing the environmental information of companies (Kihn, 2010):

- *The appropriate method for measuring environmental accounting information is:* Accounting for environmental assets and liabilities, environmental expenses, and environmental revenue in monetary terms is challenging due to the absence of rigorous quantitative measurement and data systems for environmental accounting information. Environmental accounting data may also not be comparable between situations due to the variety of measures and disclosures (Kihn, 2010).
- *The distribution of environmental costs that is appropriate:* There are theories, techniques, and guidelines for accounting for

environmental costs, and environmental expenses are already recognize as part of an enterprise's costs, but there is still a significant issue with the accounting for social environmental costs. How much should a business pay in reparations for environmental harm and the exploitation of natural resources? How should various groups split up the expenses of social and environmental issues within the same setting? Finding an appropriate response to this problem is still challenging (Kihn, 2010).

- *Legislation issues:* Despite the fact that the Chinese government has already made sustainable development a long-term goal, it is still exceedingly difficult for private firms to comply with environmental regulations without sacrificing their own interests. Social sustainable development initiatives and an organization's short-term profit-maximizing goals are in constant opposition to one another. Unless there is a strong legislative obligation, most firms would not raise their environmental spending on their own initiative to satisfy the objectives of social sustainable development. An organization would want not to have to reveal the fact that the expense has already grown to the public (Kihn, 2010).
- *The absence of environmental accounting standards:* In recent years, the Ministry of Finance's standard-setting body has been working to develop a new set of accounting standards. However, there are still no legal requirements for environmental accounting practices. The environmental accounting objectives and the disclosure format cannot be combined as a consequence, and enterprises are unable to embrace them. The absence of standards also contributes to the complete disregard for environmental accounting information disclosure or results in subpar information disclosure (Kihn, 2010).

Though it must be acknowledged that much has already been done in China in this regard, more work needs to be done to improve the accounting reformation processes. In China, environmental accounting theory and practice are very young, having just recently been adopted with more vigor. This demonstrates the widespread interest among academic authorities and commercial businesses (Kihn, 2010).

The Chinese government might also instruct companies to set up environmental reporting systems. To minimize the influence on the environment, this will necessitate control of business activity. The best course of action in this regard is to start with major organizations and publicly traded companies with the intention of eventually incorporating small and medium-sized enterprises after gaining expertise. The government would need to take care of at least the following duties to make sure that firms adopt a culture of environmental reporting (Kihn, 2010):

- Establish clear guidelines for the environmental report's content and the types of data that should be considered environmental management information;
- Monitor the objectivity, the level of detail, and the disclosure of environmental management information by businesses;
- Use incentive strategies to persuade businesses to adopt environmental reporting systems; and
- Gradually impose sanctions on those who fail to report environmental information or environmental management information (EMI) standards.

There are several distinctions between management and financial accounting, including the Table 1.

The government would also need to set up a system for environmental accounting and auditing. Environmental reporting calls for the coordination of several accounting and auditing methodologies. Environmental accounting uses monetary measurement to recognize, measure, and record environmental assets and liabilities (Stratopoulos *et al.*, 2000). It also analyses the effects of environmental efficiency of activities on the financial performance of business organizations. Environmental accounting establishes a link between economic development and environmental resources based on related environmental laws and regulations. Thus, it combines accounting and environmental economics to effectively manage values while coordinating economic growth and environmental conservation (Kihn, 2010).

Table 1: Distinctions among Management & Financial Accounting

	Management Accounting	**Financial Accounting**
Purpose of information	Assist managers in making decisions to achieve an organization's goals.	Inform investors, banks, regulators, and other outside parties about an organization's financial status.
Primary users	Organizational managers	Investors, banks, regulators, and suppliers are examples of external users.
Focus & emphasis	Future-oriented	Past-focused
Rules of measurement & reporting	Internal evaluations and reports are not required to adhere to relevant accounting rules and are instead based on cost-benefit evaluations.	Financial reports are required to be prepared in conformity with applicable accounting standards and approved by independent external auditors.
Time span & type of reports	Contains financial and non-financial reports on goods, departments, territories, and plans ranging from hourly to 15 to 20 years.	Annual and quarterly financial reports, mostly on the entire firm
Behavioral implications	Designed to influence managers' and other workers' behavior	Reports economic events primarily, but also impacts behavior since manager remuneration is frequently dependent on reported financial performance.

Source: Horngren et al., 2009

EMA has been shown to benefit individual businesses and the general environment in a variety of ways, including (Kihn, 2010):

- reducing environmental impact, improving competition ability, and long-term profitability through improved product design, manufacturing process, and product packaging;
- assisting in making decisions about accepting, designing, or rejecting a procedure or product; and
- identifying opportunities to reduce regulatory alliance and operational costs.

Whether a business is in a period of recession or prosperity, environmental preservation is critical to its long-term success and the sustainability of the economy in which it operates. As a result, business entities should be controlled and encouraged to improve their environmental performance [10]. Environmental regulations established by advanced countries have achieved environmental protection goals through standardization or disallowance, which means that companies whose primary transaction is exporting cannot enter the international market unless their products and manufacturing procedures comply with environmental protection rules (Stratopoulos *et al.*, 2000). Other incentive-based approaches are also used to achieve environmental protection objectives. The quality of the information on which policy is based typically determines its efficacy. Thus, the adoption of the EMA system, which discloses environmental costs, can give helpful information to a variety of decision-makers (Boyns & Edwards, 2006).

Consequently, the broad stereotype was losing its relevance. Economic challenges are causing many global European and Japanese corporations to place greater emphasis on financial reasons, but numerous British and American companies may credibly claim to have embraced a wide stakeholder mindset (Holzer & Norreklit, 1991). This is now a hot topic in the United Kingdom (RSA, 1994), with announced government policy explicitly in favor of increasing wide stakeholder responsibility by businesses as a corrective. 48 The European Accounting Review addresses what some see to be the excessively finance-driven milieu of the 1990s (Klychova *et al.*, 2015).

In actual practice, management accounting and financial accounting are frequently distinguished from one another. The primary purpose of management accounting is to support managers in achieving the objectives of the organization by the measurement, analysis, and the publication of financial and non-financial data (Xiaoping, 2003). A key element of total organizational control is a management accounting system. The biggest management accounting organization in the world, the Chartered Institute of Management Accountants (CIMA), views management accounting as a crucial component of management. According to this definition, management accounting combines accounting, finance, and management with cutting-edge strategies that power prosperous firms. Individual management usually requires that information in an accounting system be shown or reported differently (Eusebio *et al.*, 2006).

2.0 Ethical Guidelines

Management accountants are represented by professional accounting organizations in several countries. CIMA, for example, in the United Kingdom, provides a programme that leads to membership in the organization. Membership indicates that the individual has met the entrance standards and has demonstrated that they have the technical skills required by the CIMA to become a chartered management accountant (Horngren *et al.*, 2009). Students must pass exams on operational, management, and strategic elements of the industry as well as demonstrate professional competence in management accounting in order to become a member of CIMA. The promotion of a high level of ethics is crucial work done by professional accounting organizations. For its members, CIMA has published a code of ethics (Horngren *et al.*, 2009).

Management accountants may encounter ethical problems in a variety of ways. The instances below serve as illustrations (Horngren *et al.*, 2009):

Case A: A management accountant is concerned about the commercial feasibility of software for which R&D expenditures are now being capitalized since they know that declaring a loss for a software division would lead to yet another “rightsizing initiative” (a euphemism for layoffs). The divisional manager is adamant that the new product will be a “winner,” but he has no solid proof to back up this claim. The division’s most recent two goods didn’t do well on the market. The management accountant wishes to avoid a personal confrontation with the division manager since he has many friends there (Horngren *et al.*, 2009).

Case B: A packaging supplier is vying for a new contract and offers to pay the management accountant’s family’s weekend trip to Disneyland Paris. When sending out the invitation, the provider makes no mention of the new deal. The supplier does not know the accountant well on a personal level. She is worried that the supplier may request information regarding bids from other packaging businesses since she is aware that operating cost considerations are crucial in accepting the new contract (Horngren *et al.*, 2009).

The management accountant is confronted with an ethical dilemma in each situation. While case B concerns secrecy, case A involves competence, objectivity, and integrity. Sometimes there are grey areas in ethical matters. For instance, the supplier in situation B might not be planning to bring up flaws with the proposal. However, many businesses forbid their workers from taking free “gifts” from suppliers since the perception of a conflict of interest in instance B is sufficient (Horngren *et al.*, 2009).

3.0 Conclusion

The study’s overall finding is that there is still room for improvement in measuring performance outcomes in management accounting research in the future. While studies have historically added to the literature by conducting cross-sectional analyses of, in particular, the behavioural impacts of managers, promising recent advancements and knowledge gaps may potentially offer interesting areas for future study. It is specifically recommended that a growing number of additional performance outcomes, including accounting-based, social and environmental outcomes, and relative-to-peer's assessments in diverse contexts, may be analysed concurrently. If feasible, longitudinal and panel research methods might be used to study the evolution of performance outcomes, and efforts could be made to determine the nature of causation.

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