

Discussion on the Basic Assumptions of Management Accounting

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Keywords: management accounting, financial accounting, basic assumptions

Abstract: The basic accounting assumptions are reasonable judgments about the environment in which accounting exists and are the premise of accounting activities. Management accounting is an interdisciplinary subject including accounting and management. Therefore, when discussing the basic assumptions of management accounting, we should fully consider the characteristics of its interdisciplinary interaction. Based on the four assumptions of financial accounting, this paper proposes that management accounting should contain six main assumptions. They are: multi-responsibility accounting entity, life cycle-based sustainable management, decision-based flexible accounting staging, monetary measurement and full emphasis on non-monetary measurement, information predictability and different costs for different purposes.

1. Introduction

After years of development and improvement, the assumptions of financial accounting have formed a complete and consistent system. However, management accounting was introduced into China at the end of the 1970s, and most scholars at home and abroad only focused on the application research of management accounting methods in the early stage, ignoring the discussion of its theory. Therefore, the research on management accounting assumptions is not profound and a unified conclusion has not yet been formed.

It is undeniable that assumptions are indispensable for the emergence and development of any discipline, and it is the basis of theoretical research and practical work. On the one hand, management accounting assumptions are an important part of the complete theoretical system of management accounting, are the conditions for achieving management accounting objectives and guiding ideology for formulating management accounting principles. On the other hand, the establishment of the assumptions is the premise of carrying out management accounting work. The management accounting assumptions stipulates some uncertainties in the environment and uses scientific methods to plan, control and evaluate the production, thus providing an objective basis for managers to make business decisions, select optimal solutions and effectively improve business management.

Based on this, this paper believes that the discussion of management accounting assumptions is very necessary and of great significance, both from the theoretical level and from the perspective of practical application.

2. Literature review

In order to further understand the research results of Chinese scholars in the field of management accounting assumptions, the article retrieves the literature on accounting assumptions published in some related university journals and in core journals such as Accounting research and Friends of Accounting from the date of their publication. Finally we got about 24 articles. The literature distribution is shown in Table 1 and the listed universities are in no particular order.

Table 1 Distribution table on basic assumptions of management accounting

Core journal	Pages	Some related university journal	Pages
Accounting research	4	Tsinghua University	0
Friends of Accounting	4	Xiamen University	0
Communication of Finance and Accounting	4	Beijing University	0
The Study of Finance and Economics	1	Zhongshan University	0
Finance and Accounting Monthly	6	Shanghai Jiaotong University	0
Journal of Finance and Economics University	Pages	Fudan University	
Shanghai Finance and Economics University	0	Wuhan University	1
University of Foreign Trade and Economics	0	Renmin University of China	0
Zhongnan University of Economics and Law	0	Sichuan University	0
Southwestern University of Finance and Economics	0	Zhejiang University	0
Central University of Finance and Economics	1	Nanjing University of Science and Technology	0
Northeast University of Finance and Economics	0	Nanjing Audit University	0
Jiangxi University of Finance and Economics	0	Nanjing University of Finance and Economics	0
Shanxi University of Finance and Economics	2	Beijing Technology and Business University	1
Shandong University of Finance and Economics	0	Jinan University	0
Tianjin University of Finance and Economics	0	Zhejiang University of Commerce and Industry	0

Ding SL believed that management accounting assumptions include four categories: business entity, profit target, proxy relationship and time value of Money [1]. Xia GL was based on the four major financial accounting assumptions and added cost performance Separation, target profit maximization and risk value measurable assumptions. He creatively proposed that the management accounting body is no longer limited to the enterprise as a whole, but also can be a department, workshop or responsibility center [2]. Li TM's idea was that the basic assumptions of management accounting can be divided into the five according to the objects, functions, objectives and working environment of management accounting. He thought: the main body of management accounting can be the whole enterprise, but more is the responsible unit at all levels within the enterprise; enterprises should be flexible in the accounting staging according to their specific circumstances and management needs and use a variety of cost classifications which are different from financial accounting [3].

Since then, the stratification of accounting subject and the flexible staging assumptions have been recognized by the academic community. The content of management accounting assumptions is constantly enriched by scholars. Wang BH believed that management accounting assumptions are accounting subject stratification, flexible staging, cost and risk measurable and Scheme recognition [4]. From the perspective of the environment, Cheng XJ put forward the assumptions such as multi-level accounting subject, continuous operation, flexible stage, environmentally controllable,

and multiple measurements [5].

Through the review and browsing of the literature, we found: Firstly, over the years, there has been less research literature on management accounting assumptions. Secondly, most scholars discuss management accounting assumptions by analogy financial accounting, which provides a correct and efficient research direction; In the end, after many years of efforts by scholars, basic consensus has been reached on multi-level accounting subject and flexible staging assumptions and the determination of the remaining assumptions of management accounting needs further discussion;

Management accounting is closely related to the internal and external business environment of the company. With the changes in the macroeconomic situation, management accounting assumptions must be constantly changing and innovating. This paper proposes six basic assumptions of management accounting by drawing on the research results of outstanding scholars and combining the economic development background of the times.

3. The six basic assumptions of management accounting

3.1 Multi-responsibility accounting subject assumption

What is the main body of accounting? The accounting entity refers to the specific unit or organization that the accounting work serves, and is definition of the operable space scope for Accountants. In financial accounting, national laws, regulations and systems clearly stipulate that there is only one main body of corporate financial accounting. The Characteristics are the separation of owners from enterprises and the clear boundaries between different business entities. However, for management accounting, most scholars have agreed that the subject should be divided by responsibility.

For the internal enterprise, each responsibility center, such as the entire enterprise, each branch and subsidiaries, departments, teams, and even individuals, can become the main body of management accounting; For the outside of the enterprise, the main body of management accounting can break through the scope of the enterprise and rise to the level of strategic alliance or supply chain. Based on this, we can see that the body of management accounting is as small as the company's individual, as large as the entire industry supply chain.

3.2 Life cycle-based sustainable operation assumption

Management accounting is mainly for the future, using a series of tools to analyze and make decisions on future uncertainties, while financial accounting records and reports on what has happened to the company through specific accounting methods.

Although financial accounting is oriented to the past of the enterprise, it is undeniable that financial accounting is also based on the sustainable development of the enterprise in the future. If the company cannot continue to operate in the foreseeable future, such as impending bankruptcy, financial accounting cannot record the normal production and operation activities of the enterprise and cannot provide a reference report at the end of the accounting period, so there is no investment project requiring management accounting to make decisions. It can be seen that the assumption of corporate continuity operation must exist in order to make both financial accounting and management accounting meaningful.

Unlike financial accounting, management accounting is based on the continuous operation of the product life cycle. In other words, we not only know that the company will operate continuously for a period of time in the future, but the length of this period can be measured by the life cycle of the product. For example, for example, if manager invests in a project with a period of 20 years, he believes that the company will be sustainable in the next 20 years. The proposal of this assumption can not only give a more specific value to the time of continuous operation of the enterprise, but also fit the nature and characteristics of the management accounting work itself.

3.3 Decision-based flexible accounting staging assumption

The law and related policies provide a detailed description of the financial accounting staging, including monthly, quarterly, semi-annual and annual. One of the main purposes of financial accounting staging is to prepare financial statements on a regular basis, to provide timely information and to help make decisions. Management accounting should also be divided into periods, which is used to adapt to the financial accounting assumptions and to establish a basic premise for the operation of management accounting itself. The company's ongoing production, operation, financing and investment activities should be divided into periods to provide useful management information in a timely manner.

Management accounting is flexibly staging according to the specific conditions of the company itself and the needs of internal management. It can be as short as a day, a week or a season, or as long as ten or twenty years. In a nutshell, the time spent on each project decision in the enterprise is a management accounting staging. For example, a daily necessities manufacturing company recently received an order to produce 600 water cups. Once receiving the information, the administrator immediately organizes employees to conduct a quantitative analysis and calculate the marginal contribution rate to determine whether the business has the possibility of profit and how much profit margin is. For the project, from the acceptance of the order to the formulation of the decision-making plan is a staging of management accounting.

In summary, the management accounting period is flexible, not only provides timely information to the internal managers of the decision-making, but also is not affected by the actual fiscal year.

3.4 Monetary measurement and full emphasis on non-monetary measurement assumption

The monetary measurement assumption in financial accounting has two meanings: one is that money is the main measure, and all the information provided by financial accounting must be measured by currency; the second is that the value of the currency is stable. For management accounting, in addition to the currency as a unit of measurement, other non-monetary units of measurement are also widely used. Especially in the current era of knowledge economy, a large amount of non-monetary information is full of social and economic activities. Corporate managers and other responsible centers need to select information that is useful to the company to meet their investment, decision-making and production operations. In enterprise strategic management accounting, the evaluation of enterprise investment projects is no longer limited to financial efficiency indicators, but must also consider non-financial benefits indicators, such as the introduction speed of new and high technology, the development share of new products, and the proportion of intellectual capital.

At the same time, the assumption that currency value is stable in financial accounting also applies to management accounting. Especially for the long-term projects in management accounting, it is especially important to consider the time value of money. If the value of the currency has been changing, this change may include the value of its time, risk, etc., and we cannot make a valid distinction. Therefore, if we assume that the value of money in management accounting is constant, we can calculate its time value by means of discounting, etc., so as to evaluate the plan more reasonably and make effective decisions.

3.5 Information predictability assumption

The monetary measurement assumption in financial accounting has two meanings: one is that money is the main measure, and all the information provided by financial accounting must be measured by currency; the second is that the value of the currency is stable. For management accounting, in addition to the currency as a unit of measurement, other non-monetary units of measurement are also widely used. Especially in the current era of knowledge economy, a large amount of non-monetary information is full of social and economic activities. Corporate managers and other responsible centers need to select information that is useful to the company to meet their investment, decision-making and production operations. In enterprise strategic management accounting, the evaluation of enterprise investment projects is not only limited to financial

efficiency indicators, but non-financial benefits indicators must be considered, such as the introduction speed of new and high technology, the development share of new products and the proportion of intellectual capital.

Financial accounting provides all the information of the company from the past to the present. Based on this, management accounting predicts the company's future development trend through special technical methods. The data that really belongs to management accounting is not appearing, and there is a certain degree of uncertainty. Marx's epistemology shows that as long as the past and present information is detailed, future events are predictable. Therefore, this article does not deny the uncertainty of future information, but believes that the future is organic and continuous. Information predictability is the basic premise of management accounting operation.

3.6 Different costs for different purposes assumption

To meet the different needs of business management, enterprises must adopt a variety of cost classifications which are different from financial accounting in management accounting.

At present, the accounting academic community's research on this issue is roughly divided into two directions: cost behavior separable assumption and different costs for different purposes assumption. Cost behavior separable assumption means that all costs can be classified into fixed cost and variable cost according to their behavior within a certain period of time and a certain amount of business, and the division of the two is not absolute. Different costs for different purposes assumption means that costs should be divided according to the functional role of management accounting, not just limited to fixed costs and variable costs.

In order to make short-term and long-term business decisions, the costs are divided into related costs and unrelated costs according to their relevance; In order to control and evaluate the economic activities of the responsible units at all levels, it should be divided into controllable costs and uncontrollable costs according to the controllability of costs. It is proved that compared with the cost behavior separable assumption, the different costs for different purposes assumption is more accurate and more comprehensively summarize the classification of management accounting for costs.

4. Conclusions

In the context of the development of economic globalization in the 21st century, the primary task is to build a sound management accounting theory system, in order to let management accounting better guide the production and management of enterprises. With the successive introduction of the "Guiding Opinions on Promoting the Construction of Management Accounting System" in 2014 and the "Basic Guidelines for Management Accounting" in 2016, the Chinese government has begun to increase emphasis on management accounting research in recent years.

Due to the nature, content and characteristics of management accounting, its basic assumptions must be different from financial accounting assumptions. Management accounting and financial accounting belong to the same branch of accounting. Management accounting uses information provided by financial accounting to analyze and predict the future and make decisions. To some extent, the assumption of management accounting can be regarded as the expansion and extension of the basic assumptions of financial accounting. This paper closely combines the essential characteristics of management accounting to put forward six assumptions of management accounting, namely: multi-responsibility accounting subject, life cycle-based sustainable operation, decision-based flexible accounting staging, monetary measurement and full emphasis on non-monetary measurement, information predictability and different costs for different purposes.

I sincerely hope that the discussion of management accounting assumptions in this paper can contribute a small force to the improvement of the management accounting theory system. Guide the practice through theory and fundamentally promote the development of management accounting.

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