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Reflections on the Integration and Application of Management Accounting and Financial Accounting in Enterprises

Shun Rao

International University of Mongolia and China, Ulaanbaatar, 11000, Mongolia
719755638@qq.com

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Abstract: Management accounting and financial accounting are two aspects of enterprise financial management, which complement each other and work together, and are of great significance in promoting the high-quality development of enterprises. However, the integration of the two is not high, and management accounting has not played its due role in decision support. It cannot meet the needs of enterprise management to cope with the significant challenges of the global economic situation. In order to improve the core competitiveness of enterprises in the industry and the ability to cope with risks, the integration of management accounting and financial accounting application research has become the focus of enterprise financial management. This article analyzes the concepts of management accounting and financial accounting, their differences and connections, which can be integrated; we need to clarify the current situation and difficulties of integrating management accounting and financial accounting, integrate the application of management accounting and financial accounting to improve corporate governance, support enterprises in responding to market challenges, and promote sustainable and high-quality development.

1. Introduction

In 2014, the Ministry of Finance issued guidelines on comprehensively promoting the construction of a management accounting system. These guidelines advocated for the development of a management accounting framework that is congruent with China's socialist market economic system. Over the past decade, a robust management accounting guideline system has been established, and research in management accounting theory continues to yield significant results. Management accounting and financial accounting represent two critical dimensions of enterprise financial accounting. During the operational processes of an enterprise, financial accounting is mandated by laws and regulations to disclose accounting information externally, while management accounting is tasked with providing internal decision-making support to enhance the economic efficiency of the enterprise. The interplay between these two accounting domains is essential, as they collectively contribute to the sustainable and high-quality development of enterprises.

However, the integration of financial accounting and management accounting within enterprises remains insufficient, and management accounting has yet to fulfill its potential effectively. To further actualize the directives outlined in the report of the 20th National Congress of the Communist Party of China (CPC), as well as the principles established during the 2nd and 3rd Plenary Sessions of the 20th CPC Central Committee, it is imperative to adhere to the requirements of the Accounting Law of the People's Republic of China, which was amended and enacted on July 1, 2024. The accounting practices must align with the Party's and the nation's guiding principles and policies, ensuring that decision-making and strategic deployment safeguard social and public interests while contributing to the development of the national economy and society. To enhance the capacity of enterprises to navigate the significant challenges posed by the global economic landscape and the various operational difficulties they encounter, it is essential to leverage management accounting in areas such as compliance, resource allocation, cost reduction, efficiency, and decision-making support. This approach aims to bolster the core competitiveness of enterprises and their resilience to risks, thereby enhancing the role of management accounting in fostering the high-quality development of the economy and society in the new era. Continuous efforts to promote the integration of management accounting and financial accounting are thus of paramount importance[1].

2. Concepts of management accounting and financial accounting

2.1 The concept of financial accounting

Financial accounting serves the primary objective of measuring and communicating business data, utilizing monetary values as the central unit of measurement and accounting documents as the principal medium of transmission. Economic activities associated with the enterprise are systematically recorded in a standardized format. Through classification, summarization, and other methodologies, the comprehensive business outcomes of the enterprise over the course of a year are encapsulated in the financial statements. These statements enable regulators and investors to assess the enterprise's financial position, operational results, cash flow, and other pertinent information within a specified timeframe. Furthermore, management can leverage this comprehensive financial information to evaluate the company's management practices and assess its potential for sustainable development, thereby providing a critical reference for decision-making. Additionally, this information serves as a valuable resource for prospective investors in their investment decision-making processes [3].

In the context of enterprise financial management, financial accounting plays a crucial role due to its comprehensive representation of the overall economic records of the organization. Its standardization, along with the authenticity and timeliness of the transmission of corporate financial information, constitutes a vital component of corporate compliance management. This, in turn, serves to strengthen the foundation of corporate governance [2].

2.2 Concept of Management Accounting

Management accounting functions as a critical tool that addresses the internal management requirements of enterprises. It involves the digitalization of economic activities and business-related information within the organization, facilitating targeted integration, analysis, and processing. This process enables enterprises to evaluate their performance over a specified period, providing insights into gains or losses and highlighting issues within production and operational management. Consequently, management accounting supports the formulation of strategic planning, development objectives, and informed decision-making for future growth, thereby contributing to the creation of value and promoting the sustainable development of the enterprise.

Management accounting emphasizes the economic interests of an enterprise over a specified time frame, prioritizing long-term value and sustainable development. The processing and analysis of relevant data assist enterprise managers in formulating long-term development strategies while also providing warnings to mitigate potential risks that may arise during the development process.

3. Difference, connection and integration of management accounting and financial accounting

3.1 Difference and connection between management accounting and financial accounting

In the context of enterprise financial management, management accounting and financial accounting represent two critical components. While there are notable differences between the two, there also exist intrinsic connections[4].

From the perspective of accounting as an object of study, both management accounting and financial accounting ultimately contribute to the economic activities of enterprises. Financial accounting primarily focuses on the analysis and processing of a company's economic activities, as evidenced by the balance sheet, income statement, cash flow statement, and other financial reports. This information is crucial for regulators, investors, creditors, and other stakeholders, as it offers a comprehensive overview of the company's financial position. In contrast, management accounting emphasizes the company's internal business activities and serves as a foundation for development decisions by conducting a detailed analysis of financial statements and internal management reports.

In the context of information collection and processing, both financial accounting and management accounting depend on the accuracy and timeliness of data. Financial accounting primarily utilizes financial records and transaction data to prepare financial statements, which are generally considered objective. Conversely, management accounting offers more specific and detailed information to facilitate management decision-making and planning by collecting, organizing, and analyzing internal data [5].

In terms of ultimate objectives, both financial accounting and management accounting ultimately aim to fulfill the internal management objectives of an organization while also addressing the needs of various stakeholders. Financial accounting primarily serves to inform management decisions and provide stakeholders with insights by preparing and analyzing financial statements that reflect the economic condition and operational results of the enterprise. In contrast, management accounting encompasses the planning, decision-making, control, and evaluation of production and operational activities within an organization, utilizing a range of tools and methodologies. This process involves participation from all levels and segments of the organization, with the objective of enhancing the overall efficiency and effectiveness of the enterprise[6].

In the context of implementation principles, both financial accounting and management accounting must adhere to specific accounting standards and criteria. Financial accounting, which serves as a record of an enterprise's economic transactions, is required to comply with established accounting standards and systems. These standards form the foundation of financial accounting practices and are designed to ensure the accuracy and reliability of financial information. Conversely, management accounting is characterized by greater flexibility; it is not bound by formal accounting standards and primarily supports the internal management of an enterprise. Its objective is to enhance operational efficiency, allowing for the adoption of more adaptable methods and standards tailored to the specific needs of the enterprise.

Management accounting and financial accounting are interdependent and mutually constraining; they complement each other and collectively form the content of enterprise financial management. Simultaneously, there exists a clear distinction as well as an intrinsic connection between the two.

3.2 The integration of management accounting and financial accounting

Currently, the global economic landscape is encountering a multitude of difficulties and challenges, leading to an increase in uncertainty. Enterprises are faced with an increasingly complex and demanding external environment. The formulation of effective development strategies, the achievement of strategic objectives, and the promotion of sustainable, high-quality growth have emerged as critical issues that necessitate immediate attention. In order to navigate the current economic climate and address these challenges, enterprises must not only make accurate market assessments but also adhere to external regulations and ensure legal compliance in their operations. Furthermore, it is essential to explore internal governance mechanisms to uncover potential for value creation. Consequently, the integration of financial accounting and management accounting is becoming increasingly significant.

Successful enterprises that attain high-quality development frequently exhibit a common characteristic: a robust level of corporate governance coupled with the integration of management accounting and financial accounting. Such enterprises are positioned to excel in economic activities, proactively engage in transactions, and demonstrate enhanced corporate profitability. Furthermore, the strategic objectives established by these enterprises are more readily achievable. Concurrently, these organizations possess strong capabilities in resource allocation and optimization, enabling them to leverage capital advantages to continuously enhance their innovation capacity. This, in turn, strengthens their core competitiveness within the industry and improves their ability to manage risks. Consequently, these enterprises are better equipped to navigate fluctuations in the market economy, indicating that the integration of management accounting and financial accounting not only aligns with market demands but is also influenced by market dynamicst[7].

Financial accounting often falls short in identifying the underlying issues within an enterprise's economic operations. In contrast, management accounting offers a more nuanced analysis of data, effectively illuminating problems and exposing the deficiencies of the organization. Consequently, management accounting serves as a valuable complement to the limitations inherent in financial accounting. Furthermore, to align with the demands of contemporary corporate governance and internal control, there is a trend towards a more refined division of labor within enterprises. This has led to a separation of functions between the business and financial sectors, resulting in diminished interaction of data between financial accounting and the business sector. In contrast, management accounting emphasizes the synergy between various departments, fostering collaboration among staff, enhancing the interconnectivity and interoperability of information technology, and advocating for the integration of industry and finance. To a significant extent, the integration of management accounting and financial accounting is also a prerequisite for the convergence of industry and finance[8].

4. Current situation of integration application of management accounting and financial accounting

4.1 Backward integration concept

From 2014 to the present, China has made significant progress in developing a management accounting guideline system over nearly a decade. This system is characterized by a foundational guideline that serves as the overarching framework, accompanied by application guidelines that provide specific direction, and supplemented by case demonstrations. The theoretical research in management accounting has been continuously enriched, and there has been vigorous advancement in the informatization of management accounting. Additionally, the development of a skilled workforce in management accounting has been consistently reinforced. However, due to regulatory requirements, enterprises tend to prioritize financial accounting while neglecting the importance of management accounting. This has led to a lag in the integration of management accounting and financial accounting concepts. On one hand, the integration of these two accounting domains has not been incorporated into the framework of corporate governance capabilities. On the other hand, the application of integrated management and financial accounting does not effectively support the strategic planning of enterprises, thereby playing a minimal role in facilitating sustainable and high-quality development.

4.2 Insufficient integration management

The integration management mechanism requires enhancement. The effective integration of management accounting and financial accounting necessitates that enterprises genuinely establish a robust integration management mechanism. Overall, while the financial management system developed by the enterprise is relatively well-structured in terms of organization, management, and staffing of financial accounting, it is evidently lacking in the organization and staffing of management accounting. Consequently, the professional capacity in this area is inadequate, indicating a pressing need to strengthen the integration management mechanism [9].

The financial system requires enhancement. Financial operations are crucial for safeguarding the development of enterprises, and the financial system serves as the framework for executing these operations and maximizing the value of financial credentials. As the market evolves, enterprises increasingly prioritize management accounting. Initially, management accounting established a limited number of systems to enhance flexibility, thereby addressing the informational needs arising from the early stages of management accounting's interaction with various departments. However, with the rapid advancement of management accounting, some enterprises have struggled to align their practices with management needs. Furthermore, there has been a lack of integration between management accounting and financial accounting, as well as insufficient updates to the financial accounting and management accounting systems to reflect contemporary requirements[10].

The effectiveness of comprehensive utility in enterprise governance is currently inadequate. In the actual governance processes of enterprises, there exists a notable deficiency in the integration of management accounting and financial accounting. This shortcoming is particularly evident in areas such as cost management, budget management, investment and financing management, and performance management. Consequently, the essential role of management accounting in facilitating enterprise planning, decision-making, control, and evaluation activities has not been fully realized. There is a pressing need for improvement in these areas to enhance the efficiency of resource allocation within enterprises, thereby achieving cost reduction, quality enhancement, and increased operational efficiency. Furthermore, it is imperative to bolster enterprise risk management, internal control, and compliance. Effective risk management and internal control necessitate a well-coordinated interface and a cohesive integration of risk prevention and control capabilities. Additionally, the integration and application of management accounting and financial accounting must be strengthened to foster sustainable corporate governance, service delivery, and high-quality development.

4.3 Weakness of information technology means

Integrating management accounting with financial accounting has the potential to enhance the digitization of the economy and business practices. This integration allows management accounting to analyze and process digitized data, thereby providing timely and accurate feedback to enterprises. In light of the ongoing scientific and technological revolution, as well as significant industrial transformations, the convergence of big data, artificial intelligence, and other advanced information technologies is fundamentally redefining the scope and effectiveness of financial management. Financial accounting primarily focuses on the and adheres to the standardization of economic operations. In contrast, management accounting often relies on traditional analytical methods, which may limit the effectiveness of information technology in addressing the diverse demands for financial information. This limitation can adversely affect the management of market trend predictions and, consequently, the quality of enterprise development. Moreover, the collaboration among employees, departments, and managers increasingly underscores the importance of mutual synergies necessary for effective information interoperability. In this context, information technology is poised to become an indispensable tool for the integration of management accounting and financial accounting[11].

In the integration of financial accounting and management accounting, the issue of information sharing is of paramount importance. Financial accounting within an enterprise is guided by established principles and is focused on the preparation of statements that accurately reflect the economic conditions of the organization. In contrast, management accounting is more adaptable, employing flexible methods and analytical standards that are aligned with the enterprise's economic context. However, the sources of information and measurement standards between the two accounting domains often lack consistency. If information is not shared in a timely manner, it may result in significant discrepancies in the processing of accounting data. The establishment of an information-sharing platform to facilitate the integration of financial and management accounting necessitates substantial technical investment, personnel training, and system maintenance, which can be prohibitively expensive. Consequently, some enterprises may be hesitant to invest in such platforms. Additionally, delays in upgrading these platforms and challenges in system utilization may compel organizations to revert to traditional methods of information transmission, which typically involve multiple levels and departments and rely on written communication. This reliance can severely hinder the efficiency of information transmission and management processes within enterprises, ultimately diminishing the effectiveness of management information systems. Enhancing the transmission and efficiency of information is crucial for improving the management and financial accounting processes, thereby optimizing the utilization of economic business data within the organization.

4.4 Composite financial personnel scarcity

The integration of management accounting and financial accounting necessitates a recognition of the importance of the quality of financial personnel. In traditional operational frameworks, financial professionals were primarily tasked with adhering to established guidelines and systematically recording the economic transactions of the enterprise. However, the advent of management accounting has expanded these responsibilities, requiring financial personnel to not only fulfill conventional duties but also to acquire the competencies essential for executing management accounting functions. Management accounting is characterized by its flexibility, as it is not constrained by traditional guidelines that are primarily designed to satisfy the requirements of enterprise management. Instead, it employs scientific methodologies, standards, and information representation techniques to effectively collect, organize, and analyze pertinent data. This analytical process culminates in the generation of management reports that support the strategic development of enterprises. Consequently, the role of financial professionals has evolved to demand proficiency not only in traditional accounting practices but also in management, economics, statistics, and other specialized disciplines. Additionally, expertise in information technology and related fields is imperative to facilitate the seamless integration of management accounting and financial accounting. This evolving landscape highlights the necessity for adaptable and multifaceted financial professionals. The limited availability of such composite financial personnel poses a significant challenge to the integration and advancement of management accounting and financial accounting[12].

5. Integration and application of management accounting and financial accounting

5.1 Establishing the concept of high-quality development to promote the sustainable operation of enterprises

As the economy continues to develop, the significance of accounting becomes increasingly pronounced. Concurrently, as accounting evolves, societal progress is facilitated, with the role of accounting adapting in response to transformations in the economy, science and technology, culture, and other environmental factors. The General Secretary explicitly emphasized in the report of the 20th Party Congress the necessity of accelerating the establishment of a new development paradigm and striving for high-quality development. High-quality development is characterized by a superior level and optimal state of economic development quality, which entails efficient resource allocation and is inherently linked to the provision of high-quality accounting information. The objective of integrating management accounting with financial accounting is to foster the sustainable development of enterprises. A fundamental prerequisite for this integration is that enterprises adopt a high-quality development mindset. By leveraging pertinent information and achieving an organic integration of financial and operational activities, enterprises can utilize compliance management, cost management, budget management, risk control, and performance management. These practices are crucial for effective planning, decision-making, control, and evaluation within the enterprise, thereby enhancing its core competitiveness and the value of its innovative capabilities. This, in turn, promotes the high-quality development of the enterprise, which facilitates the market's decisive role in resource allocation and contributes to overall societal advancement[13].

5.2 Revision of Management Accounting Guidelines to Promote the Transformation of Accounting Functions

Management accounting guidelines have been in place for a decade; therefore, it is imperative for the government to revise these guidelines to align with contemporary developments. This revision should focus on enhancing the application of management accounting as a central theme and strengthening the integration of management accounting with financial accounting. For enterprises operating in diverse industries and at various stages of development, the government should conduct research to formulate guidelines for evaluating the application of management accounting. This includes establishing and refining evaluation standards and index systems, as well as developing guidelines for integrated accounting practices. Furthermore, it is essential to encourage enterprises to engage in pilot programs that facilitate the integration of management accounting and financial accounting applications. This exploration should encompass the application of management accounting in areas such as fund management, human capital management, value chain management, and internal financial supervision. The objective is to identify practices that effectively combine management accounting tools and methods with enterprise management practices. Such integration aims to enhance the functions of financial accounting beyond mere bookkeeping, reporting, and accounting. It should gradually evolve to utilize business and financial data for forecasting development prospects, formulating strategic plans, participating in management decision-making, and evaluating economic activities[14].

5.3 Emphasize modern information technology to improve accounting data governance level

General Secretary has underscored that the development of new quality productive forces is both an inherent requirement and a critical focal point for advancing high-quality development. Central to the emergence of these new quality productive forces is the principle of innovation-driven growth. To further deepen reform and opening up, it is essential to promote the aggregation of innovative elements such as knowledge, technology, management, talent, and data, which are vital for the development of new quality productivity. Entities that excel in the effective aggregation and configuration of innovation will be positioned to seize the initial opportunities for establishing new quality productivity. The advancement of new productivity tools, including digitalization and artificial intelligence, alongside other modern information technologies, has a significant impact on the field of accounting. Enterprises must prioritize the establishment of a robust accounting data governance system, which includes the creation of a unified accounting data standard system and the clarification of the management of internal business and financial processes. Furthermore, it is imperative to leverage modern information technology to facilitate the sharing of financial services and the integration of industry and finance. Continued application of AI in value counting and intelligence across various business scenarios — such as data insights, decision-making empowerment, risk control, intelligent assistance, and intelligent auditing—will provide essential technical support for the enhanced integration of management accounting and financial accounting. This integration is crucial for strengthening the overall accounting framework within organizations.

5.4 Strengthen integration governance to enhance comprehensive enterprise performance

Establish an integration management mechanism that incorporates both management accounting and financial accounting into the framework of corporate governance, thereby granting enterprises the autonomy to manage independently. It is essential to enhance and refine the integration mechanism of financial accounting and management accounting in light of contemporary advancements and technologies. Enterprises should, based on their specific needs, restructure their management frameworks and delineate responsibilities clearly. This includes defining the functional departments responsible for accounting tasks, optimizing organizational strategies, and achieving a professional, procedural, standardized, and efficient management of accounting operations. Such measures aim to reduce costs, increase efficiency, improve the quality of accounting information, and enhance the effectiveness of financial and accounting oversight, ultimately contributing to the continuous enhancement of the enterprise's value creation capabilities.

To enhance the system and strengthen the application, it is essential to improve corporate governance and the effectiveness of comprehensive management, which necessitates a robust foundational system. An ideal enterprise system that integrates financial accounting with management accounting ensures that these two functions are interconnected and mutually supportive. Consequently, enterprises should prioritize their sustainable development goals within the market while addressing the various shortcomings and gaps identified in their operational practices to establish a comprehensive and effective system. Primarily, enterprises must focus on market dynamics while concurrently evaluating their strategic objectives. This evaluation will inform the allocation of resources and the planning of anticipated goals for internal departments, all within a structured framework of management systems and constraints. Furthermore, the financial department should implement an information technology system that facilitates data and information interconnectivity among various internal departments, thereby enabling timely processing and analysis of feedback information. Simultaneously, enterprises should conduct regular checks and audits of their data, utilizing any identified issues as a basis for continuous system improvement. This process includes adjusting strategies and optimizing operations and management practices to remain responsive to the evolving market environment.

5.5 Continuously improve the comprehensive quality of financial personnel

The integration of financial accounting and management accounting plays a crucial role in enhancing the overall quality of financial personnel. Enterprises should implement a robust training mechanism aimed at comprehensively strengthening the skills of financial staff. This can be achieved by facilitating the sharing of experiences among exemplary employees or by engaging experts to conduct lectures that enhance the overall competency of financial personnel. Additionally, establishing a performance-based incentive mechanism can motivate financial staff to actively pursue new knowledge, adopt innovative technologies, and utilize advanced tools, thereby fostering the high-quality development of the enterprise in alignment with the evolving landscape of accounting and finance. Furthermore, enterprises should focus on improving recruitment standards from the outset. This includes conducting thorough assessments and comprehensive evaluations of applicants' capabilities to ensure the quality of new hires, thereby reinforcing the financial team and promoting the integration of management accounting with financial accounting.

6. Conclusion

In summary, the integration of management accounting and financial accounting is an essential outcome of the forward-looking development of enterprises. While there are still numerous challenges associated with this integration in the present context, the ongoing refinement of government accounting guidelines, in conjunction with the specific circumstances and developmental requirements of enterprises, is gradually enhancing the degree of integration. This progress is instrumental in supporting the sustainable and high-quality development of enterprises.

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