

# Business Accounting – Its Transitional Phase Amidst the Changing Realities Of Modern Day Business Environment

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## 1.0 Introduction

Business Accounting is one of the most crucial aspects of modern business. Proper accounting or record of business activities is what, it aims for. Proper business accounting has a great social worth too because society has an ethical right to know about various activities of the business, after all, it is the society which gets influenced most by business activities. It is quite an interesting contrast when objectives of a firm are viewed from two different angles of finance and economics. Profit maximization v/s wealth maximization objective of a firm is a well known debate in modern business literature, however, modern business management thinking supports later one. From the point of view of the economics, profit maximization suffers certain limitations because blind faith on it may lead to the promotion of black marketing and anti social and anti national activities in business.

It is often said that business cannot be earned in moral vacuum. Morality and ethics are a must to label an earning as profit. In present circumstances, the issue of ethics and morality has gained significant importance in corporate world because number of variables governing the function of morality and ethics in business has surpassed all limits of the past. Business accounting techniques were developed at a time when no one gave a heed to the aspects of environmental conservation as it was not as serious a concern as it is today. Today we cannot think of overlooking these issues in business accounting. Present paper is a humble effort to throw some light on some such aspects of changing phase of business accounting.

## 2.0 Accounting: its traditional features

Conventional system of accounting is all set to undergo sea change in coming times. In fact the business accounting has already started to experience the pressure of widening its horizons to encompass the changes of far reaching impact taking place in the way modern business is being conducted across the globe. "Virtually all commercial enterprises have some form of accounting function. Accounting has become the universally adopted system of communicating economic information relating to an organization and its activities. The notion of accounting however is far from being a new phenomenon. Accounting records dating back to ancient civilizations have been located, including building accounts for the Parthenon in Athens which have been found on marbles tablets. Similarly, ancient Greeks records exist illustrating an early form of stewardship accounting known as 'charge and discharge accounting': charge representing the amounts received and discharge being the amount expended (de Ste Croix 1956). This system was further developed in Italy throughout the thirteenth and fourteenth centuries. The development included the practice of distinguishing between debt and credit entries and the use of two sided accounting entries. The origins of double entry book keeping system thus began to take form."<sup>1</sup>

Accounting is often referred to as the language of business. Various activities or actions of the business are reported to various stakeholders by means of accounting. It is further said that accounting is input for financial management. Accounting information has its own unique place in overall realm of business management as not only those directly related with business like managers, owners, suppliers, employees etc but also prospective investors view it as valuable document to base their investment decisions on. Accounting is classified into three categories namely 1) Financial Accounting, 2) Management accounting and 3) Cost accounting. Financial accounting helps in formulating financial statements on annual basis. It is historical in perspective and is mainly concerned with reporting with what has happened in the past (with business). A major disadvantage with financial accounting is often referred to as its incapability to include non monetary items or those items which cannot be quantified, in financial statements. For example, financial statements cannot reflect about the motivational level among the members of an organization. If profit is going down due to poor state of affairs as far as motivational level among employees is concerned,

financial accounting information is not going reflect on it or trace it. Financial accounting predominantly serves the purpose of external environment of the business.

Management Accounting is mainly concerned with internal information of a business organization. Its main aim is to provide support to management in decision making and also performance management. Here the focus is more tilted towards future rather than the past as in case of financial accounting. Cost accounting is sometimes considered as a part of management accounting. However, in modern business literature these two have attained almost independent status. The end product of cost accounting is valuation of goods produced which requires identification and attribution of costs etc.

### 3.0 Business now accounts for more

Above section of the paper presents a brief account of the features of traditional business accounting. A close scrutiny of traditional business accounting reveals that accounting is an attempt to prepare a summary of actions of business. Now the question arises that external environment of the business has undergone a sea change during last one century. Not only external but internal environment of the business is also witnessing fast changes. Automation of internal operations can be cited as an example. In such circumstances when rampant changes are taking place in external environment of business, it becomes self explanatory that now business needs to account for far more than it traditional used to do few decades ago.

According to Dean Davidson, National practice leader, “some aspects of the role have not changed, but what has changed is the nature and range of the ‘resource’ under our management. Our world used to be primarily about tangible resource measurement and reporting practices. The range of resources under our various control have broadened to the point where many principles- environment, sustainability- are now within our purview”. His concern is that profession stays ahead of the game and develops the skills, reporting and assurance mechanisms needed to maintain its leadership position as strategic resource advisor. “I think that is a real challenge that e have to keep our eyes on”<sup>2</sup>

Accounting is referred to as the language of business and language has lot to do with the environment. As environment of the business in which it operates is changing fast, its language- accounting also needs to be developed and modified so as to cope up with ongoing transformation in business environment across the globe.

“During the days of less population on earth, earth’s environment had its happiest days but as the number of human beings on earth increased, it became almost sure that happy day of earth’s environment are over. Developmental economists in the past least bothered to consider environment as a valuable input in overall decision making in relation to socio- economic development of mankind. In modern times the cost of product is not merely the cost involved in its production and supervision but also the cost of environmental degradation, it has contributed to. If an unbiased evaluation of world’s balance sheet and income statement is carried out then the head of environmental degradation alone will tilt the readings towards irreparable and irreversible losses. Nature has its own tolerance limit and man has already crossed it. The presumption that nature has infinite capacity to zero in the misdeeds of human beings is based on false notions. Even if nature attempts to achieve it, the day may come when population of human beings on earth will become zero.”<sup>3</sup> This excerpt from one of the papers of the writer is more than enough to suggest that modern business accounting now accounts for more. In other words business accounting is no more confined to debit and credit only, it encompasses much more than it. It has to report the humanity about the contribution of business units to harmful effects like global warming, ozone layer depletion and green house effect etc.

### 4.0 Emergence of new areas in business

Discussion in above section amply reflects that business accounting is all set to see a change in its appearance in years to come. In fact changes have already started to take place. New emerging areas like environmental accounting, responsibility accounting, social accounting & responsibility, energy accounting and human resource accounting are knocking at the doors of modern business accounting. Here author is presenting an excerpt from one of his own article- “Developments of far reaching impact are taking place in almost all walks of life. Discipline after Discipline and new areas of learning are fast emerging. There is an urgent need to study the pattern of all these developments so that future trajectory of knowledge becomes systematic and full of rhythm. In this endeavor, inter- disciplinary studies and approaches can do a wonderful job. Management as a ‘Discipline of Learning’ has inbuilt features which makes it a unique product of interdisciplinary approach. In this capacity of learning it draws valuable ideas from Economics, Math, Statistics, Accounting, Sociology, Psychology etc. In fact, management is an area of learning which has

linkages with all other disciplines of learning that exist today. The scope of subject of management is increasing and it's intermingling with other area of learning can be felt and experienced with the changes of face of business accounting. Business accounting of future will not be restricted to number or qualitative figures. A host of factors are going to have their due say in Business accounting of tomorrow. Human and environmental issues are gaining paramount importance in business and hence in Business Accounting. Balance Sheet and profit and Loss Accounts of future will not be confined to monetary terms, as these documents will include details about human capital, environmental conservation and other vital parameters related to human welfare. Human Audit, Energy Audit and Environmental Audit etc are the new emerging areas of Business Auditing and this auditing has some meaning only if its proper accounting has been done. Business accounting of future will be more humanistic and environmental friendly in nature. Emergence of Green Accounting and calculation of Green GDP of nations are developments of far reaching impact."<sup>4</sup> We can thus very well see that business management by nature is interdisciplinary and business accounting also follows the imprints of it as far as interdisciplinary character is concerned.

### **5.0 Issue of sustainability and its linkages with changing face of business accounting**

Sustainability is one of the most debated issues in business literature these days across the globe. If a business is not sustainable in nature, it is not worth calling it a business. Business Accounting will therefore have a responsibility of recording and reflecting this issue of sustainability in modern business. Last one century has seen peculiar changes in world geography. World's population has increased at an alarming rate. Moreover, this rapid increase in world population has not been uniform in all parts of the world. As a result some parts of the world are more severely hit with this phenomenal increase in world population. This stupendous increase in world population has also brought a change in the business equation of the world which now contains sustainability as one of the most important variable governing it. This phenomenal rise in world population has resulted in severe burden on environment. Environmental degradation has now emerged as assumed mammoth proportions and it is perhaps the biggest threat which humanity is facing today. Not only humanity the linkages of this development can be easily traced with business and its accounting. Modern business accounting must learn the art of properly reporting the sustainability character of a business so that appropriate policies to promote those businesses which are sustainable in nature and check those which are not sustainable in nature can be formed. " According to world development report 2003, in the next 30 to 50 years, the world population is expected to increase by 2 billion to 3 billion and this increase will almost be exclusively (97 Percent) in developing and transition economies. Moreover, this entire increase is expected to be in urban areas. The Report estimates that as many as 2 billion people will live in two areas that are difficult to manage."<sup>5</sup> One can ask how we can associate these developments in world population with business accounting. However, little thinking will reveal the linkages. In fact growing world population has changed the way business is being conducted across the globe. Around 100 to 150 years back world population was dominated by nations with agriculture being their main occupation. World population was also within manageable limits. However, sweeping structural transformations in world economy has resulted in shift from agriculture to non agricultural activities. The world economy has seen a systematic move from predominantly agrarian to the one based on manufacturing activities. "The share of agricultural sector in total product declined in all developed countries except Australia. In case of Great Britain, it declined from 22 percent in 1841 to 5 percent in 1955; from 42 percent between 82 to percent in 1962 for France; from 49 percent in 1879 to 9 percent between 1939-48 for United States; and from 63 percent between 1886-87 to 14 percent in 1962 for Japan. Thus by the end of the long periods the share of this sector in total product was less than 10 percent in the case of U.K, France, Germany, Netherlands and USA, while it ranged between 10 to 26 percent in Denmark, Norway, Sweden, Italy, Canada, Australia, Japan and USSR. On the other hand, the share of industrial sector rose to more than 50 percent by the end of long periods for Great Britain (56%), France (52%), and Germany (52%) Sweden (52%), Netherlands (51%), Norway (53%), Sweden (55%), and the USSR (58%), while it ranged between 22 to 49 percent for Italy (22%), Australia (30%), United States (42%), Denmark (48%), Canada (48%) and Japan (49%)."<sup>6</sup>

Spectacular rise in share of manufacturing sector in the GDP of various nations replacing agriculture which used to be the leading contributor to GDP has been an across the globe phenomenon. In an effort to produce goods in tune with the demands of increasing population, business firms have resorted to rampant manufacturing activities thus resulting in sever burden on environment. Traditionally, agriculture sector has been eco friendly if we exclude ill- effects like the ones brought about by 'Green Revolution' in India due to excessive use of pesticides and chemical fertilizers. However, growing population in almost all cities of the world can be largely attributed to unplanned and uneco- friendly techniques being used. Above

deliberations amply reflect that growing pollution across the globe is due to rapid population growth and a massive tilt towards manufacturing sector away from agriculture sector in world economies. All these developments have brought the issue of sustainability to the central focus. Emergence of areas like environmental accounting in business accounting is a testimony to growing emphasis on environmental conservation in business management. Environmental Accounting is true manifestation of growing significance of issue of sustainability and environmental conservation in overall functioning of modern business. Business accounting of modern times is half true and trust worthy if it fails to encompass sustainability and environmental conservation in its overall scheme of reporting business transactions.

### 6.0 Future of Business Accounting

Financial performance is just one aspect of business accounting but in real sense it is much more than it. Social responsibility is also an important aspect and it cannot be overlooked. As far as the measurement of financial performance is concerned, modern business accounting seems well equipped but when it comes to aspects like environmental issues and sustainability, it appears quite wanting. As far as environmental accounting is concerned “there are three basic principles which are generally regarded as underpinning to environmental accounting: 1) Sustainability 2) Accountability 3) transparency. Sustainability is concerned with the effects which actions taken in the present have upon the options available in the future. If resources are utilized in the present time then they are no longer available for use in future, and this is of particular concern if resources are finite in quantity. Accountability is concerned with an organization recognizing that its actions affect the external environment. It therefore implies the assuming of responsibility for the effect of those actions. This concept therefore implies a quantification of the effects of actions taken, both internal to the organization and externally. Transparency as a principle means that the reporting of the external impact of the actions of the organization can be ascertained from the organization’s reporting and pertinent facts are not disguised within that reporting. Thus all the effect of actions of the organization, including external impacts, should be apparent to all from using the information provided by the organization’s reporting mechanisms”<sup>7</sup>

Future of business accounting will depend on how well it accounts for the issue of sustainability in years to come. Issue of sustainability is in fact a broader term which will embody in it plethora of overlapping areas like environmental accounting, social responsibility, human resource accounting etc. one pleasant seems quite loud and clear in the manner future business accounting will be done and it is with due importance and weightage to man and its environment. Human capital and related issues have brought to fore the relevance and significance of human resource in modern day business. It appears that the most important resource of business in future will be human being and the entire orientation of business will become global in character. Business Accounting of future has to take care of all these developments of it has to report the business activities in a transparent and pragmatic manner.

### 7.0 Conclusion

It is quite apparent from the ideas put forth in this paper that business accounting is all set to experience sea change in years to come. It can no longer remain confined to debt and credit only. The changes of far reaching impact are on anvil and business cannot remain isolated and aloof from these developments. Perhaps the biggest factor which has necessitated such a change in business accounting is the fact that growing dimensions of the world business has assumed so mammoth proportions that it has put the entire earth’s environment on the verge of destruction. Severe damage to world’s environment has emerged as the biggest threat to sustainable development. What is more painful is the fact that maximum contribution to the threat to sustainable development is coming from the numerous business units spread across the globe. World economy has seen its departure from agrarian to manufacturing and services based. The contribution of agricultural sector to world’s GDP has constantly gone down whereas that of manufacturing and services has gone up quite remarkably over last one century. It has resulted in unplanned exploitation of natural resources causing severe harm to world’s environment. Not only this, human resource got hidden behind the curtains in the wave of consumerism and market forces. The new found emphasis on human capital has once again given impetus to the belief that human resource is the most vital and crucial in business management. Human Resource Accounting is a valuable extension of modern business accounting which has the liability of putting human at the central focus of the business and providing him his due.

Business Management as a Discipline of learning is an excellent disposition of interdisciplinary approach towards learning. Business Accounting is also not far behind and it is also transforming into an interdisciplinary outlook. Present paper has given enough examples in support of changing business

environment and accounting being the language of business, is bound to experience and embody these changes. Environmental Economics talks about 'Polluters pays principle' which says that the one who is polluting the environment must pay for it and business accounting has a liability on it to truly tell everyone who is polluting and what amount of penalty must be levied on such polluters. However, one ethical question business as well as business thinkers cannot escape- If polluters are allowed to pollute the earth under polluter's pays principle who will collect the penalty if pollution mounts to such a proportion that no one remains alive on earth to collect it? So we can see big tasks ahead of business accounting which is all poised to see a sea change in the years to come.

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