

## ON DEVELOPING A CONCEPT OF INTERNAL REPORTING WITHIN ACCOUNTING AND INFORMATION SYSTEM OF AN ENTERPRISE

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**Keywords:** internal reporting, managerial decisions, management system, management accounting and information support.

The author describes the conceptual framework of internal reporting and defines its place within an enterprise's accounting and information system with substantiation of the methodology for building a system of internal reporting on the basis of business process and management function aspects.

With economic ties getting more and more complicated and diversified, and given the crucial requirement for improving the efficiency of management processes and their speeding up in a highly competitive environment, new approaches to finding, collecting, processing and presenting information become of critical importance for addressing the effective managerial decision-making.

Taking all aspects into consideration, internal reporting appears to be most useful and relevant for information support of internal users who are responsible for managerial decision-making.

While a significant number of methodological approaches are currently available, they primarily concentrate on the general theory of internal reporting and are virtually not tailored for particular industries and do not account for the specifics of individual production activities. Therefore, industry-specific methodological approaches to building a customized management accounting system at a particular type of enterprise, including the procedures and approaches to the presentation of information in internal reporting and subsequent performance analysis of business processes become one of priority areas in further development and implementation of management accounting policies in practice.

The specifics of an aviation industry instrument-making enterprise taken as a research subject for the article implies for an innovation component in its operation, including R&D and design activities, which necessitates such innovation activities to be singled out into an individual management area together with a relevant cost accounting area associated with production of R&D deliverables.

Such specifics became determinant in coming up with a conceptual basis for building an

internal reporting system in line with applicable methodological approaches within an aviation industry instrument-making enterprise, based on peculiarities of its production processes and structure.

The concept of internal reporting is a certain way of understanding and describing the process of information support for managerial decision-making through internal reporting indicators, including the interpretation of its main intent, structural design and guiding principle of systematic generalization. The concept contemplates the definition of the system's underlying postulate, purpose, content, requirements and functional model.

**The postulate** assumes that internal reporting a priori provides an insight intended for a particular decision-maker for his/her appropriate managerial action.

**The purpose** of internal reporting is to provide managerial personnel at all levels with necessary quality substantiation for well-grounded and effective decision-making.

Implying that the fundamental attribute of internal reporting is its focus on business presentation in such a format/structure of elements and indicators as preferable and most useful for its user, the content of internal reporting can be defined as follows:

*Internal reporting* is a system of information that characterizes business of a company in accordance with approved business strategy, sectioned by organizational and production divisions, activities, business processes and product in a format and structure as necessary for a manager from the perspective of management, control, administration and planning in operational, tactical and strategic decision-making.

In the context of concept substantiation in fusion with principles of management theory,

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requirements to content of internal reporting can be generalized into a system of specific criteria with the creation of a functional model to formalize the process of information support for managerial decision-making.

The communication links between the elements of a management system are ensured by the means of managerial decisions and reporting flows. As part of the system approach, it is shown that internal reporting should provide a feedback function within the management system, whereas the process approach enabled to determine that, taking into account the intent of reporting as an information base for managerial

decisions, the reporting system should be built by management cycle functions and broken down by business processes. In this context, emphasis is made on organizational and functional links of subsystems of an enterprise as an integral system and the primary methodological approach to building internal reporting is defined. It is concluded that the internal reporting package for an aviation industry instrument-making enterprise should be based on functional areas of management (i.e. planning, management, control, administration) and built along business processes (i.e. Purchasing, R&D, Production, Sales).

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