

# The Application of Management Accounting in the Upgrading of the Traditional Industries in Shaanxi: Taking Balanced Score Card as an Example

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**Abstract:** Currently, there still exist some structural problems in China's economic development. This paper, taking balanced score card as the tool, through making an analysis into the application of management accounting in the upgrading of the traditional enterprise in Shaanxi province, has offered some effective measures such as lowering the scale of operating income, paying more attention to the research and development and combing the internal processing of the enterprise in order to raise the quality of the enterprise and upgrade it.

## 1. Introduction

On November 10, 2015, Chinese President Xi Jinping initiated the reform of the supply front at the conference of the Central Financial Leading Team. On March 5, 2016, Chinese Premier Li Keqiang pointed out in his Work of the Government that in the Thirteenth Five-year Plan, China will promote structural form in a large scale. "In the current development, the aggregate and the structural issues coexist, with the latter remaining more prominent, thus calling for reform with the purpose of structural adjustment. While due emphasis is laid on the expansion of total demand, prominent attention should be attached to reform of the supply front." Management accounting is the micro basis and important tool of the construction of modern economic system in the new era.(Feng Qiaogen: 2018). In the Basic Guidance of the Management Accounting issued by the Ministry of Finance, management accounting follows the principles of direction of the strategy, combination and cost efficiency, guided by strategic planning with the core of continuous creation of value and is extensively involved in the related fields, levels, aspects and business processes of various units, with which finance and business will be effectively combined for a sustainable development of the respective unit.

## 2. Status quo of the previous researches on management accounting at home and abroad

Management accounting, by definition, is the information system aiming to create organizational value, and the output of information is provided to the management and employee within the organization( Yu Zengbiao:2018 ). Management accounting in the US lays particular emphasis on the practical researches, represented by Professor Kaplan. Professor Feng Qiaogen believes that the manifestation of strategic direction of management accounting in management accounting is all-rounded and all-covered. From the perspective of management accounting, the notion of "low cost means success" should be eliminated, and the business management and activities of the enterprises should be treated from a long strategic view. From the budget management perspective, space should be sustained and the allocation of the capital and staff of the enterprise should be identified with the strategic planning, so as to comply with the implication and connotation of the value creation of the sustainable development in order to achieve the goal of value multiplication.

In their co-authored paper entitled "The Historical Evolution and Logic Starting Point of the Value Creation by Management Accounting" in 2018, Xie Zhihua and Ao Xiaobo pointed out that supply-front -oriented management accounting means that the value creation of management accounting should be directed to the supply-front , that is, it should meet the requirement of dynamic individuals and the overall satisfaction. It should also create new needs for the customers, and in order to achieve this, the supply-front should be internally restructured by adopting the

value link, value network and the value system. Sha Xiujuan believes that in terms of the choices of different management accounting tools, there is an order of choice which can be widely adopted and strictly followed by different industries, enterprise of different scales in different aspects: first, the beginning period of strategy and plan making and investigation of the market; then, the period of sales followed last by purchase and storage. From the evidence and data, it can be safely concluded that the attention of management accounting has been shifted from the production link to other links, evidenced by the two dominant links namely strategy making and market investigation.

From the application of management accounting all over the world, it can be clearly seen that the application of management accounting plays a vital role in intensifying the effort of the Chinese enterprises to upgrade the transformation of the enterprise, re-create their industry link, supply link and value link and revitalize the traditional enterprises in Shaanxi Province.

### 3. Status quo of the upgrading of the traditional industry in Shaanxi

Among the multiple tools of management accounting, balanced score card is in the position to upgrade the value of the enterprise in the textile industry in Shaanxi province, because as the pillar industry of Shaanxi, the textile industry possess much room for upgrading effort.

#### 3.1 Low added-value of the product, low profit rate

Shaanxi boasts many textile enterprises, which have made tremendous contribution to the local economy. However, these enterprises are facing many challenges and opportunities in the new era. Take company X as an example, whose financial data run as follows.

Table 1 Financial data

Projects Unit: ten thousand yuan	Operating Income	Proprietor's Income	Operating Cost	Proprietor's cost	Proprietor's Gross Income	Operating Profit	Operating Profit Rate(%)	Balance Sheet Rate(%)	Inventory	Accounts Receivable
Year 2016	67277	65900	64056	63100	4.25	1369.78	2.04	78	8920	2219
Year 2017	65039	56800	62033	54100	4.75	1423.76	2.19	79	8262	1932
Year 2018	47074	44200	44980	42200	4.52	1082.06	2.30	69	5569	673

The above data shows that the low operating gross profit and low profit rate are the indicators of low added value and limited profit space of the traditional industry. Enterprise X is mainly involved in textile industry, whose responsibility includes the purchase of white grey cloth, dyeing the grey cloth according to the requirement of the customers and selling the semi-manufactured products to the customers. The prices of grey cloth by the suppliers, the prices of the dyeing materials and the requirements of the customers are squeezing the profit space of the enterprise.

#### 3.2 Low product quality and inadequate skills of the staff

The production of Enterprise X is highly depended on the assembly line and the alternative shifting workers, such as dyeing and the choice and design of color. Due to the complicated and delicate process, the whole process is completed by workers in the mode of the elderly and skill workers guiding the young workers. Therefore, the uneven levels of the workers cannot ensure the qualities of the products.

#### 3.3 Lack of effective communication between different departments

Customers are the most important factor of a successful enterprise. However, the enterprise is facing so many problems such as, inadequate supply, mismatched quantity and variety, delivery failure due to poor planning of equipment and staff, have aroused much dissatisfaction from the customers, which in turn highly affected the performance of the enterprise.

#### 3.4 High assets liability ratio with high financial risks

The assets liability ratio of Enterprise X in the past three years are, 78%, 79% and 69% respectively. As we know, generally speaking, the appropriate average assets liability ratio of an enterprise should stay at 40%-60%, a widely believed comfortable percentage and obviously, the

figure of enterprise X is too high, especially for a traditional manufacture enterprise. The gross profit rate of 4.25%-4.75% further endangers the financial risks of the enterprise.

### **3.5 Inadequate cash flow due to the excessive inventory and accounts receivable**

The total inventory and accounts receivable in Company X in three years amount to 111,000,000 yuan, 102,000,000yuan and 62,000,000yuan among which the inventory occupies about 80.01% to 89.2%. This huge amount of inventory has greatly increased the operating risks of the enterprise.

## **4. Key factors in the upgrading of the transformation of the traditional enterprise in Shaanxi under the model of balanced score card**

By transforming the strategy of value creation of the enterprise into specific performance index, combining the growth of the staff with the company strategy, combining the financial index with non-financial index and combining the internal processes of the enterprise and the external satisfaction of the customers, balanced score card aims to increase the value of the enterprise.

### **4.1 The weight of influencing factors**

There remains in the traditional industry the problem of excessive capacity of production. Enterprise X should attach much attention to the increase of rate of return on common stockholders' equity, the considerable decrease of the operating income and optimization and expansion of the enterprise. The cost and expenditure should be under strict control and the capital turnover ratio should be improved so as to raise the gross profit of the products.

### **4.2 Strengthening investigation to increase the satisfaction of the customers**

The investigation of the satisfaction of the customers include their appraisal of the products, punctuality of the delivery and after-sale service. In order to achieve this purpose, the traditional enterprise should upgrade itself in an all-round way by maintaining continuous innovation, adopting the life-long attitude of learning and strengthening its own competitive edge. In the meanwhile, study organizations should be established, research and development effort should be intensified and innovations and patents should be awarded and stimulated in order to ensure satisfaction from the customers. Last but not the least, the inventory should be reduced to the minimum.

### **4.3 Combining and optimizing the internal process of the enterprise**

By carrying out lean production, reducing manufacturing cost and keeping the balance of the capacity of the production, the enterprise should lay more emphasis on the control of the cost. In order to promote the realization of strategic goals as a whole, various methods should be taken such as combining the quality of the product and the growth of the employees, regular business training, standardization of the production, processing of the daily work and the shifting of the responsibility to specific departments and even individuals.

## **5. Conclusion**

Balanced score card can yield good financial performance, create organizational values so as to upgrade the transformation of the enterprise by linking daily performance with the enterprise strategy and the interaction of internal process and external customers.

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