

## Financial statements as a management tool

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ABSTRACT

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Current financial statements are a comprehensive description of the enterprise, which characterize not only their financial and property status, but also the risks and prospects that allows making a comprehensive picture of the market activities. The research paper deals with the study of the essence and the role of financial statements in the process of enterprise management. The objective of this research paper is to establish the necessary content and features of financial statements that would enable to fully meet the needs of managerial staff, while remaining economical, understandable and sufficient in terms of the content. The authors, through the analysis of the works of recognized scholars, investigated the main approaches to the definition of financial statements, which could allow us to define it as a set of indicators, representing generalized accounting data in the form that fully meets the information needs of the users for the process of managing economic activities. In the process of studying the composition of financial statements, their types are identified, and as a result - their role in the management of the enterprise are determined. The authors present their own vision of the essence of high-quality accounting information and its main characteristics, which can serve as content guidelines when compiling descriptive, non-financial and text parts of financial statements. The proposed approach allows formulating financial statements from the point of view of presentation of our own business on the best side, and in compliance with the regulatory and legal principles and requirements.

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## 1. Introduction

Any management decision is based on the information obtained. The managerial staff collects information from external environment by analyzing open sources, generalized statistical data, conducting own observations and research, and so on. Internal information is obtained when processing primary documents, generalizing or grouping information and forming the necessary reports. By analyzing and summarizing the information obtained, managers of different levels determine the future variants of development of various production situations, forecast trends and dynamics, formulate appropriate tactical or strategic steps for business development. Accordingly, there is a need to study the essence of financial statements as a management tool, which determine the topicality of the research.

The objective of this research paper is to establish the necessary content and features of financial statements that would enable us to fully meet the needs of managerial staff, while remaining economical,

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understandable and sufficient in terms of content. To achieve this objective, the following tasks are set and solved in the research paper:

- Reveal the content and types of reporting from the position of enterprise management;
- Establish qualitative characteristics of modern reporting and accounting information;
- Determine the role of financial statements in the processes of enterprise management.

The issues of the essence, content of financial statements, conditions and the procedure of application of international standards in the context of globalization processes are often investigated by theorists of accounting science. Among the works analyzed in this study the achievements of such authors as Bragg (2018), Butinets (2005), Murphy (2019), Paliy (2008), Sopko and Parkhomenko (1993), Rouse (2013) and others, which deal with the economic content of financial statements, are worth noting. Without prejudice to the achievements of the theorists and accounting practitioners, it is worth noting that accounting is primarily viewed as a way of presenting an enterprise, but its role in management processes remains underestimated.

## 2. Theoretical framework

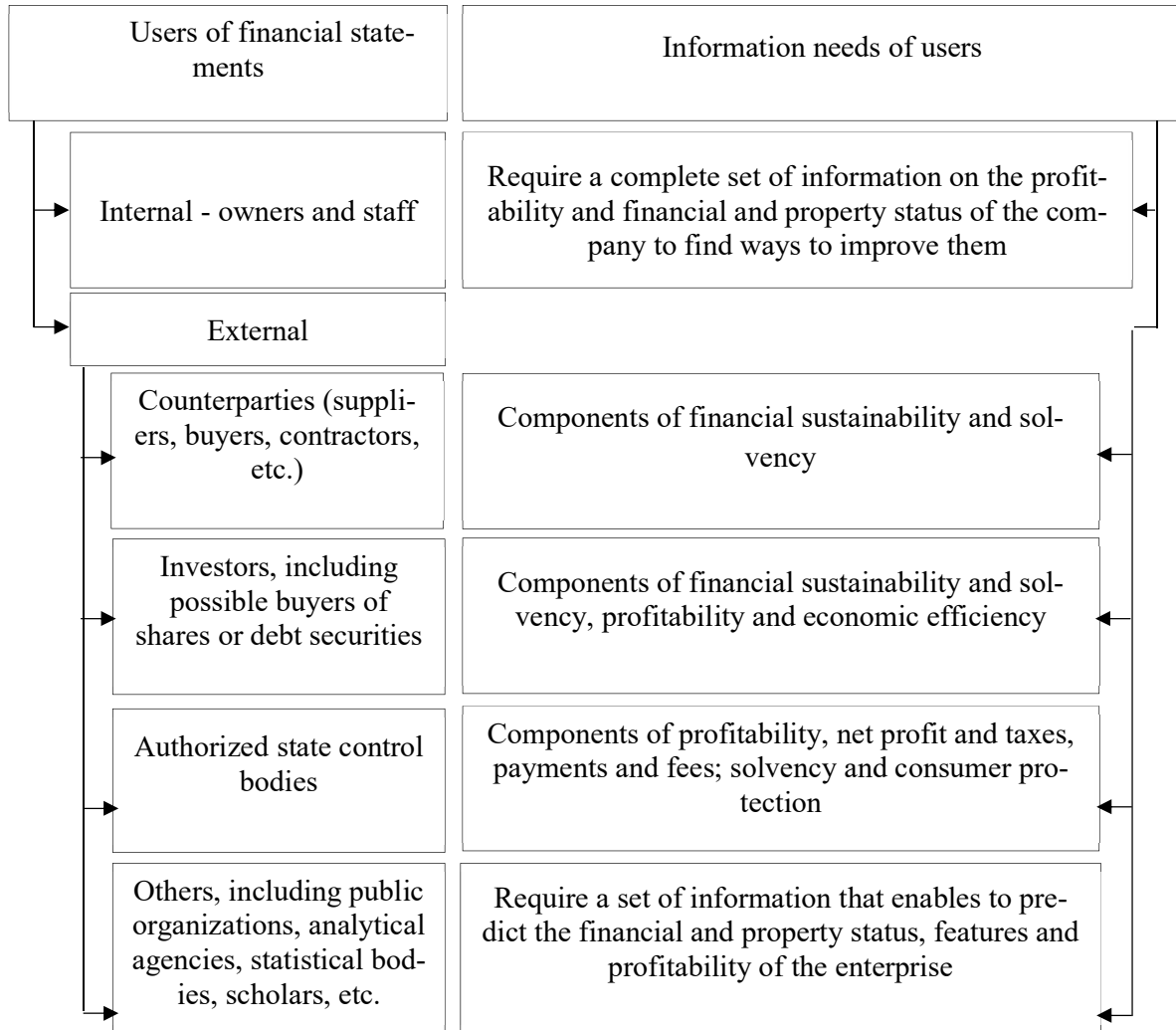
To determine the essence of financial statements as an economic category, we will analyze the main existing approaches in the basics of the regulatory control of accounting in Ukraine and in the world, the works of key domestic theorists of accounting and foreign scientists (Table 1).

**Table 1**  
The concept of reporting in the economic literature and basic legal acts

Item No.	Author	Interpretation (description)
1	2	3
1	Law of Ukraine "On Accounting and Financial Reporting in Ukraine"	Financial statements are reports containing information about the financial condition and results of the enterprise activity (Legislation of Ukraine, 1999)
2	International Accounting Standards Board	General purpose financial statements ("financial statements") are reports intended to meet the needs of users who cannot require an entity to report in accordance with their information needs (Legislation of Ukraine, 2013a)
3	Ministry of Finance of Ukraine (NP(s)BO 1)	Accounting - reporting based on accounting data to meet the needs of certain users (Legislation of Ukraine, 2013b)
4	Kuzhny & Levvytska, 2010	Financial statements are a set of reporting forms approved in the prescribed manner, which combine a complex of systematic indicators that fully characterize the production, financial and economic activities of enterprises for the relevant period (Kuzhny & Levvytska, 2010)
5	Butinets, 2005	Accounting is a set of indicators of accounting reflected in the form of determined tables, which characterize the movement of property and financial position of the enterprise/institution in the reporting period (Butinets, 2005)
6	Paliy, 2008	Accounting is a set of indicators for the implementation of planned tasks and results of economic activity for the reporting period, obtained in accounting and other types of record keeping (Paliy, 2008)
7	Sopko & Parkhomenko, 1993	The accounting statements are a system of generalized indicators that characterize the results of the enterprise's economic and financial activity for the previous period (month, quarter, year) (Sopko & Parkhomenko, 1993)
8	Murphy, 2019	Financial reports are written notes that characterize business activities and financial performance of a company (Murphy, 2019)
9	Analytical host	Financial statements are the reflection of financial results and related information to management and external stakeholders (such as investors, clients, regulators) about how a company operates over a certain period of time (Host Analytics, n./d.)
10	Bragg, 2018	Financial statements are a way to publicize financial results of an organization. This reporting is a key way to carry out control functions that can help in dealing with investor relations in their public part (Bragg, 2018)
11	M. Rouse	Financial reporting is the process of obtaining data that reveals the financial position of an organization to management, investors and government (Rouse, 2013)
12	Business Dictionary of Cambridge University	Financial statements are a set of documents that reflect the financial position of the company at the end of a particular period of time, including how much profit or loss it has got (Cambridge Dictionary, n./d.)
13	Business Dictionary of Online Finance	A set of documents that are usually prepared by state authorities at the end of the reporting period (Business Dictionary, n./d.)

Source: developed by the author

As can be seen from Table 1, we can distinguish between two approaches: in the definitions formulated by some scholars (4-7) the emphasis is on a set of indicators which serve the basis of the reporting, while other accounting practitioners and theorists (8-13) focus on the functions of the public demonstration of financial and property status. However, all approaches determine that reporting is an established set of data that is intended for a wide range of users. Users of financial statements are all participants in the market, financial relations, management, but their needs and ways of using information differ. In any case, it is the information of public financial statements that is the basis of most statistical data in the economy, analytical market reviews, specialized forecasts, which are used to identify and plan the position in the market. In the process of managing, enterprise managers use not only their own accounting information, but also the data of other market participants, which determines the diversity of their information needs (Fig. 1).

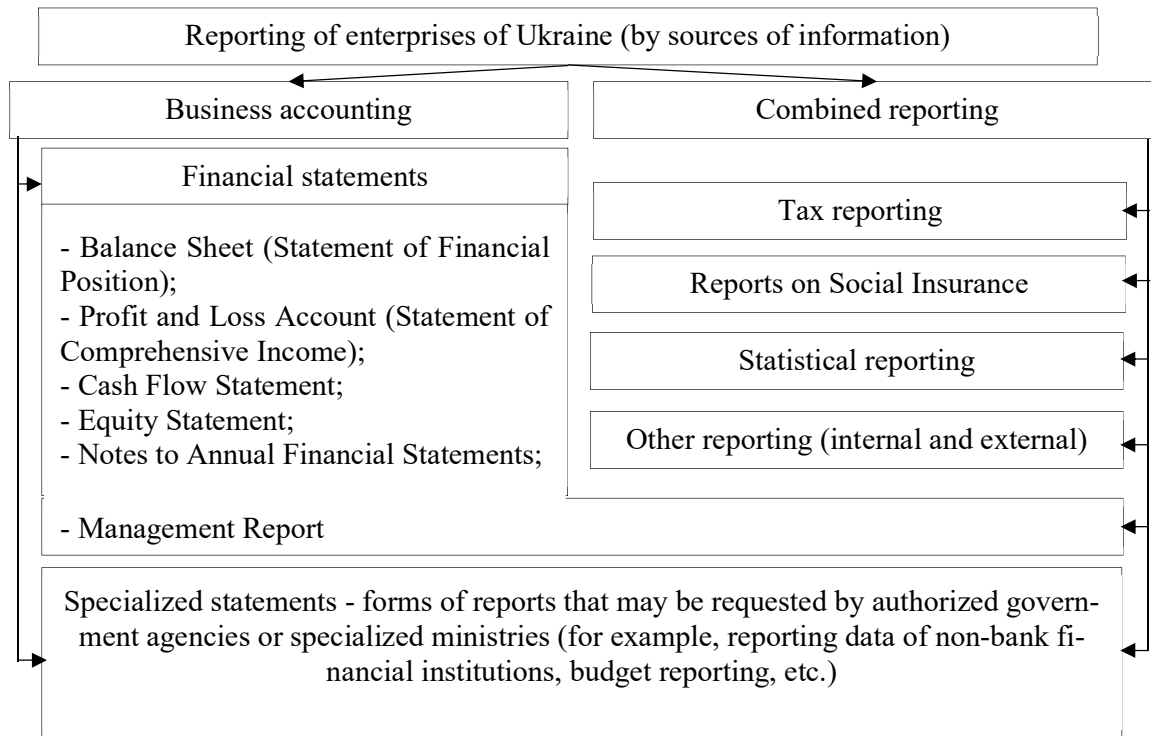


**Fig. 1.** Information needs of users of financial statements

**Source:** developed by the author

The figure shows that the users' needs vary somewhat, but are mostly satisfied by one complex package of financial indicators. Of course, the degree of disclosure in the financial statements is high enough, but they contain only public data that does not constitute commercial, technological or other secrets. However, in some cases, for example, in terms of controlling wage relations at an enterprise, the accounting information reflected is not enough. Accordingly, for these purposes, there are other types of reporting

that are not financial, but based on the same sources of indicators: data of business, tax, statistical and personnel accounting, which can be considered as combined reporting (Fig. 2).

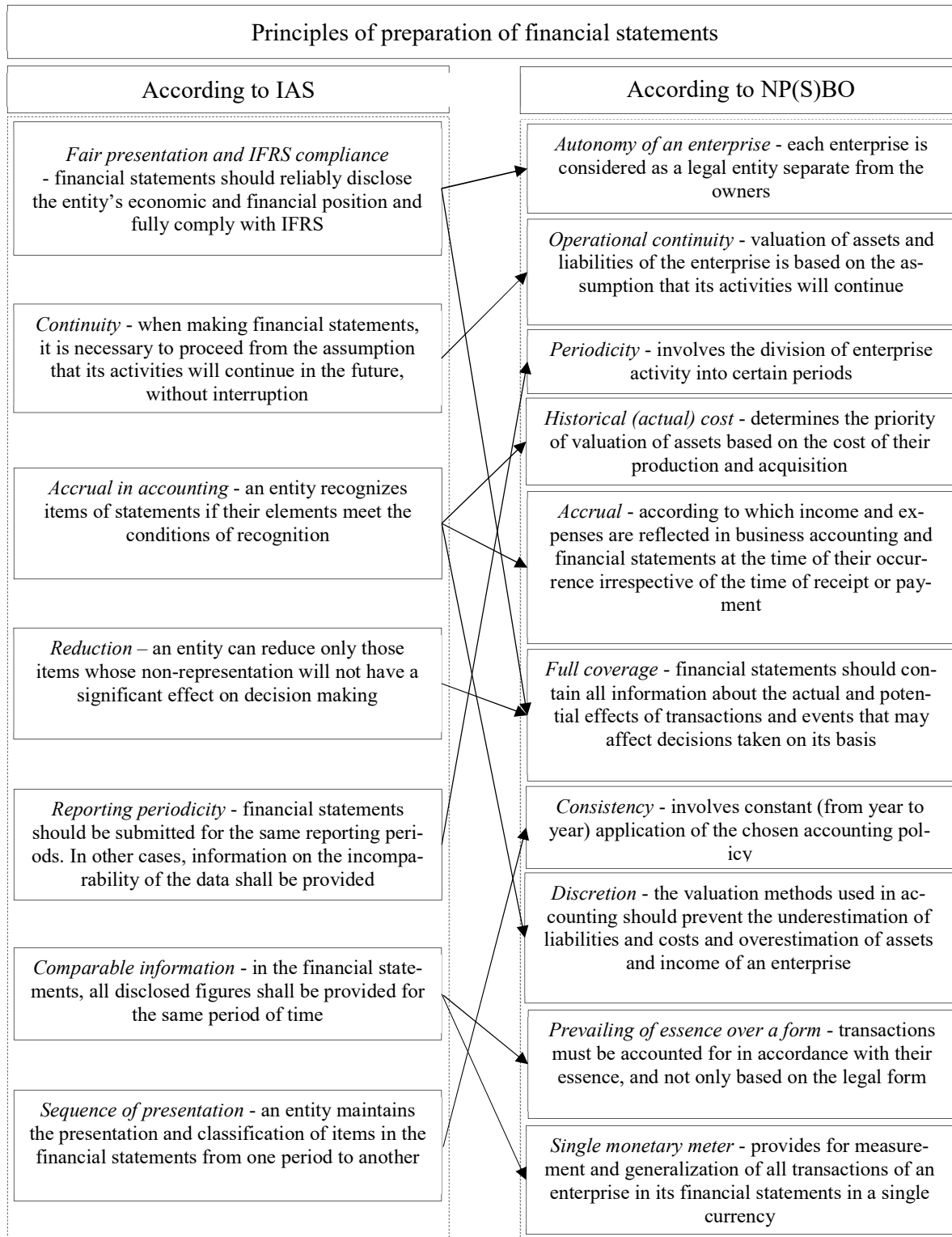


**Fig. 2.** Composition of reporting of the enterprises of Ukraine

**Source:** developed by the author

The financial statements of Ukrainian enterprises are prepared on the basis of the requirements of the national accounting standards (P(S)BO) or International Financial Reporting Standards (IFRS)). In the world practice, the US Generally Accepted Accounting Principles (GAAP) are also widely used. It should be noted that the main provisions of these standards are mostly coincident, which resulted from a long process of harmonizing their content and cooperation with the International Accounting Standard Board (IASB) and the US Securities and Exchange Commission (SEC). Until recently, two major global approaches to financial reporting have been fundamentally different: GAAP was a set of key principles being the basis for each country to develop its own accounting algorithms and accounting procedures for each individual block of typical business transactions, unlike international accounting standards (which were applied before IFRS), which described only the general methods of valuation of particular assets and liabilities and the conditions for their recognition in the accounting.

The Law of Ukraine "On Accounting and Financial Reporting in Ukraine" (Legislation of Ukraine, 1999) determines the basic principles of accounting and financial reporting, while allowing the application of a fundamental basis and other supplementing principles determined by international or national accounting standards, or national accounting standards in the public sector, depending on which of the standards is used by the enterprise. The National Accounting Standard 1 "General Requirements for Financial Statements" provides for a more detailed list of principles for the formation of financial statements of an enterprise. Directly in the text of IAS 1, the principles for preparing financial statements are not determined as concepts, but are set out thoroughly, consistently and clearly. Despite deriving of national accounting standards from international ones, certain differences in the above fundamental foundations are still evident (Fig. 3).



**Fig. 3.** Principles of preparation of financial statements

**Source:** developed by the author based on (Legislation of Ukraine, 1999; 2013a; 2013b; 2013c; EUR-lex, 2014)

It is evident from the above comparison that Ukrainian standards are more focused on the preparation of financial statements, and international, in our opinion, - on the disclosure of qualitative characteristics and the content of financial statements.

Thus, despite the fact that the requirements of domestic accounting standards due to their detailed nature and consistency can provide a high level of quality and reliability of accounting information, it is still difficult to consider it a reliable basis for the management process of the enterprise, because it is not able to serve the achievement of management objectives because of its limited and regulated nature.

### **3. Results**

#### *3.1. Contents and types of reporting in terms of enterprise management*

The essence of financial reporting, which is determined through the prism of management, differs from the generally accepted approaches by shifting the emphasis from its content to the purpose. Having considered the approaches of scholars, practitioners and the content of accounting standards in details, we suggest that financial statements shall be understood as a set of indicators representing generalized accounting data in a form that fully satisfies the information needs of its users in the process of managing economic activities.

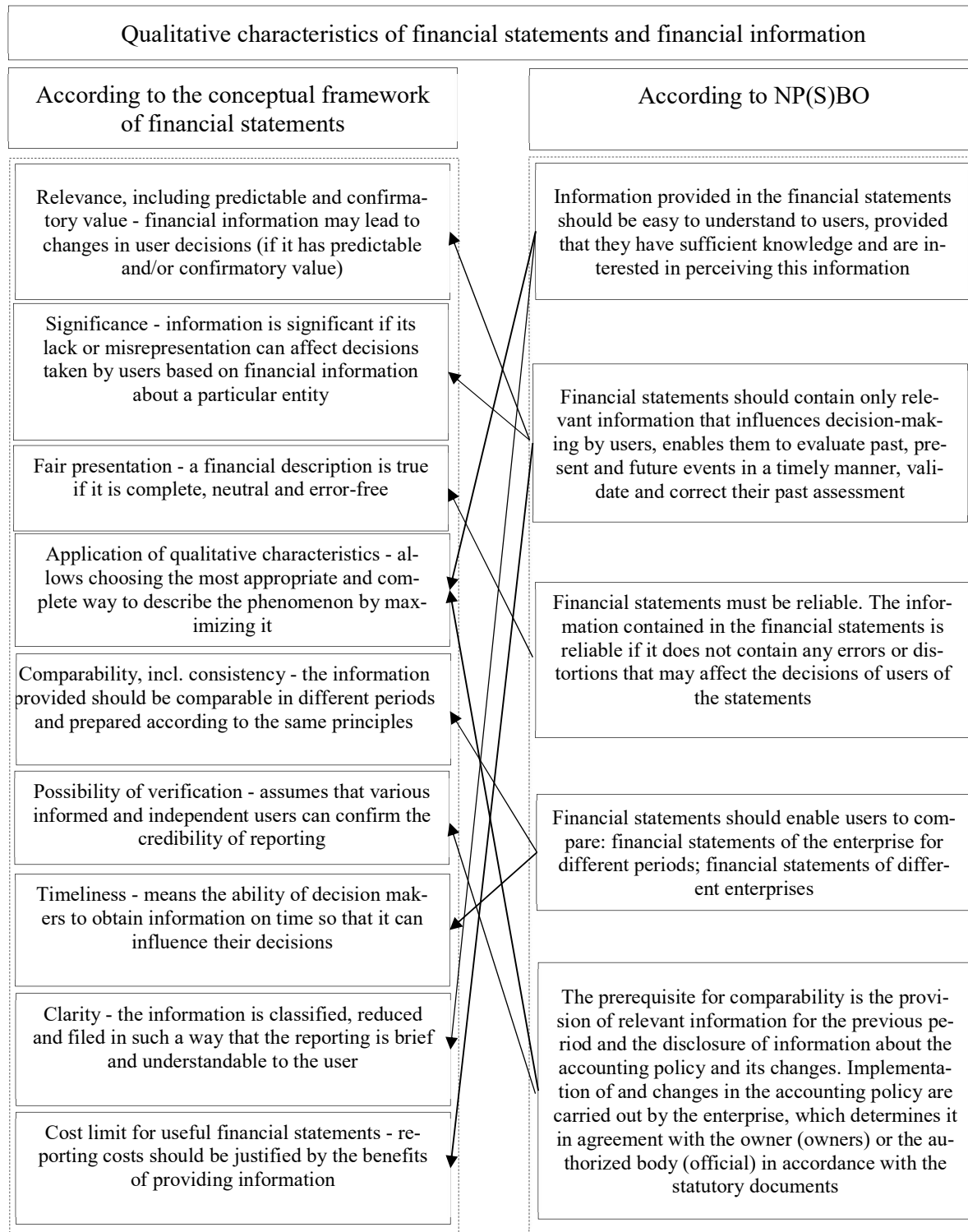
#### *3.2. Qualitative characteristics of modern reporting and accounting information*

The accounting system in Ukraine is constantly evolving and changing. So, according to the results of 2018, domestic enterprises submitted the Management Report for the first time. This Report presents not only financial information, but also a non-financial component, including a description of the risks and difficulties of activity.

In our opinion, this Report will create the prerequisites for bringing the quality of financial statements in Ukraine closer to the level of foreign partners as it enables business owners to identify risks and prospects of activity. When making financial statements and preparing its public version, managers from major European or US companies work on completeness, informativeness and even the design of the version. The financial statements of large companies are their summary, describe their achievements, present all aspects of the activity and results of financial analysis, unlike Ukrainian enterprises, which only provide digital data, and the descriptive part mainly contains only the minimum necessary information required by the regulators. Accordingly, Ukrainian entrepreneurs themselves refuse to present their own business from the perspective which would be beneficial and promising in the system of further formation of economic ties. At the same time, it is necessary to take into account the peculiarities of the regulation of the composition and forms of reporting in Ukraine and its main differences from international practice, which, in many respects, predetermine its limited management functionality, even for certain reporting forms. Therefore, financial statements must, at least, meet the minimum requirements regarding the quality of information provided therein (Fig. 4).

The quality of the accounting information, in our opinion, implies its analytical content, timeliness and materiality. The regulation of processes and accounting systems at the enterprise serves as a prerequisite for the formation of qualitative accounting information, the essence of which is not limited by reliability and compliance with the legislation. Consequently, the legal and regulatory framework of accounting can serve as the basis for the development of information bases of management of the enterprise.

The quality of the accounting information is a fundamental prerequisite for the construction and functioning of an effective management system, since the data of accounting is the basis for evaluation of the current financial and property status of the enterprise, the dynamics and trends of changing certain parametric indicators. Accordingly, rational and effective accounting and internal audit systems are integral parts of the modern management system, and the information that emerged in this system is its foundation.



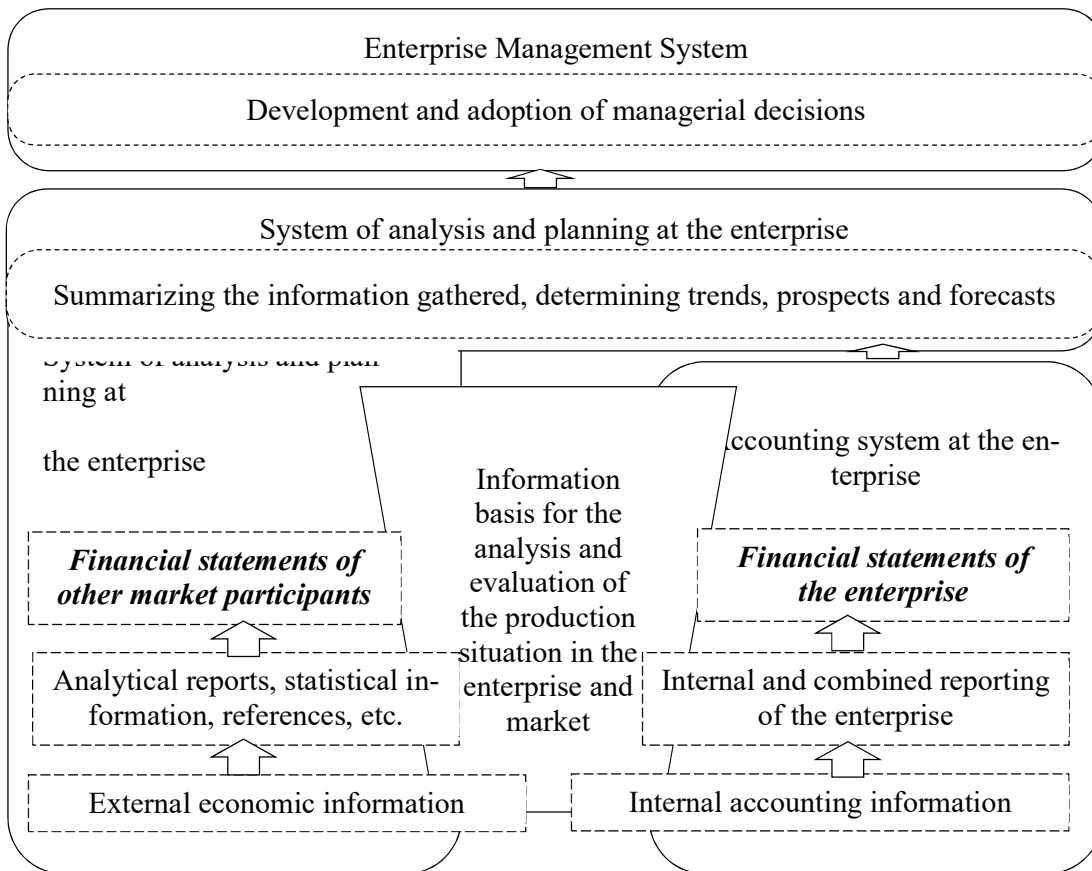
**Fig. 4.** Qualitative characteristics of financial statements

**Source:** developed by the author based on (Legislation of Ukraine, 1999; 2013a; 2013b; 2013c; EUR-lex, 2014)

### 3.3. The role of financial reporting in the processes of enterprise management

If the financial statements are prepared in a qualitative way, taking into account the prospects for the development of the enterprise and the needs of its management, data of not only financial statements of

the enterprise itself, but also of external actors can be an informational source and basis for making managerial decisions (Fig. 5).



**Fig. 5.** The role of financial reporting in the process of making managerial decisions

Source: developed by the author

On the one hand, the existence of detailed regulation of the composition of statements and control system over the reporting system can create the prerequisites for ensuring the quality of accounting information in the system of business management, on the other hand - insufficient information freedom can limit even the competitiveness of Ukrainian enterprises at the international level, since financial reporting is a peculiar a form of transnational business communication and enterprise presentation.

The list of reporting forms compiled by enterprises in all countries that apply the IFRS is approximately the same, since it is determined by the content of the standards themselves. However, their accounting content may vary significantly due to different methods of valuation of assets and liabilities, differences in tax legislation, national accounting instructions, etc. Thus, in Ukraine, a liability is recognized in accounting if its valuation can be reliably determined and there is a probability of decrease in future economic benefits as a result of its repayment. International accounting standards state that an existing liability is recognized even under uncertain conditions, if, in the owner's opinion, it is rather likely than impossible. A similar situation is also observed in the time of recognition of costs, security, deferred income. That is, the application of IFRS gives the opportunity to form a more reliable picture of the level of financial autonomy and sustainability of an enterprise, since it allows the inclusion in the liabilities of not only actual security, but also security with a high probability of recognition in the near future and which have a significant amount.



The inflexible system for regulating the form and the list of financial reporting indicators used in Ukraine has its advantages. It is easy to read and compare; so that the manager can compare the financial and property status of his company with competitors or the averaged values of the market. When applying single reporting forms, it is much easier and more convenient to draw analytical conclusions about the state of the country's economy, its separate segment or group of companies. For example, we can compare the content of annual financial statements of two enterprises of the same industry: Ukrainian and transnational. We have been selected the reporting of Automobile Company Bogdan Motors Private Joint Stock Company (Automobile company "Bogdan motors", n./d.) and Toyota Motor Corporation (n./d.). The financial statements of the domestic enterprise are prepared according to international standards, but taking into account the national standards in force, and include 5 main forms (see Fig. 2) and Notes to Annual Financial Statements in accordance with international standards applying simple and consolidated indicators. The reporting of a transnational corporation whose parent company is based in Japan is translated into English and has three major sections: financial results and status (a set of indicators that characterize the dynamics and structure of revenues and profits, as well as their forecast), the rationale and features of accounting policies (a brief description of business practices that affect the content and indicators of financial reporting or accounting), and the main forms of financial statements and annexes thereto. That is, structurally analyzed reports are similar, but their content is significantly different.

Any financial statements allow forming a general idea of the financial and property status and profitability of the enterprise. By studying Toyota Motor Corporation's financial statements, the investor may additionally get an idea of the main sources of revenue, their dynamics, the main trends and forecasts, risks and features of the activity. In this way, the management of the corporation can, when making the statements, cover exactly those essential aspects and performance indicators that can create the appropriate idea of the relevant users about the company. After studying the financial statements of Automobile Company Bogdan Motors, it is not possible to obtain additional information apart from the basic elements because its text, that is, arbitrary content, covers the peculiarities of the application of accounting standards and ratings. Accordingly, instead of using the reporting information potential, it is overloaded by generally well-known information. Under the same typographic conditions, the Toyota Motor Corporation's financial statements comprise about 30 pages, Bogdan Motors Automobile Company - over 80. At the same time, the informativeness of reporting of the international corporation is, in our opinion, much higher. Therefore, when preparing financial statements according to international standards, managers of domestic enterprises have the opportunity to form or, at least, to adjust the idea of users about the financial and property situation, thus creating their own reputation capital. Managers of the company, reflecting additional elements of financial information, describing the risks and trends that can influence the financial attractiveness of the business, which further increases its value as a brand.

Of course, the composition of the information presented is in no way able to affect the indicators themselves, the level of financial reliability of the enterprise or its profitability. But, choosing the elements of accounting information for disclosure, the manager can focus on the strengths of the company, its promising aspects, offer forecasts of profitability for investors or product development for buyers. Accordingly, financial statements can become for Ukrainian enterprises a tool for creating reputation capital in the international market, provided that their content is regulated exclusively by international standards, and accounting services will not be required to blindly list the objects of accounting. Under such conditions, the accounting information will become not only the information basis of management, but also a means of forming the business image of the company.

In our opinion, strict regulation of the sections of financial reporting, the list of indicators, as well as the content of explanations is a false way of developing the accounting system in general. With modern means of automating the registration of business transactions and processing of accounting information, as well as the growing role of analytical generalizations and forecasts, accounting should become integrated, complex and go beyond the post factum presentation of completed processes. Accounting should become an analytical management tool implemented in the form of financial statements (interim and

annual), which reveals not only the financial and property status of the enterprise but also serves as a business summary. To do this, it is necessary to abandon the practice of using standardized reporting forms leaving only the structure and basic structural elements typical for comparative purposes and to spread the culture of forming presentation, informative text and descriptive parts containing the results of analysis and forecasting, rather than blindly copying elements of national accounting standards, as it is now.

#### 4. Discussion

We have considered typical approaches to determine the nature of financial statements in Table 1. Most scholars agree that the main purpose of financial statements is to meet the needs of its users (Al-Kassab et al., 2014; Aversano & Christiaens, 2014; Noaman et al., 2018; Perkhofer et al., 2019). Particular attention in these studies is paid to financial statements as a way to visualize the financial and property status and trends of future development for management purposes. In particular, a group of scholars from Austria and Germany (Perkhofer et al., 2019) studies ways to rearrange information, including financial reporting data, experimentally. Studying the role of financial reporting data in traditional management, a group of scholars (Noaman et al., 2018) distinguishes their mandatory characteristics by grouping them by the following areas: recognition and measurement (assessment), disclosure, efficiency of information, accountability, ease of understanding (descriptive nature). Consequently, the financial statements were considered as an element of the management system from different positions, but its role and potential, in our opinion, remained underestimated. By providing sufficient prerequisites for the quality of accounting information, the management system generates a series of characteristics and requirements for financial reporting, which it must meet for the purposes of effective management. Such requirements may be limited by the provisions of regulatory acts, but may also be much wider (Table 2).

**Table 2**  
Characteristics of the accounting statements

A group of features	Characteristics (according to the relevant features)	Meaning of features
1	2	3
Regarding space and time	Consistency	Permanent (from year to year) application of the chosen accounting policy
	Continuity	Valuation of assets and liabilities of an enterprise is based on the assumption that its activity will continue
	Periodicity	Possibility of dividing the enterprise's activity into specific periods of time for the purpose of making financial statements
	Obligation	Reporting is compulsory for all business entities without exception
	State regulation	The composition of the reporting, its forms, terms of submission, etc. is the sphere of exclusive state regulation (in the volumes specified by the authorized bodies)
Regarding users	Timeliness	Promptness of submission of accounting information in a generalized form to meet the managerial needs and needs of external users
	Credibility	Information should be provided without any significant deliberate or random distortions
	Completeness of coverage of information	Financial statements should contain all information about the actual and potential consequences of business operations and events that can affect decisions made on its basis
	Comparability of indicators	The use of an optimal methodology for calculating indicators that will enable them to be compared over time, in a competitive environment and within the same form
	Simplicity and clarity	The structure and indicators of reporting should be easy to understand to the trained user and should not cause any additional questions
	Ease of understanding and publicity	Some forms of reporting are public information and do not constitute commercial secrets (accordingly, are subject to publication in specialized journals)
	Rationality	Forms of reporting must be logically structured
	Cost effectiveness	Reporting costs should be economically feasible and should not exceed rational limits and possible returns
	Impartiality	The reporting indicators should not reflect the personal forecasts of management
	Autonomy	Each enterprise is considered as a legal entity, separated from its owners
Regarding the method of drawing up forms	Methodological unity of calculation of indicators	An entity applies a single methodological approach to reporting indicators
	Prevalence of content over a form	Transactions are accounted for according to their content, and not only based on the legal form
	Historical (actual) cost	The priority is to evaluate the assets of an enterprise based on the costs of their production and acquisition
	Single monetary meter	Measurement and generalization of all business operations of the enterprise in its financial statements is carried out in a single currency
	Prudence	Applying methods of valuation in the accounting which should prevent the underestimation of liabilities and costs and overestimation of the valuation of assets and income of the enterprise

**Source:** developed by the author based on (Legislation of Ukraine, 1999; 2013a; 2013b; 2013c; EUR-lex, 2014)

The above list of characteristics is not exhaustive and contains the main, in our view, parameters that the financial statements must meet as an effective management tool. Significance of financial reporting in management processes is emphasized in the world scientific community (Aversano & Christiaens, 2014; Baret & Helfrich, 2019) also from the standpoint of its users: the managers of the company act as the main analysts of financial statements, both their own and counterparties'.

## 5. Conclusion

In the course of the research, it was found that from the management's point of view, financial statements can be defined as a set of indicators that represent an aggregate of indicators that fully satisfies the information needs of its users in the process of managing economic activities. The totality of enterprise reporting is not limited to financial and includes a number of combined reporting forms, however, it is the financial statements that serve as a fundamental basis of information provision for enterprise management.

Users of financial reporting are all participants in the market, financial relations, management, but the needs and ways of using information are different. In any case, it is the information of public financial reporting that is the basis of most statistical sections in the economy, analytical market reviews, specialized forecasts, which are used in identifying and planning the company's own position in the market. In the process of management, enterprise managers use not only their own accounting information, but also the data of other market participants thus determining the diversity of their information needs, which are analyzed in detail in this research paper.

Financial statements as a management tool allow analyzing financial and property status, compare it with other market participants, characterize and select suppliers, assess the reliability of buyers, etc. But the main thing is a modern way to properly present your enterprise, provided that all information potential of financial reporting is disclosed, including the text and descriptive parts thereof.

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