

## INTERNAL REPORTING EDUCATION IN THE INFORMATION AGE

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### ABSTRACT

*As businesses are entering into the E-Business Age of competition, it has become more and more important that managers receive information in their internal reports that is readily useable for decision-making upon receipt. No longer is it enough that data which concerns business transactions are captured, stored, processed, and quickly reported to management. The information, whether accessed on line or presented in document form, must be presented in such a manner that the reader can easily infer major points and distinctions that will aid in the decision-making process. The major question to be answered by this study concerns the education or training in internal reporting that business students receive in the managerial/cost accounting and accounting information system courses that they are being required to take. More specifically, is this important topic being properly presented in the textbooks that are in use in these courses? A review of the rules for preparation and presentation concerning internal reports in these textbooks reveals that this important topic is sorely underemphasized. In many of the texts, examples of internal Reports are so poorly done as to literally educate students in how to prepare them incorrectly.*

## INTRODUCTION

As we enter the twenty first century, the need for managers to have information in a timely and useable manner has become more and more paramount. With the advent of such management techniques as Just-In-Time (JIT), managers no longer have large inventory cushions to provide them added time within which to make their decisions or to provide them insurance when they have made an incorrect one. Their decisions must be made in a timely manner with little time for mulling over the situation.

When managers receive information from the accounting information system, it must be timely and be presented in a clear and concise manner that is easily understood. It is the responsibility of the accountants who are preparing the internal reports to be sure that they are timely and can be readily absorbed by the reader. The reader on the other hand must have the knowledge to be able to read these reports and to be able to interpret them. But where do accountants and managers obtain the knowledge that they will need to be successful in either preparing or using these reports?

In College of Business programs throughout the United States, it is quite common for all majors to take principles of Financial and Managerial accounting courses. In the Financial Accounting course, students learn the basics of accounting and the makeup of external reports. While the Financial statements in a stockholder report contain much valuable information, the focus of the statements is inappropriate for the internal decision making process. The needed information must come from Internal Reports.

It is in the Principles of Managerial Accounting course where such knowledge should be presented. Such topics as Responsibility Accounting and Internal Reporting should be presented in this course. Other courses that might broach these subjects are the Management Information Systems course, the Cost Accounting course, and Accounting Information Systems course. But are these important topics being adequately covered in our College of Business curriculum?

The purpose of this study is to assess the textbook coverage of Internal Reporting in Cost and Managerial accounting, and Accounting Information Systems textbooks. The study concentrates on the textbook coverage of five important topics in an effort to determine if they are being covered in a sufficient manner to provide our managers and accountants of tomorrow with the knowledge that they will need in order to be able to properly prepare or read Internal Reports. Topics to be reviewed include: 1. Responsibility Accounting, 2. Performance Reports, 3. Level of Detail, 4. Report Construction Rules, and 5. Coding.

The content of six Managerial Accounting textbooks, two Cost Accounting textbooks and six Accounting Information System textbooks are examined with regard to the concepts concerning Internal Reporting. Do the texts present an appropriate level of detail and the scope of the coverage that must be contained in properly prepared Internal Reports? Do the texts cover the content of a properly prepared report title? Unlike Financial Statements, the mention of a type report, Income Statement, for example, brings to mind a specific report as to content, scope of coverage, and structure. An Internal Report, on the other hand may vary widely as to content, scope of coverage, and structure. This study also examines the presentation format of Internal Reporting In Cost and Managerial Accounting textbooks to determine if the authors are providing clear and

concise detail with respect to the preparation and compilation of Internal Report or if it is simply being done in a haphazard manner. The Accounting Information System textbooks are examined to determine if they contain information concerning the proper structure of an accounting system in order to be able to provide the needed data/information for the preparation of the reports.

## TEXTBOOKS

Three courses that should provide the necessary information for business student to learn to prepare Internal Reports correctly and/or to interpret them for decision making are the Principles of Managerial Accounting or Managerial Accounting course, the Cost Accounting course, and the Accounting Information Course. Books for all three courses were selected. In the case of the two cost accounting text, the Horngren, Foster and Datar, and the Carter and Usry books have been leaders in the field for decades. The Carter and Usry book is in its 12<sup>th</sup> edition while Horngren, Foster, and Datar book is in its tenth edition. In the area of managerial Accounting, leading texts reviewed include the Folk, Garrison, and Noreen, and the Weygandt, Kieso, and Kimmel books. The Folk text is in its ninth edition and the Weygandt text was chosen for its newness. In the area of Accounting Information Systems, the Bodnar and Hopwood, and the Wilkinson text have been widely used for years. Other texts were chosen either because of their newness or they were simply available to the authors.

## ANALYSIS

A summary of the analysis of the texts is shown in Table I. The textbooks were reviewed to see if they contained presentations on the various topics concerned with Internal Reporting Education. In each slot, a T, M, or O has been reported. The T stands for a thorough presentation of the topic. If an M is placed in the slot, it indicates that the topic was just mentioned, and an O means no mention at all.

Insert Table I about here

## RESPONSIBILITY ACCOUNTING

Any discussion of Internal Reporting should start with the concept of Responsibility Accounting. Internal Reports are prepared normally to evaluate performance for a particular segment of the business and as a result, a particular manager. It would be inappropriate to prepare a report that contained information about a factor that the segment manager had not ability to control. Thus, where evaluation of a manager is involved, items over which the manager has no control should not be included in the report or should be appropriately labeled as not controllable by the manager.

As can be seen in Table I, this topic was at least mentioned in almost all the Cost/Managerial Accounting and Accounting Information Systems text books examined. However, in some cases, it was just mentioned.

There was not unanimity on how many different Responsibility center existed in a firm. Some said there were three Responsibility Centers, Cost, Profit and Investment, while others said there were four, Cost, Revenue, Profit, and Investment.

The depth of coverage in the Managerial/Cost Accounting textbooks varied. In the Horngren Cost book and the McWatters Managerial text, there was little more than a mention of this important concept. In the Weygandt, Carter, and Hilton texts, the Responsibility Accounting concept was discussed in a much more thorough manner. For example, in the Weygandt text, there was an entire chapter dedicated to this important concept.

The coverage also varied widely in the Accounting Information Systems texts. In the Gelinas text it was not mentioned at all while there was extensive coverage in the Hall, Wilkinson, and Bodnar texts. Responsibility Accounting was only briefly mentioned in the Moscovice and Romney textbooks.

## PERFORMANCE REPORTS

Again as seen in Table I, seven of the eight Managerial/Cost Accounting books and five of the six Accounting Information Systems textbooks mentioned or presented information about Internal Reports. Again the scope of the presentation varied widely for both categories of textbooks. In some texts, there was no mention of Internal Reports while in others, there was an extensive presentation.

In the Managerial/Cost Accounting textbooks, the McWatters book was the only one that did not mention Internal Reports under any title. Of the seven that presented information about Internal Reports, the presentations varied widely. For example, in the Horngren text, there was a poor sample of a Performance report in the first chapter. A report was presented that contained numerous errors to the title and basic presentation of information. Later in the Horngren text there was a request for the preparation of a Performance Report in one of the problems without any prior instruction on how to prepare one properly. This contrasted with the Weygandt text that had a coordinated presentation showing the three different types of Internal/Performance Reports that would be appropriate for the different Responsibility Centers. In addition, this text presented a list of Principles to followed in the construction of Performance Reports.

The Accounting Information Systems texts were no different. The coverage varied from no mention at all of Internal Reports in the Gelinas text to an extensive coverage in the others. In many Accounting Information Systems texts, the Internal Report that were shown were poorly constructed with numerous flaws in the titles and the bodies of the reports.

## LEVEL OF DETAIL

For any properly prepared Internal Report, it is necessary to present the appropriate level of detail to the manager receiving the report. In only four of the Managerial/Cost Accounting texts examined are there any presentation to show students how the reporting scheme is tied together and the level of detail that would be appropriate for each level of management. Only in the Carter, Hilton, Weygandt, and Garrison texts

are presentations made to demonstrate this important concept. In four of the six Accounting Information Systems texts, the Level-of-Detail was discussed. In addition, examples of the type of information to be contained in the report were presented in those texts.

For any manager, the appropriate level of detail is important. At the presidential level, the company CEO needs data that is highly summarized while at the front line supervision level, the supervisor needs very detailed information. The CEO would look at the company income statement while the frontline supervisor would need a report in detail that analyzes the type of material used by product. If the CEO were to receive a report like that, that individual would be inundated with a level of detail that would hinder the decision making process.

## RULES

A properly prepared Internal/Performance Report does not just happen. While this topic is presented in Cost and Managerial Accounting books, most of the texts do not present guidelines or rules for their preparation to help and individual prepare one and/or interpret one. It would be helpful if the authors of these texts would put together some basic rules or guidelines concerning them. In the Managerial/Cost Accounting and Accounting Information Systems texts that were reviewed, only three had presentations concerning the rules or characteristics of a properly prepared report. In the Managerial/Cost Accounting texts, only the Carter and the Weygandt texts presented rules or guidelines so that the student could learn in an organized manner how to prepare or what makes up a good Internal Report.

In the Weygandt text, there are five statements on how what makes a good Internal Report. Internal Reports: (1) should identify the controllability of a particular expense; (2) they should provide accurate and reliable information; (3) they should highlight significant differences; (4) they should be timely; and (5) they should be prepared to the end user needs. The guidelines in the Carter book are similar. In the Accounting Information Systems texts, only the Hall book presents attributes of a well prepared Internal Report.

## CODING

Of the eight Managerial/Cost Accounting books reviewed, none tried to tie the information required in an Internal Report with the coding necessary. In the six Accounting Information Systems texts, coding was mentioned in all of them. However, four of the coding schemes shown were strictly for a Financial Accounting system or made no mention of internal reporting. Only two of the texts, the Wilkinson and the Hall texts, made an effort to incorporate internal reporting in their discussion of accounting transaction codes.

If accountants are to prepare Internal Reports, the information has to come from somewhere. While it is not the intent of the authors that Costs and Managerial texts should become Accounting Information Systems texts, some mention of this topic should be made. It is not enough to show the level of detail or to mention the company

organization chart. The proper coding of transactions as they occur is the key to the preparation of Internal Reports. Without the proper coding scheme, you have a GIGO system for internal reporting.

## SUMMARY AND CONCLUSIONS

The concept of Internal Reporting is one that should be of importance to Costs and Managerial Accounting textbook writers as well as Accounting Information System textbook authors. It would seem from our examination, particularly for the Cost/Managerial Accounting texts, this is a neglected topic. The Accounting Information System authors seem to do a better job, but even some of them fall into the Financial Accounting trap of building accounting systems only for external reporting. Accounting students are not being served well by the Cost and AIS texts within important areas.

While most of the Cost/Managerial Accounting authors pay lip service to Responsibility Accounting and Reporting, for the most part, they do little more than mention the topic. It will do no good if the accounting system supplies internal reports, if the receivers can't read them. The result is to poorly educate our students in this most important topic. The idea that there are basic and commonsense rules for the preparation of these reports is ignored for the most part. Most authors educate students to the fact that there are no GAAP rules when it comes to Internal Reporting. The Carter and Weygandt texts do a better job than most in this area. However, they still ignore the concept of coding. There is room for important

Table I  
 Analysis to Determine Inclusion of Internal Reporting Topics

TEXT	ACCOUNTING	REPORTS	DETAIL	RULES	CODING
<b>COST</b>					
CARTER	T	M	T	T	O
HORNGREN	M	M	O	O	O
<b>MANAGERIAL</b>					
FOLK (GARRISON)	T	M	T	O	O
HILTON	T	M	T	O	O
JIMBALVO	M	M	O	O	O
MCWATTERS	M	O	O	O	O
WEYGANDT	T	T	T	T	O
ZIMMERMAN	T	T	O	O	O
<b>AIS</b>					
BODNAR	T	T	M	O	M
GELINAS	O	O	O	O	O
HALL	T	M	T	T	T
MOSCOVE	M	M	O	O	M

ROMNEY	M	T	T	O	O
WILKINSON	T	T	T	O	T

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